



建聯集團有限公司<sup>\*</sup>  
**Chinney Alliance Group Limited**

(Incorporated in Bermuda with limited liability)

Stock Code: SEHK 00385

**2016**  
Annual Report

<sup>\*</sup> For identification purpose only

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# Corporate Information

## Board of Directors

### Executive Directors

James Sai-Wing WONG (*Chairman*)

Yuen-Keung CHAN (*Vice Chairman  
and Managing Director*)

James Sing-Wai WONG

Philip Bing-Lun LAM

### Non-Executive Directors

Herman Man-Hei FUNG

Wendy Kim-See GAN

### Independent Non-Executive Directors

Yuen-Tin NG

Chi-Chiu WU

Ronald James BLAKE

## Audit Committee

Yuen-Tin NG (*Chairman*)

Chi-Chiu WU

Herman Man-Hei FUNG

## Remuneration Committee

Chi-Chiu WU (*Chairman*)

Yuen-Tin NG

Herman Man-Hei FUNG

## Company Secretary

Yun-Sang LO

## Principal Bankers

The Hongkong and Shanghai Banking  
Corporation Limited

The Bank of East Asia, Limited

Shanghai Commercial Bank Limited

Hang Seng Bank Limited

Bank of China (Hong Kong) Limited

## Auditor

Ernst & Young

## Principal Share Registrar and Transfer Office

Estera Management (Bermuda) Limited

Canon's Court

22 Victoria Street

Hamilton HM 12

Bermuda

## Hong Kong Branch Share Registrar and Transfer Office

Tricor Tengis Limited

Level 22, Hopewell Centre

183 Queen's Road East

Hong Kong

## Registered Office

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

## Head Office and Principal Place of Business

23rd Floor

Wing On Centre

111 Connaught Road Central

Hong Kong

## Stock Code

SEHK 00385

# Corporate Information

## Business Addresses and Contacts

### Chinney Alliance Group Limited

23rd Floor  
Wing On Centre  
111 Connaught Road Central  
Hong Kong

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### Kin Wing Engineering Company Limited

#### Kin Wing Foundations Limited

Block A&B, 9th Floor  
Hong Kong Spinners Industrial Building, Phase VI  
481-483 Castle Peak Road  
Kowloon  
Hong Kong

Tel : (852) 2415-6509  
Fax : (852) 2490-0173  
Website : <http://www.kinwing.com.hk>  
E-mail : [kwecoltd@kinwing.com.hk](mailto:kwecoltd@kinwing.com.hk)

### Shun Cheong Electrical Engineering Company Limited

#### Westco Airconditioning Limited

Block C, 9th Floor  
Hong Kong Spinners Industrial Building, Phase VI  
481-483 Castle Peak Road  
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Tel : (852) 2426-3123  
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### Westco Chinney Limited

Block C, 9th Floor  
Hong Kong Spinners Industrial Building, Phase VI  
481-483 Castle Peak Road  
Kowloon  
Hong Kong

Tel : (852) 2362-4301  
Fax : (852) 2412-1706  
Website : <http://www.westcochinney.com>  
E-mail : [wcl@westcochinney.com](mailto:wcl@westcochinney.com)

### Chinney Construction Company, Limited

Block A&B, 9th Floor  
Hong Kong Spinners Industrial Building, Phase VI  
481-483 Castle Peak Road  
Kowloon  
Hong Kong

Tel : (852) 2371-0100  
Fax : (852) 2411-1402  
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### DrilTech Ground Engineering Limited

#### DrilTech Geotechnical Engineering Limited

Block A&B, 9th Floor  
Hong Kong Spinners Industrial Building, Phase VI  
481-483 Castle Peak Road  
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Hong Kong

Tel : (852) 2371-0008  
Fax : (852) 2744-1037  
Website : <http://www.driltech.com.hk>  
E-mail : [driltech@driltech.com.hk](mailto:driltech@driltech.com.hk)

### Jacobson van den Berg (Hong Kong) Limited

8th Floor  
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481-483 Castle Peak Road  
Kowloon  
Hong Kong

Tel : (852) 2828-9328  
Fax : (852) 2828-9408  
Website : <http://www.jvdb.com>  
E-mail : [info@jvdb.com](mailto:info@jvdb.com)

### Chinney Alliance Engineering Limited

Block C, 9th Floor  
Hong Kong Spinners Industrial Building, Phase VI  
481-483 Castle Peak Road  
Kowloon  
Hong Kong

Tel : (852) 2880-3888  
Fax : (852) 2811-0974  
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E-mail : [focal@chinney-eng.com](mailto:focal@chinney-eng.com)

# Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN THAT** the Annual General Meeting (“AGM”) of Chinney Alliance Group Limited (the “Company”, collectively with its subsidiaries, the “Group”) will be held on Friday, 2 June 2017 at 4:30 p.m. at Full Moon Shanghai Restaurant, Macau Jockey Club, 3/F., East Wing, Shun Tak Centre, 200 Connaught Road Central, Hong Kong for the following purposes:

1. To receive and consider the audited financial statements of the Company for the year ended 31 December 2016 together with the reports of the directors and the independent auditor thereon.
2. To declare a final dividend for the year ended 31 December 2016.
3. To re-elect directors and to authorise the board of directors to fix the directors’ remuneration.
4. To re-appoint auditor and to authorise the board of directors to fix their remuneration.
5. To consider as special business and, if thought fit, pass with or without amendments the following resolution as an Ordinary Resolution:

## Ordinary Resolution

**“THAT:**

- (a) subject to paragraph (c) below, a general mandate be and is hereby unconditionally granted to the directors of the Company to exercise during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which would or might require the exercise of such powers;
- (b) the mandate in paragraph (a) above shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options which would or might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the directors of the Company pursuant to the mandate in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) an issue of shares under any option scheme or similar arrangement for the time being adopted and approved by the shareholders of the Company for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company; or (iii) an issue of shares as scrip dividends or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Bye-laws of the Company; or (iv) a specific authority granted by the shareholders of the Company in general meeting, shall not exceed twenty per cent. of the aggregate nominal amount of the issued share capital of the Company at the date of passing this Resolution, and the said mandate shall be limited accordingly; and

# Notice of Annual General Meeting

(d) for the purpose of this Resolution,

“Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable laws to be held; or
- (iii) the date of the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the directors of the Company by this Resolution.

“Rights Issue” means an offer of shares in the Company, or an offer of warrants, options or other securities giving rights to subscribe for shares, open for a period fixed by the directors of the Company to the holders of shares of the Company on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares as at that date (subject to such exclusions or other arrangements as the directors of the Company, after making enquiry, may deem necessary or expedient in relation to fractional entitlements or having regard to any legal restrictions under the laws of the relevant place, or the requirements of the relevant regulatory body or any stock exchange in that place).”

By Order of the Board  
**Yun-Sang Lo**  
*Company Secretary*

Hong Kong, 28 April 2017

Notes:

- (1) A shareholder entitled to attend and vote at the AGM (and at any adjournment thereof) is entitled to appoint another person as his proxy to attend and vote instead of the shareholder. The proxy need not be a shareholder of the Company.
- (2) In order to be valid, a form of proxy in the prescribed form, together with the power of attorney or other authority (if any) under which it is signed or a certified copy of that power of attorney or other authority must be completed, signed and deposited with the Company’s Hong Kong branch share registrar, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, not later than 48 hours before the time appointed for holding the AGM (and at any adjournment thereof).
- (3) Where there are joint registered holders of any shares, any one of such joint holders may vote at the AGM (and at any adjournment thereof), either in person or by proxy, in respect of such shares as if he was solely entitled thereto, but if more than one of such joint holders be present at the meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

# Notice of Annual General Meeting

- (4) Pursuant to Rule 13.39(4) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (“Listing Rules”), any vote of shareholders at a general meeting must be taken by poll and the Company must announce the results of the poll in the manner prescribed under Rule 13.39(5) of the Listing Rules. The chairman of the meeting will therefore put each of the resolutions to be proposed at the AGM to be voted by way of a poll pursuant to the Bye-laws of the Company. An announcement will be made by the Company following the conclusion of the AGM to inform the results of the AGM.
- (5) With regard to resolution 3 in this notice, Mr. James Sing-Wai Wong (“Mr. Wong”) and Mr. Chi-Chiu Wu (“Mr. Wu”) will retire by rotation at the AGM in accordance with bye-law 87 of the Bye-laws of the Company. Both Mr. Wong and Mr. Wu, being eligible, will offer themselves for re-election at the AGM.
- (6) Details of the directors who stand for re-election at the AGM are set out below:-

## **James Sing-Wai Wong**

Aged 53, was appointed as an executive director of the Company in August 2010. He graduated from the University of Washington with a Bachelor’s Degree with honors in Economics. He also holds a Juris Doctor degree from the University of California Hastings College of Law, and a Master Degree in Systems Engineering and Information Systems from the Florida Institute of Technology. He is licensed to practice law in the United States of America and the State of California, where he also holds a Real Estate Broker’s License. He has accumulated over twenty-eight years of experience in economics, law, management, and information systems in Hong Kong, United States, Canada, the United Kingdom, and the Mainland China.

Mr. Wong is the chairman of Chinney Alliance Engineering Limited and a director of Chinney Alliance (China) Limited, Jacobson van den Berg (Hong Kong) Limited, Chinney Construction Company, Limited, Kin Wing Engineering Company Limited and Shun Cheong Electrical Engineering Company Limited, all being major subsidiaries of the Company.

Mr. Wong is a director of Chinney Investments, Limited (stock code: 216, “Chinney Investments”), Chinney Holdings Limited and Lucky Year Finance Limited, all being substantial shareholders of the Company, and a director of Chinney Capital Limited which is a shareholder of the Company. In September 2016, he was appointed an executive director of Chinney Kin Wing Holdings Limited (stock code: 1556, “Chinney Kin Wing”). Chinney Kin Wing and Chinney Investments are listed on the Main Board of The Stock Exchange of Hong Kong Limited (“Stock Exchange”). He is the son of Dr. James Sai-Wing Wong, the Company’s Chairman and a substantial shareholder of the Company.

Mr. Wong does not have any interests in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of Laws of Hong Kong) (the “SFO”). Save as disclosed above, Mr. Wong does not hold any other positions in the Company or any members of the Group, and did not hold any directorships in any listed public companies in the past three years. He does not have any relationships with any directors, senior management or substantial or controlling shareholders of the Company.

There is no service contract of fixed term entered into between the Company and Mr. Wong. His directorship is subject to retirement by rotation and re-election at the Company’s annual general meeting in accordance with the Bye-laws of the Company. Mr. Wong has an employment contract with the Company which is terminable by either party by serving to another party six months’ advance written notice. He is entitled to an annual salary and allowances of HK\$2,910,080 which has been fixed by reference to his position, his level of responsibilities and the remuneration policy of the Group. In addition, he is entitled to a discretionary bonus to be determined by the board of directors of the Company (the “Board”) and other employment benefits provided by the Group to all eligible staff.

# Notice of Annual General Meeting

Mr. Wong was a director of Lion Mark Holdings Limited and Lion Foods Limited (collectively the “Lion Group”) during the period from May 1995 to July 2007. Lion Group was incorporated in the United Kingdom and engaged in food manufacturing, processing and ingredient trading. Lion Group was put into administration proceedings on 10 October 2002. The entire business was sold by the administrators in the same year and Lion Group was subsequently dissolved in July 2007.

Save as disclosed above, there is no information to be disclosed pursuant to Rules 13.51(2) (h) to (v) of the Listing Rules, nor any other matters and information need to be brought to the attention of the shareholders of the Company or required to be disclosed pursuant to any of the requirements of the Listing Rules in respect of Mr. Wong.

## **Chi-Chiu Wu**

Aged 53, was appointed as an independent non-executive director of the Company in March 2012. Mr. Wu is now a director and the chief executive officer of Golden Glory Group Pte. Ltd., a company incorporated in Singapore as the holding company to develop and operate mixed-use properties in Myanmar, comprising residential, commercial, retail, hotel, and industrial township. He had been an executive director of China Motion Telecom International Limited (stock code: 989, now known as Ground Properties Company Limited), a company listed on the Main Board of the Stock Exchange, since 9 February 2006 and the vice chairman and the chief executive officer of that company since 6 March 2006, until he resigned on 31 March 2013. Besides, Mr. Wu had been a non-executive director of North Asia Resources Holdings Limited (stock code: 61) a company listed on the Main Board of the Stock Exchange, since 22 October 2010 and the deputy chairman of the same company since 15 March 2011, until he retired on 16 May 2013. Mr. Wu holds a Bachelor of Science degree from the University of Toronto, Canada.

Mr. Wu does not have any interests in the shares of the Company within the meaning of Part XV of the SFO. Save as disclosed above, Mr. Wu does not hold any other positions in the Company or any members of the Group, and did not hold any directorships in any listed public companies in the past three years. He does not have any relationships with any directors, senior management or substantial or controlling shareholders of the Company.

There is currently no service contract between the Company and Mr. Wu and he is not appointed for a specific term but is subject to retirement by rotation and re-election at the Company’s annual general meeting in accordance with the Bye-laws of the Company. Mr. Wu is entitled to a director’s fee of HK\$100,000 per annum which is based on the Company’s remuneration policy adopted for independent non-executive directors of the Company.

Save as disclosed above, there is no information to be disclosed pursuant to Rules 13.51(2) (h) to (v) of the Listing Rules, nor any other matters and information need to be brought to the attention of the shareholders of the Company or required to be disclosed pursuant to any of the requirements of the Listing Rules in respect of Mr. Wu.

- (7) At the date hereof, the Board comprises of nine directors, of which four are executive directors, namely Dr. James Sai-Wing Wong, Mr. Yuen-Keung Chan, Mr. James Sing-Wai Wong and Mr. Philip Bing-Lun Lam; and two are non-executive directors, namely Mr. Herman Man-Hei Fung and Ms. Wendy Kim-See Gan; and three are independent non-executive directors, namely Mr. Yuen-Tin Ng, Mr. Chi-Chiu Wu and Mr. Ronald James Blake.



# Chairman's Statement

## Results

The board of directors (the "Board") of Chinney Alliance Group Limited (the "Company" and, collectively with its subsidiaries, the "Group") is pleased to announce that the Group recorded a revenue of HK\$4,571 million for the year ended 31 December 2016 (2015: HK\$4,552 million). The net profit for the year of HK\$235.4 million (2015: HK\$174.0 million) included a gain on dissolution of a former associate of HK\$6.2 million, where in 2015, a gain on reclassification of exchange fluctuation reserve upon realisation of the Group's investment in same associate of HK\$2.1 million was included. Should these non-recurring gains be excluded, the net profit for the year would be HK\$229.2 million (2015: HK\$171.9 million). After deducting the profit attributable to non-controlling interests of HK\$25.5 million (2015: HK\$4.9 million), representing principally the interests attributable to the public shareholders in the Company's listed subsidiary Chinney Kin Wing Holdings Limited ("Chinney Kin Wing", collectively with its subsidiaries, the "Chinney Kin Wing Group"), the profit attributable to the owners of the Company was HK\$209.9 million (2015: HK\$ 169.1 million). The Group's land and buildings held for own use recorded a surplus arising from revaluation of HK\$7.5 million (net of deferred tax) which was credited to reserve as other comprehensive income (2015: HK\$7.7 million).

## Proposed Final Dividend

The Board recommend the payment of a final dividend of HK6.0 cents per share for the year ended 31 December 2016 (2015: HK5.0 cents) to the shareholders of the Company whose names appear on the Company's register of members on 12 June 2017. It is expected that the final dividend cheques will be despatched to the shareholders on or before 28 June 2017.

## Closure of Register of Members for Annual General Meeting

The annual general meeting of the Company is scheduled to be held on 2 June 2017. For determining the entitlement to attend and vote at the annual general meeting, the register of members of the Company will be closed from 29 May 2017 to 2 June 2017 (both days inclusive), during which period no share transfers will be registered. In order to be eligible to attend and vote at the annual general meeting, all transfer forms accompanied by relevant share certificates must be lodged with Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by no later than 4:30 p.m. on 26 May 2017.

## Closure of Register of Members for Dividend

The proposed final dividend for the year ended 31 December 2016 is subject to the approval by the shareholders of the Company at the annual general meeting. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from 9 June 2017 to 12 June 2017 (both days inclusive), during which period no share transfers will be registered. The last day for dealing in the Company's share cum entitlements to the proposed final dividend will be 6 June 2017. In order to qualify for the proposed final dividend, all transfer forms accompanied by relevant share certificates must be lodged with Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by no later than 4:30 p.m. on 8 June 2017.

# Chairman's Statement

## Business Review and Prospects

### Trading of plastics and chemical products

Jacobson van den Berg (Hong Kong) Limited ("Jacobson HK") and its fellow subsidiaries contributed a revenue of HK\$552 million (2015: HK\$567 million) and an operating profit of HK\$5.2 million (2015: HK\$7.3 million). The year under review was particularly tough for international trade as all major currencies dropped against US Dollars, the unexpected Brexit, the Renminbi devaluation and the general negative sentiment on economies leading to more restrained buying behaviour by customers. The decrease in commission and rebate from suppliers further reduced the profit of the division. The Mainland China is gradually turning from pursuing the goal of world factory to focusing on value added products and services to improve the living standard and aspiration of the citizens. While the division continues to develop its plastic and chemical products distribution business with diversified products, it is also developing its own disinfectant products in "JcoNAT" brand and sales to consumers directly commenced in 2016.

### Building related contracting services

During the year, the Group reviewed the structure and internal organisation and decided to combine the building related contracting services business engaged by Shun Cheong Investments Limited and its subsidiaries ("Shun Cheong") and the distribution of aviation system and other hi-tech products engaged by Chinney Alliance Engineering Limited ("CAE") for better management support and resources. The combined division contributed a revenue of HK\$1,584 million (2015: HK\$1,349 million) and an operating profit of HK\$102.5 million for 2016 (2015: HK\$25.4 million). With the increase in both number of contracts and contract sum of projects undertaken in the year, the revenue increased. The improved profit margin of the year, which was mainly attributable to better price of new contracts awarded and the management's cautious cost control and project management, contributed to the increase in profitability of the division. CAE recorded a marginal operating profit for the current year comparing to loss of last year. With the commencement of the construction of the Three-Runway System, CAE would have more business opportunity in relevant fields. The division has diversified portfolio in both public and private sectors for residential development, commercial buildings, hotels and resorts, and maintenance contracts in Hong Kong and Macau, and is expanding its business in the People's Republic of China ("PRC"). As at year end, the division had outstanding contract sum of approximately HK\$4,054 million and additional HK\$699 million worth contracts were awarded after year end.

### Building construction

Chinney Construction Company, Limited ("CCCL") and Chinney Builders Company Limited which operate in Hong Kong and Chinney Timwill Construction (Macau) Company Limited which operates in Macau, contributed a revenue of HK\$1,079 million (2015: HK\$1,120 million) and an operating profit of HK\$65.7 million (2015: HK\$35.0 million). While revenue decreased slightly, the improved profit margin of new projects as well as contribution from projects commenced in second half of 2015 which were progressed to the stage to recognise profit in accordance with the accounting policies adopted in current year attributed to the increase in profit of the year. The division's current projects included schools, hospitality facilities and commercial buildings. The outstanding contract sum as at year end was approximately HK\$3,196 million.

# Chairman's Statement

## Business Review and Prospects (Continued)

### Foundation piling and ground investigation

The Company's separate listed subsidiary Chinney Kin Wing contributed revenue of HK\$1,356 million (2015: HK\$1,515 million) and operating profit of HK\$119.4 million (2015: HK\$168.9 million) to the Group. The decrease in revenue was mainly due to the substantial completion of certain sizeable projects in previous year and the projects awarded in the year under review were comparatively smaller in terms of contract sum. The profit margin also reduced due to keen competition in a weak market condition. Despite the saving in listing expenses of HK\$19.1 million recorded in 2015, the increase in depreciation charges of HK\$23.1 million, which was due to the purchases of plant and machinery during the year and reduction of the estimated remaining useful lives of certain machinery, offset such saving. As both the revenue and the profit margin of new contracts undertaken in the year under review decreased, the profit for the year was thus reduced. In general, 2016 was a tough year for the foundation sector of the construction industry because there were fewer tender invitations from the public sector in Hong Kong and also from the developers in Macau. Nevertheless, Chinney Kin Wing Group has sound financial position and remained debt free over the year under review.

Out of the net proceeds from the listing of Chinney Kin Wing of HK\$192.7 million in November 2015, HK\$182.9 million were utilised in accordance with the proposed usage as stipulated in the listing documents, leaving HK\$9.8 million unused as at 30 March 2017. Chinney Kin Wing reviewed the capacity and efficiency of its plant fleet from time to time and noted the price of construction machinery manufactured in Europe was cheaper than originally budgeted for due to the drop in Euro exchange rate in recent months. The board of directors of Chinney Kin Wing resolved to change the proposed use of HK\$9.0 million originally intended for enhancement of design capability and modification of plant and machinery to acquisition of additional machinery to enhance its existing plant fleet which can in turn devote better quality services to its customers and partners. More detailed information of the use of proceeds from Chinney Kin Wing's initial public offering is set out in the 2016 annual report of Chinney Kin Wing.

In view of the diminishing market demand for foundation works, Chinney Kin Wing adjusted its tendering strategies by lowering the profit margin in bidding for new contracts. On the other hand, the implementation of "3P Enhancement Program", namely Project management system, Production efficiency and Plant modernisation throughout the past year, Chinney Kin Wing Group has made observable improvements in operation which in turn has sharpened its competitive edges. The division will further develop its drilling division to take up "Down the Hole" drilling operations in addition to the site investigation business. A new division is established for the running of site formation, pile cap and basement construction works.

# Chairman's Statement

## Business Review and Prospects (Continued)

### Other businesses

Other businesses recorded a loss of HK\$1.8 million (2015: HK\$1.9 million) which was mainly due to depreciation charges of the properties for the Group's own use.

The Group's share of the profits and losses of an associate reported a profit of HK\$5.0 million (2015: loss of HK\$0.4 million), represented the share of the results of the Group's investment in Fineshade Investments Limited ("Fineshade"), which holds interests in a real estate property in Hangzhou, the PRC as investment properties. With the improving occupancy and surplus recognised in revaluation of the investment properties in the year under review, Fineshade returned to profit in 2016.

The Group de-recognised its investment in Jiangxi Kaitong New Materials Company Limited ("Jiangxi Kaitong") in 2015 with attributable exchange fluctuation reserve of HK\$2.1 million reclassified as profit. With the cash distribution finally received from the dissolution of Jiangxi Kaitong in 2016, the Group recognised HK\$6.2 million gain in the year under review.

# Chairman's Statement

## Business Review and Prospects (Continued)

### Outlook

The US economy gains further momentum as indicated in its solid consumption growth and improving labour market conditions. The US Federal Reserve raised the interest rates in December 2016 and March 2017 and the interest rate upcycle will continue in 2017. Nevertheless, there are still uncertainties as to the trade and political policies of the new US administration which pose threat to global trade and economic growth. The economic growth in the Euro zone is still weak. The negotiation between the UK and the Euro on Brexit will continue in the coming years and the market will be inevitably volatile during the course of negotiation. The political risks on elections in several major European economies would not only hinder the recovery of their economies, but also the global economy. On the other hand, the Mainland China recorded a solid 6.7% economic growth in 2016 with continuing structural transformation and enhancement and progressed steadily towards a development model based on its domestic consumption and services, driven by innovation and technological upgrading. The supply-side structural reform will continue in 2017 to further enhance the Mainland China's economic structure. The resilient and robust domestic demand will provide strong support to the China's economy although external uncertainties will continue.

The Hong Kong economy recorded a growth of 3.1% in the fourth quarter of 2016 and the year as a whole recorded 1.9% growth which was slower than the 2.4% growth in 2015. Such growth was supported by resilience in domestic demand and modest growth in external trading. The labour market was in a state of full employment all through 2016. While the export trading and related sectors would benefit from the improvement in the US economy, the uncertainties on the US trade policy, the upside of the US dollar, the political development of European countries and Brexit would have negative impact on the recovery of the global economy and affect the export related sectors of Hong Kong. The Group's Plastic and Chemical division would face such uncertainties as a large part of its customers is export oriented. On the other hand, the domestic demand continues to hold up well in 2017 with stable labour market and steady household income growth. Despite the upside risk of interest rates, the property price continues to advance and recent land sales recorded historical highs. The building construction works are likely to provide a more stable growth in the coming year. While competition in the construction sector, especially the foundation construction field, is still keen, the Group has secured satisfactory level of contracts. The Board is cautiously optimistic on the Group's business development in the coming year.

### Appreciation

I would like to thank my fellow directors for their advice and continued support and staff of all levels for their hard working and contribution for the success during the past year.

**James Sai-Wing Wong**  
*Chairman*

Hong Kong, 30 March 2017

# Biographies of Directors and Senior Management

## Executive Directors

### James Sai-Wing Wong

Aged 78, was appointed as an executive director and the chairman of the Company in 1998. He is the chairman of Chinney Investments, Limited (stock code: 216, “Chinney Investments”), a director of Lucky Year Finance Limited, Chinney Holdings Limited, Newsworthy Resources Limited, Multi-Investment Group Limited and Enhancement Investments Limited (“EIL”), all being substantial shareholders of the Company, and a director of Chinney Capital Limited which is a shareholder of the Company. He is also the chairman of Hon Kwok Land Investment Company, Limited (stock code: 160, “Hon Kwok”). Chinney Investments and Hon Kwok are both listed on the Main Board of The Stock Exchange of Hong Kong Limited (“Stock Exchange”). He was appointed a Justice of the Peace for Hong Kong in 1987.

### Yuen-Keung Chan

Aged 62, was appointed as an executive director of the Company in 2007. He was then appointed the vice chairman of the Company in March 2011 and managing director of the Company in March 2012. He has over thirty years of experience in the construction industry. He is a member of The Chartered Institute of Building. Mr. Chan is a director of Kin Wing Engineering Company Limited (“KWE”), Shun Cheong Electrical Engineering Company Limited (“SCEE”) and CCCL, all being major subsidiaries of the Company. He is also a director of Hon Kwok (stock code: 160), a director and vice chairman of Chinney Kin Wing (stock code: 1556) both are listed on the Main Board of the Stock Exchange.

### James Sing-Wai Wong

Aged 53, was appointed as an executive director of the Company in August 2010. He graduated from the University of Washington with a Bachelor’s Degree with honors in Economics. He also holds a Juris Doctor degree from the University of California Hastings College of Law, and a Master Degree in Systems Engineering and Information Systems from the Florida Institute of Technology. He is licensed to practice law in the United States of America and the State of California, where he also holds a Real Estate Broker’s License. He has accumulated over twenty-eight years of experience in economics, law, management, and information systems in Hong Kong, United States, Canada, the United Kingdom, and the Mainland China.

Mr. Wong is the chairman of CAE and a director of Chinney Alliance (China) Limited, Jacobson HK, CCCL, KWE and SCEE, all being major subsidiaries of the Company.

Mr. Wong is a director of Chinney Investments (stock code: 216), Chinney Holdings Limited and Lucky Year Finance Limited, all being substantial shareholders of the Company, and a director of Chinney Capital Limited which is a shareholder of the Company. In September 2016, he was appointed an executive director of Chinney Kin Wing (stock code: 1556). Chinney Kin Wing and Chinney Investments are listed on the Main Board of the Stock Exchange. He is the son of Dr. James Sai-Wing Wong, the Company’s Chairman and a substantial shareholder of the Company.

# Biographies of Directors and Senior Management

## Executive Directors (Continued)

### Philip Bing-Lun Lam

Aged 74, was appointed as an executive director of the Company in August 2012. He is a director of SCEE and CCCL, both being major subsidiaries of the Company. Mr. Lam began his career in 1963 with Hang Seng Bank Limited for eleven years, and then joined the University of Hong Kong (“HKU”) in 1975 as an Assistant Finance Director. He then worked as the Chief Accountant and Comptroller in Overseas Bank (Canada) in Vancouver for three years from 1982 to 1985. In 1985, Mr. Lam re-joined HKU and had served as the Director of Finance from 1990 until his retirement on 30 June 2012. He was then asked by the Vice-Chancellor of HKU to be his Senior Advisor for financial, investment and fund-raising matters until June 2014, and since then, he has been the Honorary Advisor to the Chairman of The University of Hong Kong Foundation for Educational Development and Research.

Mr. Lam obtained a diploma in management studies from the Hong Kong Polytechnic (now known as the Hong Kong Polytechnic University) in July 1974. He is a fellow of The Chartered Institute of Management Accountants (UK), the Hong Kong Institute of Certified Public Accountants and the Hong Kong Institute of Directors and an associate of The Certified Management Accountants (Canada), The Institute of Chartered Secretaries and Administrators (UK) and The Chartered Institute of Bankers (UK).

Mr. Lam is active in community affairs and had served as a member on the Board of Review (Inland Revenue Ordinance) Hong Kong for three years from 1995 to 1998. He had been a member of the Establishment and Finance Committee of the Prince Philip Dental Hospital from early 1990s until his retirement in June 2012. Currently he is a member of the Finance and Administration Committee, the Board of Governors of the Canadian International School of Hong Kong, and a member of the Board of Governors of the Centennial College, a subsidiary of HKU.

Mr. Lam was appointed an executive director of Chinney Kin Wing (stock code: 1556, the shares of which have been listed on the Main Board of the Stock Exchange) in September 2016. He is also an independent non-executive director of Oriental University City Holdings (H.K.) Limited (stock code: 8067, the shares of which have been listed on the GEM Board of the Stock Exchange). He had been an independent non-executive director of China New Town Development Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1278) from November 2006 to June 2013.

# Biographies of Directors and Senior Management

## Non-Executive Directors

### Herman Man-Hei Fung

Aged 79, was appointed as a non-executive director of the Company in 1998. He is the director of certain number of subsidiaries of the Company. He is the managing director of Chinney Investments (stock code: 216), and a director of Lucky Year Finance Limited, Chinney Holdings Limited, Newsworthy Resources Limited and Multi-Investment Group Limited, all being substantial shareholders of the Company, and a director of Chinney Capital Limited which is a shareholder of the Company. He is also the vice chairman of Hon Kwok (stock code: 160) and the chairman of Chinney Kin Wing (stock code: 1556). Chinney Investments, Hon Kwok and Chinney Kin Wing are all listed on the Main Board of the Stock Exchange. Mr. Fung was appointed a member of the Board of Review (Inland Revenue Ordinance) Hong Kong from November 1996 to June 2005.

### Wendy Kim-See Gan

Aged 52, was appointed as a non-executive director of the Company in June 2015. She has extensive experience in property development and management and expertise in the sales and marketing of projects in Hong Kong and overseas. She had been the executive director and sales and marketing director of Pacific Century Premium Developments Limited (a company listed on the Main Board of the Stock Exchange (stock code: 432), from August 2005 until her resignation with effect from 18 March 2015. She was responsible for the overall market positioning, sales, leasing and marketing of property assets in Asia-Pacific. Before joining the Pacific Century Group, she was head of sales and marketing at Swire Properties Limited, looking after that company's portfolio of residential, office and retail developments.

Ms. Gan's marketing campaigns have repeatedly received top honours at the HKMA/TVB Marketing Excellence Award, the MAXI Award from the International Council of Shopping Centers, HK 4A's Awards and the Hong Kong Institute of Surveyors' top awards in property marketing.

Ms. Gan holds a Bachelor of Arts degree with First Class Honours from the University of Hong Kong ("HKU"). She also holds an Executive Master of Business of Administration degree jointly awarded by the Kellogg School of Management of the Northwestern University in USA and the Business School of the Hong Kong University of Science and Technology ("HKUST") and is an alumna of the Harvard Graduate School of Design. She sits on the HKUST Business School Advisory Council and is a member of the Administrative Appeals Board of the HKSAR Government. Ms. Gan is a member of the Royal Institution of Chartered Surveyors, the Hong Kong Institute of Surveyors, the Real Estate Developers Association of Hong Kong and the China Institute of Real Estate Appraisers and Agents. In 2011, she received the "China's 100 Outstanding Female Entrepreneurs" award. Ms. Gan is currently a member of the Court of HKU and an Honorary Director of HKU Foundation for Educational Development and Research. She sits on the Management Board of HKU School of Professional and Continuing Education and is a Director of HKS Education Fund Limited. In 2014, Ms. Gan was made an Honorary Fellow of HKU.



# Biographies of Directors and Senior Management

## Independent Non-Executive Directors

### Yuen-Tin Ng

Aged 65, was appointed as an independent non-executive director of the Company in June 2011. Mr. Ng had worked with one of the leading local banks in Hong Kong (the “Bank”) for more than thirty-nine years. He was responsible for corporate and institutional banking business of the Bank before his retirement from the Bank. He has wide and good experience in the business of banking and finance. He had also served The Hong Kong Institute of Bankers as a member of its executive committee. He holds the associateship of The Chartered Institute of Bankers, UK and the fellowship of The Hong Kong Institute of Bankers. Mr. Ng is an independent non-executive director of Dah Sing Banking Group Limited (stock code: 2356) which is listed on the Main Board of the Stock Exchange.

### Chi-Chiu Wu

Aged 53, was appointed as an independent non-executive director of the Company in March 2012. Mr. Wu is now a director and the chief executive officer of Golden Glory Group Pte. Ltd., a company incorporated in Singapore as the holding company to develop and operate mixed-use properties in Myanmar, comprising residential, commercial, retail, hotel, and industrial township. He had been an executive director of China Motion Telecom International Limited (stock code: 989, now known as Ground Properties Company Limited), a company listed on the Main Board of the Stock Exchange, since 9 February 2006 and the vice chairman and the chief executive officer of that company since 6 March 2006, until he resigned on 31 March 2013. Besides, Mr. Wu had been a non-executive director of North Asia Resources Holdings Limited (stock code: 61) a company listed on the Main Board of the Stock Exchange, since 22 October 2010 and the deputy chairman of the same company since 15 March 2011, until he retired on 16 May 2013. Mr. Wu holds a Bachelor of Science degree from the University of Toronto, Canada.

# Biographies of Directors and Senior Management

## Independent Non-Executive Directors (Continued)

### **Ronald James Blake**

Aged 82, was appointed as an independent non-executive director of the Company in 2013. He retired from the Chief Officer of Kowloon-Canton Railway Corporation (“KCRC”) in 2012, previously Chief Executive Officer. He was a Senior Director of KCRC since 1997 responsible for KCRC’s HK\$70 billion expansion programme of railway and stations in tunnel, on viaduct and at grade. Before joining KCRC in 1997, he was Secretary for Works in the Hong Kong Government between 1991 and 1995, overseeing the implementation of the Airport Core Programme and the harbour wing extension of the Hong Kong Conference and Exhibition Centre. Before that, he served with Paul Y. Construction Company, Limited and was engaged in civil engineering and building contracting from 1972 onwards. Mr. Blake began his career in the United Kingdom as a civil/structural engineer with Boulton and Paul, and following service with the Corps of Royal Engineers joined Scott Wilson Kirkpatrick & Partners to return to Hong Kong in 1965.

Mr. Blake was qualified as a Chartered Engineer in 1960 and was awarded the Institution of Civil Engineers Gold Medal in 1997. He was the President of the Hong Kong Institution of Engineers between 1991 and 1992 and later became President of the Federation of Engineering Institutions of South East Asia and the Pacific (FEISEAP), having served as a member of the Executive for three years. He is a fellow member of the Hong Kong Institution of Engineers, the Institution of Civil Engineers, The Institution of Structural Engineers, The Chartered Institution of Highways and Transportation, Hong Kong Academy of Engineering Science.

He was a member of Construction Industry Council from 2001 to 2008 and also a member of the HKSAR Election Committee (Engineer Sub-sector) from 1998 to 2011. In January 2013, he has been appointed a member to the Commission on Strategic Development of the Hong Kong Government.

In recognition of his public services, he was awarded OBE and appointed a Justice of Peace by the Hong Kong Government in 1996. He was also awarded the Gold Bauhinia Star by the Government of Hong Kong Special Administrative Region in 2012.

# Biographies of Directors and Senior Management

## Senior Management

### **Kwok-Ming Lam**

Aged 53, is the managing director of Jacobson HK which is a major subsidiary of the Company engaged in trading of plastics and chemicals. He is a member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales. He holds a Master of Science degree in Electronic Commerce from the Hong Kong Polytechnic University.

### **Wing-Sang Yu**

Aged 56, is an executive director and concurrently serves as the managing director of Chinney Kin Wing (stock code: 1556) which is listed on the Main Board of the Stock Exchange and a major subsidiary of the Company engaged in foundation piling and site investigation. He has over twenty years of experience in the foundation piling industry and is responsible for formulating corporate and business strategies and leading and training the core management team of Chinney Kin Wing. He holds a Bachelor's degree in Civil Engineering from the University of Hong Kong and a Master degree in Arts (Christian Studies) from The Chinese University of Hong Kong. He is a member of the Hong Kong Institution of Engineers.

### **Kwok-Leung Wong**

Aged 51, is the director and general manager of CCCL, a major subsidiary of the Company engaged in building construction. He has over twenty-eight years of experience in the construction industry. He is a member of The Hong Kong Institute of Surveyors, The Royal Institution of Chartered Surveyors, The Chartered Institute of Building, Hong Kong Institute of Construction Managers and Australian Institute of Building and Hong Kong Institute of Real Estate Administrators and a Registered Professional Surveyor (QS). He holds a Master's degree in Construction Management from The City University of Hong Kong.

### **Patrick Yu-Fai Au**

Aged 58, is the director and general manager of SCEE, a major subsidiary of the Company engaged in installation and maintenance of electrical and mechanical systems. He has over thirty years of experience in the building services engineering industry. He holds a Bachelor's degree of Engineering (Electrical) from McGill University, Montreal, Canada.

# Biographies of Directors and Senior Management

## Senior Management (Continued)

### **Kwok-Leung Fung**

Aged 57, is the director and general manager of Westco Chinney Limited which is a major subsidiary of the Company engaged in installation of air-conditioning systems. He has over thirty years of experience in the field of mechanical engineering. He is a member of American Society of Heating, Refrigerating and Air-conditioning Engineers and Australian Institute of Refrigeration, Airconditioning and Heating.

### **Kwok-Keung Wong**

Aged 58, is the managing director of CAE, a major subsidiary of the Company engaged in the distribution of aviation system and other hi-tech products. He has over thirty years of experience in marketing of communication and electronic equipment, especially aviation equipment. He holds a Higher Diploma in Marine Electronics from Hong Kong Polytechnic and a Master's degree in Business from The University of Newcastle, Australia. He is a member of The Hong Kong Management Association.

### **Hin-Kwong So**

Aged 59, is an executive director and concurrently serves as the general manager of Chinney Kin Wing (stock code: 1556) which is listed on the Main Board of the Stock Exchange and a major subsidiary of the Company engaged in foundation piling and site investigation. Mr. So is responsible for the overall management and supervision of the operations of Chinney Kin Wing. He has over thirty years of experience in performing and supervising various foundation and site formation works. He holds a Bachelor's degree of Civil Engineering from National Cheng Kung University.

### **Yun-Sang Lo**

Aged 51, is the company secretary and financial controller of the Company. He has twenty-eight years of experience in the accounting field. He holds a Bachelor's degree in Business Administration from The Chinese University of Hong Kong and is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants.

# Corporate Governance Report

## Corporate Governance Practices

The Company is committed to achieving the standards of corporate conduct and to place importance on its corporate governance systems so as to ensure greater transparency, accountability and protection of shareholders' interests.

This report describes the Company's corporate governance practices and structures that were in place during the financial year, with specific reference to the principles and guidelines of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") issued by the Stock Exchange. In developing and reviewing its corporate governance policies and practices, the Company has sought to adopt a balanced approach.

Throughout the year ended 31 December 2016, in the opinion of the directors of the Company, the Company has complied with the applicable code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules, except A.1.1, A.4.1, A.4.2, A.5.1 to A.5.4 and A.6.7, which are explained in this report.

## Corporate Governance Structure

The Board believes that a well-balanced corporate governance structure will enable the Company to better manage its business risks and thereby ensure the Company is run in the best interests of its shareholders and other stakeholders. The Board is primarily responsible for setting directions, formulating strategies, monitoring performance and managing risks of the Group. At the same time, it is also charged with the duty to enhance the effectiveness of the corporate governance practices of the Group. Under the Board, there are currently two board committees, namely Audit Committee and Remuneration Committee. Both the Committees perform their distinct roles in accordance with their respective terms of reference and assist the Board in supervising certain functions of the senior management.

## Board of Directors

Members of the Board are collectively responsible for overseeing the business and affairs of the Group that aims to enhancing the Company's value for stakeholders. Roles of the Board include reviewing and guiding corporate strategies and policies; monitoring financial and operating performance; ensuring the integrity of the Group's accounting and financial reporting systems; and setting appropriate policies in managing risks of the Group while the day-to-day management is delegated to the executive directors. The biographical details of the directors are set out in the section "Biographies of Directors and Senior Management" on pages 13 to 19 of this annual report.

# Corporate Governance Report

## Board of Directors (Continued)

The Board currently comprises of four executive directors, two non-executive directors and three independent non-executive directors. The directors during the financial year and up to the date of this report are set out on page 34 of the annual report and are currently as follows:

### Name of director

#### *Executive Directors*

Dr. James Sai-Wing Wong (*Chairman*)

Mr. Yuen-Keung Chan (*Vice Chairman and Managing Director*)

Mr. James Sing-Wai Wong

Mr. Philip Bing-Lun Lam

#### *Non-Executive Directors*

Mr. Herman Man-Hei Fung

Ms. Wendy Kim-See Gan

#### *Independent Non-Executive Directors*

Mr. Yuen-Tin Ng

Mr. Chi-Chiu Wu

Mr. Ronald James Blake

Independent non-executive directors serve the relevant function of bringing independent judgment on the development, performance and risk management of the Group through their contributions in board meetings.

The Board considers that each independent non-executive director of the Company is independent in character and judgment. The Company has received from each independent non-executive director a written confirmation of his independence pursuant to Rule 3.13 of the Listing Rules.

Board meetings of the Company were held twice during the year on a regular basis, which deviated from code provision A.1.1 which stipulates that the Board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals.

In view of the simplicity of the Group's businesses, regular board meetings have not been held quarterly during the year. The interim and annual results together with all corporate transactions happened during the year have been reviewed and discussed amongst the directors at the full board meetings held in the year.

Draft minutes of board meetings are circulated to directors for comments and the signed minutes are kept by the Company Secretary.

# Corporate Governance Report

## Board of Directors (Continued)

Code provision A.6.7 of the CG Code requires that independent non-executive directors and other non-executive directors shall attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Herman Man-Hei Fung and Mr. Chi-Chiu Wu, being non-executive directors of the Company and an executive director Mr. James Sing-Wai Wong, did not attend the annual general meeting of the Company held on 1 June 2016 due to their engagement in their own business.

In order to safeguard the interest of individual director, the Company has also arranged directors' and officers' liability insurance for the directors of the Company.

## Chairman and Chief Executive Officer

Dr. James Sai-Wing Wong, Chairman of the Company, is responsible for the management of the Board. Mr. Yuen-Keung Chan is the Vice Chairman and Managing Director of the Company. Each division of the Group's business namely Jacobson HK, CAE, Chinney Kin Wing, CCCL and Shun Cheong is managed by its divisional managing directors and/or general managers.

## Re-Election of Directors

Code provision A.4.1 of the CG Code stipulates that non-executive directors should be appointed for a specific term, subject to re-election and that code provision A.4.2 of the CG Code stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The existing non-executive directors of the Company do not have a specific term of appointment but are subject to retirement by rotation and re-election at the Company's annual general meeting under the Bye-laws of the Company (the "Bye-Laws"). As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

According to the provisions of the Bye-Laws, at each annual general meeting one-third of the directors for the time being (or, if their number is not a multiple of three, the number nearest to but not greater than one-third) shall retire from office by rotation save that the Chairman and/or the Managing Director of the Company shall not be subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year.

Dr. James Sai-Wing Wong, the beneficial owner of Chinney Investments, EIL and Chinney Capital Limited, which collectively holds approximately 73.43% interest in the Company, is the Chairman of the Board to safeguard their investments in the Company. In addition, the Board considers that the continuity of the office of the Chairman and Managing Director provide the Group with a strong and consistent leadership for the smooth operation of the businesses of the Group. As a result, the Board concurred that the Chairman and the Managing Director need not be subject to retirement by rotation.

# Corporate Governance Report

## Induction and Continuous Professional Development

The Company Secretary updates directors on the latest developments and changes to the Listing Rules and the applicable legal and regulatory requirements regarding subjects necessary in the discharge of their duties.

All directors of the Company are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. Directors are continually updated on developments in the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities.

Directors are required to submit to the Company annually details of training sessions undertaken by them in each financial year for the Company to maintain a training record for its directors. According to the training records maintained by the Company, the training received by each of the directors during the year ended 31 December 2016 is summarized as follows:

Name of director	Type of trainings
<b>Executive Directors</b>	
Dr. James Sai-Wing Wong	B
Mr. Yuen-Keung Chan	B
Mr. James Sing-Wai Wong	B
Mr. Philip Bing-Lun Lam	A, B
<b>Non-Executive Directors</b>	
Mr. Herman Man-Hei Fung	B
Ms. Wendy Kim-See Gan	A
<b>Independent Non-Executive Directors</b>	
Mr. Yuen-Tin Ng	A
Mr. Chi-Chiu Wu	B
Mr. Ronald James Blake	A, B

A: attending seminars/conferences/workshops/forums

B: reading newspapers, journals and updates relating to the economy, environmental protection, business or director's duties and responsibilities etc.



# Corporate Governance Report

## Corporate Governance Function

The Board is collectively responsible for performing the corporate governance duties including:

- (a) to develop, review and update the Company's policy and practices on corporate governance;
- (b) to review and monitor the training and continuous professional development of directors and senior management;
- (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (d) to review the Company's compliance with the CG Code and disclosure in the "Corporate Governance Report"; and
- (e) to perform such other corporate governance duties and functions set out in the CG Code (as amended from time to time) for which the Board is responsible.

## 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.

On specific enquiries made, all directors of the Company have confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2016. Securities interests in the Company and its associated corporations held by each of the directors of the Company are set out in the section "Report of the Directors" on pages 30 to 39 of this annual report.

## Remuneration Committee

The Remuneration Committee currently comprises two independent non-executive directors namely Mr. Chi-Chiu Wu (Chairman of the Remuneration Committee) and Mr. Yuen-Tin Ng and a non-executive director namely Mr. Herman Man-Hei Fung. The role of the Committee is to review and recommend to the Board on the remuneration packages of all executive directors.

The Chairman of the Board receives no remuneration and determines the remuneration of all other executive directors, taking reference to market pay, individual performance and a bonus scheme, which has been in place prior to the establishment of the Remuneration Committee. Details of remuneration packages of the executive directors during the year are set out in note 8 to the financial statements on pages 96 and 98 in this annual report.

A Remuneration Committee meeting was held in March 2016, during which the remuneration packages of all executive directors for the year have been reviewed individually and the proposal for year 2016 remuneration adjustment and 2015 bonus distribution were considered. Draft minutes of the Remuneration Committee meeting are circulated to members for comments and the signed minutes are kept by the Company Secretary.

# Corporate Governance Report

## Audit Committee

The Audit Committee currently comprises two independent non-executive directors namely Mr. Yuen-Tin Ng (Chairman of the Audit Committee) and Mr. Chi-Chiu Wu and one non-executive director namely Mr. Herman Man-Hei Fung.

The terms of reference for the Audit Committee has been adopted in line with the CG Code. Regular meetings have been held by the Audit Committee since establishment and it meets at least twice each year to review and supervise the Group's financial reporting process and internal control. The Audit Committee has reviewed the accounting principles and policies adopted by the Company and discussed with management and the external auditor the financial reporting matters, to review the financial statements of the Group before their submission to the Board for approval and to review the effectiveness of the internal control and risk management system of the Group, both the half year results for the six months ended 30 June 2016 and the annual results for the year ended 31 December 2016.

The work performed by the Audit Committee for the year ended 31 December 2016 included reviews of the following:

- the directors' report and the consolidated financial statements for the year ended 31 December 2015 of the Group, with a recommendation to the Board for approval;
- the consolidated financial statements for the six months ended 30 June 2016 of the Group, with a recommendation to the Board for approval;
- the audit fees for the year ended 31 December 2015 proposed by the external auditor, with a recommendation to the Board for approval;
- the new accounting policies and practices adopted by the Group;
- the internal control and risk management system of the Group; and
- the litigation cases of the Group.

The Audit Committee met two times during the year. Draft minutes of the Audit Committee meetings are circulated to members of Audit Committee for comments and the signed minutes are kept by the Company Secretary.

# Corporate Governance Report

## Attendance at Meetings of the Board, Remuneration and Audit Committees and General Meeting

Name of Director	Attended/Eligible to attend during the year ended 31 December 2016				
	Board Meetings	Remuneration Committee Meeting	Audit Committee Meeting	Annual General Meeting	Special General Meeting
				held on 1 June 2016	held on 7 November 2016
<b>Executive Directors</b>					
Dr. James Sai-Wing Wong	2/2	N/A	N/A	1/1	0/1
Mr. Yuen-Keung Chan	2/2	N/A	N/A	1/1	1/1
Mr. James Sing-Wai Wong	2/2	N/A	N/A	0/1	0/1
Mr. Philip Bing-Lun Lam	2/2	N/A	N/A	1/1	1/1
<b>Non-Executive Directors</b>					
Mr. Herman Man-Hei Fung	2/2	1/1	1/1	0/1	0/1
Ms. Wendy Kim-See Gan	2/2	N/A	N/A	1/1	0/1
<b>Independent Non-Executive Directors</b>					
Mr. Yuen-Tin Ng	2/2	1/1	1/1	1/1	1/1
Mr. Chi-Chiu Wu	2/2	1/1	1/1	0/1	0/1
Mr. Ronald James Blake	2/2	N/A	N/A	1/1	1/1

## Nomination of Directors

Code provisions A.5.1 to A.5.4 of the CG Code in respect of the establishment, terms of reference and resources of a nomination committee. The Company has not established a nomination committee. The Board is responsible for considering the suitability of a candidate to act as a director, and collectively approving and terminating the appointment of a director as this allows a more informed and balanced decision to be made. The Chairman is mainly responsible for identifying suitable candidates for members of the Board when there is a vacancy or an additional director is considered necessary. The Chairman will propose the appointment of such candidates to the Board for consideration and the Board will determine the suitability of the relevant candidates on the basis of their gender, age, professional qualifications and experience as well as educational background.

# Corporate Governance Report

## Auditor's Remuneration

During the year ended 31 December 2016, the Group has engaged its external auditor, Ernst & Young, to provide the following services and their respective fees charged are set out as follows:

Services rendered	fees paid/ payable HK\$'000
Audit services	3,500
Non-audit services (review and other services)	186

## Internal Control and Risk Management

The Board has overall responsibilities for maintaining the Group's systems of internal control and reviewing their effectiveness. The internal control systems of the Group are designed to provide reasonable assurance to minimize risk of failure in operational systems, and to assist in the achievement of the Group's goals. The systems are also structured to safeguard the Group's assets, to ensure the maintenance of proper accounting records and compliance with applicable laws, rules and regulations. The systems are designed to provide reasonable, but not absolute, assurance against material misstatement or loss, and to manage rather than eliminate risks of failure in the Group's operational systems and in the achievement of the Group's business objectives. The Group has dedicated internal audit function who reviews the effectiveness of the risk management and internal control systems from time to time in order to ensure that they meet with the dynamic and ever changing business environment.

During the year, the Audit Committee has reviewed the Group's internal control system and considered the internal audit report with the Group's executive directors and financial controller. The review covers all material controls, including financial, operational and compliance controls and risk management of the Group and such systems have been considered reasonably effective and adequate.

The Group regularly reminds the directors and relevant employees for the compliance of policies regarding the inside information, and provide them with update on the appropriate guidelines or policies to ensure the compliance with regulatory requirements.

## Directors' Responsibility for the Financial Statements

The directors are responsible for overseeing the preparation of financial statements for each financial period with a view to ensuring such financial statements give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. The Company's financial statements are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; and that judgments and estimates made are prudent and reasonable. The statement of the independent auditor of the Company, Messrs. Ernst & Young, with regard to their reporting responsibilities on the Company's financial statements is set out in the Independent Auditor's Report on pages 40 and 46.

# Corporate Governance Report

## Shareholders' Rights

### 1. The way in which shareholders can convene a special general meeting

Pursuant to bye-law 58 of the Bye-Laws and Section 74 of the Companies Act 1981, shareholders 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 shall at all times have the right, by written requisition to the Board or the Company Secretary, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition.

The requisition must be signed by the requisitionists and deposited at the principal place of business of the Company at 23rd Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong (the "Principal Place of Business") for the attention of the Company Secretary.

The requisition will then be verified with the Company's Branch Share Registrar and Transfer Office in Hong Kong and upon its confirmation that the requisition is proper and in order, the Company Secretary will forward the requisition to the Board and the Board shall convene and hold such general meeting within two months after the deposit of such requisition. Moreover, if within twenty-one days of such deposit, the Board fails to proceed to convene such general meeting, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the said date.

### 2. Procedures for shareholders to propose a person for election as a director of the Company

Pursuant to bye-law 88 of the Bye-Laws, any shareholder (other than the person to be proposed for election as a director), who wishes to propose a person other than a retiring director of the Company for election as a director of the Company at a general meeting, should lodge a duly signed written notice given of his intention to propose such person for election and a notice signed by the person to be proposed of his willingness to be elected at the Company's Principal Place of Business or the Company's Hong Kong Branch Share Registrar and Transfer Office, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong within the period of not less than 7 days commencing no earlier than the day after the despatch of the notice of the general meeting appointed for such election and ending no later than 7 days prior to the date of such general meeting.

# Corporate Governance Report

## Shareholders' Rights (Continued)

### 3. The procedures for sending enquiries to the Board

Shareholders and other stakeholders may send their enquiries and concerns in writing to the Board by addressing them to the Company Secretary at the Principal Place of Business and the Company Secretary shall then forward the same to the appropriate executives of the Company or members in the Board for further handling.

### 4. The procedures for putting forward proposals at shareholders' meetings

To put forward proposals at an annual general meeting or a special general meeting, the shareholders shall submit a written notice of those proposals with the detail contact information to the Company Secretary at the Principal Place of Business. The request will be verified with the Company's Branch Share Registrar and Transfer Office in Hong Kong and upon its confirmation that the request is proper and in order, the Company Secretary will ask the Board to include the resolution in the agenda for the general meeting. Moreover, the notice period to be given to all the shareholders for consideration of the proposals submitted by the shareholders concerned varies as follows pursuant to bye-law 59(1) of the Bye-Laws:

- (a) for an annual general meeting and any special general meeting at which the passing of a special resolution is to be considered, it shall be called by not less than twenty-one clear days' notice (the notice period must include twenty clear business days under the Listing Rules' requirement); and
- (b) for all other special general meetings, they may be called by not less than fourteen clear days' notice (the notice period must include ten clear business days under the Listing Rules' requirement).

# Report of the Directors

The directors herein present their report and the audited financial statements for the year ended 31 December 2016.

## Principal activities

The Company is an investment holding company. The principal activities of its subsidiaries comprise the trading of plastic and chemical products, the provision of building related contracting services for both public and private sectors, including engineering contracting services in the air-conditioning industry and provision of maintenance services, superstructure construction works and foundation piling works and sub-structure works for both public and private sectors in Hong Kong and Macau, distribution of aviation system and other hi-tech products, and property and investment holding. Details of the principal subsidiaries and their activities are set out in note 1 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

## Results and dividends

The Group's profit for the year ended 31 December 2016 and the Group's financial position at that date are set out in the financial statements on pages 47 to 138.

The Board recommend the payment of a final dividend of HK6.0 cents per share for the year ended 31 December 2016 (2015: HK5.0 cents) to the shareholders whose names appear on the Company's register of members on 12 June 2017. Upon the shareholders' approval at the forthcoming annual general meeting of the Company, it is expected that the final dividend cheques will be despatched to the shareholders on or before 28 June 2017.

## Management discussion and analysis

### Business review

A business review of the Group for the year ended 31 December 2016 and outlook are set out in the Chairman's Statement on pages 8 to 12 of this annual report and in this section. The Group's capital and financial risk management objectives and policies are set out in note 40 to the financial statements on pages 131 to 136 of this annual report.

The Group is committed to build an environmental-friendly corporation with the aim to conserve natural resources. The Group has taken initiatives to reduce energy consumption and encourage recycle of office supplies and other materials. The Group will continue to review and promote its environmental policies.

During the year ended 31 December 2016, there were no breach of or non-compliance with applicable laws and regulations by the Group that have significant impact on the business and operations of the Group.

# Report of the Directors

## Management discussion and analysis (Continued)

### Relationship with employees, customers and suppliers

The Group's relationships with its employees are set out in the "Employees and remuneration policies" section below.

The Group recognises the importance of maintaining good relationships with business partners, customers, suppliers and sub-contractors to achieve its long-term business growth and development. Accordingly, the Group has kept good communications and shared business updates with them when appropriate.

### Financial review

#### *Liquidity and financial resources*

Total interest-bearing debts of the Group amounted to HK\$141.4 million as at 31 December 2016 (2015: HK\$178.2 million), of which HK\$139.5 million or 99% (2015: HK\$175.4 million or 98%) were classified as current liabilities. Included in the current portion of bank and other borrowings were trust receipt loans of HK\$138.6 million (2015: HK\$171.5 million) for financing the purchases of goods by the Group's Plastic Trading division and the purchases of materials and equipment for installation in the projects of the Group's Building Services division. Current ratio of the Group as at 31 December 2016, measured by total current assets over total current liabilities, was 1.5 (2015: 1.3). Total unpledged cash and bank balances as at 31 December 2016 was HK\$858.8 million (2015: HK\$792.6 million). The increase in unpledged bank balances was mainly due to cash received from operations, less capital expenditure in purchases of plant and machinery as well as other equipment of HK\$63.9 million and net repayment of bank borrowings (including trust receipt loans) of HK\$33.8 million during the year.

The Group had a total of HK\$1,571 million undrawn banking facilities at year-end available for its working capital, trade finance and issue of performance/surety bonds. The gearing ratio of the Group, measured by total interest-bearing borrowings of HK\$141.4 million over the equity attributable to the owners of the Company of HK\$1,413.4 million, was 10.0% as at 31 December 2016 (2015: 14.5%).

#### *Funding and treasury policy*

The Group maintains a prudent funding and treasury policy. Surplus funds are maintained in the form of cash deposits with leading banks. Borrowings are mainly denominated in Hong Kong dollars and bear interest at floating rates. Forward contracts of non-speculative nature are entered to hedge the foreign currency trade purchase commitments of the Group when desirable.

#### *Pledge of assets*

As at 31 December 2016, certain properties and a time deposit having aggregate book value of HK\$146.7 million and HK\$1.0 million respectively were pledged to banks to secure certain bank loans and general banking facilities extended to the Group. In addition, time deposits of HK\$13.9 million were pledged to banks to secure the performance/surety bonds issued in favour of the Group's clients on contracting works.



# Report of the Directors

## Management discussion and analysis (Continued)

### Financial review (Continued)

#### *Contingent liability*

As at 31 December 2016, the Group provided corporate guarantees and indemnities to certain banks and financial institution of an aggregate amount of HK\$558,297,000 to secure the issue of performance bonds in its ordinary course of business. Such amount included performance bonds issued in favour of the client of Chinney Kin Wing Group of which corporate guarantees and indemnities of HK\$227,192,000 were provided by Chinney Kin Wing Group.

#### *Employees and remuneration policies*

The Group employed approximately 1,630 staff in Hong Kong and other parts of the PRC as at 31 December 2016. Remuneration packages are reviewed annually and determined by reference to market pay and individual performance. In addition to salary payments and year-end discretionary bonuses, the Group also provides other employment benefits including medical insurance cover, provident fund and educational subsidies to eligible staff.

## Summary of financial information

A summary of the published results, assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out below.

### RESULTS

	Year ended 31 December				
	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000	2013 HK\$'000	2012 HK\$'000
REVENUE	<u>4,570,724</u>	<u>4,551,870</u>	<u>3,812,681</u>	<u>3,201,083</u>	<u>2,852,015</u>
PROFIT FOR THE YEAR	<u>235,434</u>	<u>173,961</u>	<u>142,314</u>	<u>104,500</u>	<u>49,818</u>
<b>Attributable to:</b>					
– Owners of the Company	<u>209,928</u>	<u>169,087</u>	<u>142,314</u>	<u>104,500</u>	<u>49,818</u>
– Non-controlling interests	<u>25,506</u>	<u>4,874</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>235,434</u>	<u>173,961</u>	<u>142,314</u>	<u>104,500</u>	<u>49,818</u>

# Report of the Directors

## Summary of financial information (Continued)

### ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000	2013 HK\$'000	2012 HK\$'000
TOTAL ASSETS	<b>3,223,885</b>	2,939,255	2,395,763	2,090,706	1,659,738
TOTAL LIABILITIES	<b>(1,706,458)</b>	(1,619,897)	(1,444,361)	(1,309,027)	(1,014,633)
NON-CONTROLLING INTERESTS	<b>( 104,044)</b>	( 90,013)	—	—	—
	<b><u>1,413,383</u></b>	<u>1,229,345</u>	<u>951,402</u>	<u>781,679</u>	<u>645,105</u>

The information set out above does not form part of the audited financial statements.

### Share capital

There were no movements in either the Company's authorised or issued share capital during the year.

### Pre-emptive rights

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

### Purchase, sale or redemption of the Company's listed shares

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed shares during the year.

### Permitted indemnity provision

Pursuant to the Bye-Laws, every director of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto. The Company has arranged appropriate directors' and officers' liability insurance coverage for the directors and officers of the Group throughout the year.

### Distributable reserves

Under the laws of Bermuda, the Company's reserves available for distribution to shareholders amounted to HK\$392,620,000 as at 31 December 2016, of which HK\$35,694,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK\$60,978,000, may be distributed to shareholders of the Company in the form of fully paid bonus shares.

# Report of the Directors

## Major customers and suppliers

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

## Directors

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

### Executive Directors:

James Sai-Wing Wong (*Chairman*)

Yuen-Keung Chan (*Vice Chairman and Managing Director*)

James Sing-Wai Wong

Philip Bing-Lun Lam

### Non-Executive Directors:

Herman Man-Hei Fung

Wendy Kim-See Gan

### Independent Non-Executive Directors:

Yuen-Tin Ng

Chi-Chiu Wu

Ronald James Blake

In accordance with bye-law 87 of the Bye-laws, Mr. James Sing-Wai Wong and Mr. Chi-Chiu Wu will retire by rotation at the forthcoming annual general meeting. Mr. Wong and Mr. Wu, being eligible, will offer themselves for re-election.

The Company has received from each of its independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and still considers them as independent.

## Biographies of directors and senior management

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 13 to 19 of this annual report.

## Directors' service contracts

No director has a service contract with any member of the Group which is not determinable within one year without payment of compensation, other than statutory compensation.

# Report of the Directors

## Directors' remuneration

The remuneration of the directors of the Company is reviewed by the Remuneration Committee having regard to the Company's operating results, individual performance of the directors and comparable market statistics. Details of the directors' remuneration are set out in note 8 to the financial statements.

## Directors' interests in transactions, arrangements or contracts

Except as disclosed in note 33 to the financial statements and the section "Connected transaction" below, no director nor a connected entity of a director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which any of the Company's subsidiaries was a party during the year.

## Connected transaction

On 20 September 2016, Gold Famous Development Limited ("Gold Famous"), an indirect wholly-owned subsidiary of Hon Kwok and an indirect non wholly-owned subsidiary of Chinney Investments, entered into a framework agreement (the "Framework Agreement") with Kin Wing Foundations Limited ("KWF"), an indirect wholly-owned subsidiary of Chinney Kin Wing and an indirect non wholly-owned subsidiary of the Company, as a contractor for the construction of piling foundation, pipe piling, bored pile wall works at K.C.T.L. 495, Kin Chuen Street, Kwai Chung, New Territories, Hong Kong (the "Land") at a contract sum of HK\$210 million (the "Foundation Construction Works"). The contract sum was arrived at after arm's length negotiations between Gold Famous and KWF by reference to prevailing market rate. KWF offered a quotation to Gold Famous after considering the geological condition of the Land, the complexity and difficulty of the Foundation Construction Works and estimated project costs. The entering into the Framework Agreement constituted a connected transaction of each of Hon Kwok, Chinney Investments, Chinney Kin Wing and the Company under the Listing Rules. As the applicable percentage ratio of the connected transaction is more than 5% and the contract sum is more than HK\$10 million, it constituted a non-exempt connected transaction under Chapter 14A of the Listing Rules and was subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. On 7 November 2016, at the respective extraordinary general meetings held by each of Hon Kwok and Chinney Investments and at the respective special general meetings held by each of Chinney Kin Wing and the Company, the transaction was approved by the independent shareholders of each of Hon Kwok, Chinney Investments, Chinney Kin Wing and the Company.

Details of the transaction were set out in the joint announcement of Hon Kwok, Chinney Investments, Chinney Kin Wing and the Company dated 20 September 2016 and the Company's circular dated 21 October 2016. During the year ended 31 December 2016, there was no contracting income recognised from Gold Famous under the Foundation Construction Works.

# Report of 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 in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (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, were as follows:

### Long position in ordinary shares of the Company:

Name of director	Number of shares held, capacity and nature of interest			Total	Percentage of the Company's issued share capital
	Personal interests	Family interests	Corporate interests		
James Sai-Wing Wong	—	—	436,860,216 (Note)	436,860,216	73.43%

Note: Amongst these shares, 20,522,000 shares are held by Chinney Capital Limited, 173,093,695 shares are held by Multi-Investment Group Limited, and 243,244,521 shares are held by EIL, all of which Dr. James Sai-Wing Wong is a director and has beneficial interests.

Save as disclosed above, as at 31 December 2016, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## Directors' rights to acquire shares or debentures

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any of the directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## Contract of significance

Save as disclosed, no contracts of significance in relation to the Group's business in which the Company, any of its subsidiaries or fellow subsidiaries, or its parent company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the year.

# Report of the Directors

## Substantial shareholders' and other persons' interests and short positions in shares and underlying shares of the Company

As at 31 December 2016, the interests and short positions of those persons in the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company under Section 336 of the SFO were as follows:

### Long positions in ordinary shares of the Company:

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
James Sai-Wing Wong	1, 2, 3	Interest through controlled corporations	436,860,216	73.43%
Lucky Year Finance Limited	1	Interest through a controlled corporation	173,093,695	29.10%
Chinney Holdings Limited	1	Interest through a controlled corporation	173,093,695	29.10%
Chinney Investments	1	Interest through a controlled corporation	173,093,695	29.10%
Newsworthy Resources Limited	1	Interest through a controlled corporation	173,093,695	29.10%
Multi-Investment Group Limited	1	Beneficial owner	173,093,695	29.10%
EIL	2	Beneficial owner	243,244,521	40.89%

Notes:

1. Dr. James Sai-Wing Wong, Lucky Year Finance Limited, Chinney Holdings Limited, Chinney Investments, Newsworthy Resources Limited and Multi-Investment Group Limited are deemed to be interested in the same parcel of the 173,093,695 shares by virtue of Section 316 of the SFO;
2. EIL is beneficially wholly-owned by Dr. James Sai-Wing Wong; and
3. 20,522,000 shares are held by Chinney Capital Limited, which is beneficially wholly-owned by Dr. James Sai-Wing Wong.

# Report of the Directors

## Substantial shareholders' and other persons' interests and short positions in shares and underlying shares of the Company (Continued)

Save as disclosed above, as at 31 December 2016, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares, underlying shares and debentures" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## Sufficiency of public float

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total number of issued shares were held by the public as at the date of this report.

## Events after the reporting period

On 9 February 2017, Chinney Shun Cheong Holdings Limited ("Chinney Shun Cheong"), a company incorporated in Bermuda with limited liability on 17 January 2017 and a direct wholly-owned subsidiary of the Company, and FRO Management Holdings Limited (the "Subscriber"), an independent third party, entered into a subscription agreement (the "Subscription Agreement") pursuant to which Chinney Shun Cheong has conditionally agreed to issue, and the Subscriber has conditionally agreed to subscribe for the convertible bond in the principal amount of HK\$40 million (the "Convertible Bond"), which may be converted into 50,000 new ordinary shares of HK\$0.1 each in the share capital of Chinney Shun Cheong (the "Conversion Shares") based on the initial conversion price of HK\$800 per Conversion Share, subject to adjustment (the "Conversion Price"). The Convertible Bond will bear interest at 5% per annum and mature on 30 June 2018 (the "Maturity Date"), unless extended to such later date as may be agreed in writing by Chinney Shun Cheong and holder of the Convertible Bond (the "Bondholder"). Chinney Shun Cheong shall have the right, without the necessity of obtaining the consent of the Bondholder, to redeem the outstanding principal amount of the Convertible bond in full at any time before the Maturity Date when it considers, at its sole discretion, that it is not feasible or practicable to continue or proceed with the Proposed Spin-off (as defined below). The Bondholder shall not be entitled to any interest in the event that any part of the Convertible Bond is converted into the Conversion Shares. The estimated net proceeds (after deducting professional fees and all related expenses) to be raised from the issue of the Convertible Bond are approximately HK\$39.7 million and shall be fully used for the development of the electrical and mechanical engineering business of the Group (the "E&M Engineering Business").

Subject to, among other things, all applicable laws, regulations, the Listing Rules and any requirements of the Stock Exchange or any other applicable authorities, all (but not part) of the principal amount of the Convertible Bond then outstanding shall be converted into the Conversion Shares at the Conversion Price (a) mandatorily and automatically on the date when and upon the Proposed Spin-off becoming unconditional; or (b) upon the exercise of the conversion rights at the option of the Bondholder and on the date on which Chinney Shun Cheong receives a conversion notice from the Bondholder provided that such date shall be a business day falling between 1 April 2018 and the Maturity Date (both inclusive), whichever is earlier.

# Report of the Directors

## Events after the reporting period (Continued)

In the event that the Convertible Bond is fully converted at the initial Conversion Price, the equity interest held by the Company in Chinney Shun Cheong would decrease to approximately 75%.

Completion of the Subscription Agreement is subject to all of the conditions precedent having been fulfilled or waived as set out in the Subscription Agreement on or before 30 April 2017 or such other date to be agreed in writing between Chinney Shun Cheong and the Subscriber. As at the date of this report, the Subscription Agreement is not yet completed.

It is intended that Chinney Shun Cheong and its affiliates will undergo a reorganisation such that Chinney Shun Cheong will, subject to the terms of the Subscription Agreement, be the holding company of all of the proposed subsidiaries engaging in the E&M Engineering Business immediately after the completion of the reorganisation.

The Company is currently considering the feasibility and possibility of the spin-off by way of a separate listing of the E&M Engineering Business on the Stock Exchange (the "Proposed Spin-off"). However, the Proposed Spin-off is still in a preliminary stage and the Company has not yet submitted any proposal or application to the Stock Exchange in this regard. In addition, whether the Proposed Spin-off would be materialised depends on a number of factors including but not limited to the pace of the business development of the E&M Engineering Business, the fulfillment of the relevant requirements under the Listing Rules, the approval of the Stock Exchange and other relevant authorities, financial market conditions prevailing from time to time, and the final decision of the Board.

The Company will comply with the relevant disclosure requirements under the Listing Rules on the progress of the Proposed Spin-off as and when appropriate.

Details of the above transaction were set out in the Company's announcement dated 9 February 2017.

## Auditor

Ernst & Young retire and a resolution for their reappointment as auditor of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**Yuen-Keung Chan**

*Director*

Hong Kong, 30 March 2017



# Independent Auditor's Report



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**To the shareholders of Chinney Alliance Group Limited**  
(Incorporated in Bermuda with limited liability)

## Opinion

We have audited the consolidated financial statements of Chinney Alliance Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 47 to 138, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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 ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

# Independent Auditor's Report



## Key audit matters (Continued)

### Key audit matter:

#### Revenue recognition for construction contracts

For the year ended 31 December 2016, the Group recognised revenue from construction contracting businesses amounting to HK\$3,993,304,000. The Group has accounted for its construction contracts by applying the percentage-of-completion method. This involves the use of management judgements and estimation uncertainty, including estimating the progress towards completion of the services, scope of deliveries and services required, total contract costs incurred and forecasts in relation to costs to complete and profit margin.

Relevant disclosures are included in notes 3.2 and 5 to the financial statements.

### How our audit addressed the key audit matter:

To address the key audit matter, we evaluated the significant judgements made by management, through an examination of project documentation, key contracts and variation orders, and discussion of the status of projects under construction with management, finance, and technical personnel of the Group. We tested the controls of the Group over its processes to record contract revenues and the calculation of the stage of completion. Our testing also included checking the payment certificates issued by the contract customers on a sampling basis and a comparison of the costs incurred with total expected costs to assess the status of the projects.

# Independent Auditor's Report



## Key audit matters (Continued)

### Key audit matter:

#### Recoverability of amounts due from contract customers for construction services

Construction work performed which has not been certified is carried in the consolidated statement of financial position as amounts due from contract customers. Amounts due from contract customers are stated at cost less impairment. In assessing the recoverability of the amounts due from contract customers, the Group regularly reviews and, where appropriate, adjusts the financial budget of each construction work based on work progress and latest available information (including correspondence with contract customers), and estimates the amount of foreseeable losses or attributable profits of each construction contract. When it is probable that total contract costs will exceed total contract revenue which indicates an impairment, the expected loss is recognised as an expense immediately.

The gross amount due from contract customers as at 31 December 2016 was approximately HK\$261,303,000. The recoverability assessment of these amounts due from contract customers involves significant estimations and judgements made by management when management prepares financial budgets of each construction work.

Relevant disclosures are included in notes 3.2 and 20 to the financial statements.

### How our audit addressed the key audit matter:

We selected material construction contracts, reviewed their financial budgets and interviewed the Group's project managers regarding the preparation and approval processes of financial budgets of construction contracts and the progress of work certification by contract customers. Our testing also included a review of correspondence between the Group and contract customers in respect of construction work performed and a comparison of the cost incurred with total expected cost to assess the status of the projects. We also assessed the adequacy of the related disclosures in the notes to the financial statements.

# Independent Auditor's Report



## Key audit matters (Continued)

### Key audit matter:

#### Impairment assessment of trade receivables and retention monies receivable

As at 31 December 2016, the Group recorded gross trade receivables and retention monies receivable of HK\$623,178,000 and HK\$412,932,000, respectively, before impairment provision of trade receivables of HK\$11,121,000. Management performs an impairment assessment on a regular basis, with the impairment provision estimated through the application of judgements and use of subjective assumptions.

Relevant disclosures are included in notes 3.2, 20 and 21 to the financial statements.

### How our audit addressed the key audit matter:

We assessed and tested the Group's processes and controls relating to the monitoring of trade receivables, retention monies receivable and the granting of credit terms. We evaluated the inputs and assumptions used by management in their impairment assessment, and management's procedures over aged receivables or amounts in dispute. We also assessed the impairment provision as of the end of the reporting period, taking into account factors such as the payment history, ageing of the receivables, the subsequent settlement of the receivables and other relevant information.

## Other information included in the Annual Report

The directors of the Company are responsible for the other information. The other information comprises 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.

# Independent Auditor's Report



## Responsibilities of the directors 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities 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. Our report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

# Independent Auditor's Report



## Auditor's responsibilities for the audit of the consolidated financial statements (Continued)

As part of an audit in accordance with HKSAs, we exercise professional judgement 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.
- 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 the Audit Committee 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 the Audit Committee 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.

# Independent Auditor's Report



## **Auditor's responsibilities for the audit of the consolidated financial statements (Continued)**

From the matters communicated with the Audit Committee, 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 Chan Sai Yu.

**Ernst & Young**  
*Certified Public Accountants*  
Hong Kong

30 March 2017

# Consolidated Statement of Profit or Loss

Year ended 31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000
<b>REVENUE</b>	5	<b>4,570,724</b>	4,551,870
Cost of sales/services provided		<b>(3,866,320)</b>	(3,913,295)
Gross profit		<b>704,404</b>	638,575
Other income	5	<b>10,015</b>	10,675
Selling and distribution costs		<b>(14,584)</b>	(12,381)
Administrative expenses		<b>(421,098)</b>	(405,775)
Other operating expenses, net		<b>(547)</b>	(13,570)
Changes in fair value of investment properties	14	<b>(1,186)</b>	167
Finance costs	6	<b>(3,239)</b>	(5,150)
Share of profits and losses of an associate		<b>5,022</b>	(352)
<b>PROFIT BEFORE TAX</b>	7	<b>278,787</b>	212,189
Income tax expense	10	<b>(43,353)</b>	(38,228)
<b>PROFIT FOR THE YEAR</b>		<b>235,434</b>	173,961
Attributable to:			
Owners of the Company		<b>209,928</b>	169,087
Non-controlling interests		<b>25,506</b>	4,874
		<b>235,434</b>	173,961
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY</b>	12		
Basic and diluted		<b>HK35.3 cents</b>	HK28.4 cents



# Consolidated Statement of Comprehensive Income

Year ended 31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000
<b>PROFIT FOR THE YEAR</b>		<b>235,434</b>	173,961
<b>OTHER COMPREHENSIVE INCOME</b>			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences:			
Exchange differences on translation of foreign operations		(3,672)	(1,382)
Exchange fluctuation reserve reclassified to profit or loss upon realisation of investment in an associate		—	(2,126)
Net other comprehensive expense to be reclassified to profit or loss in subsequent periods		(3,672)	(3,508)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Surplus on revaluation of land and buildings	13	8,539	12,753
Income tax effect	27	(1,012)	(5,081)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		7,527	7,672
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX</b>		<b>3,855</b>	4,164
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>239,289</b>	178,125
Attributable to:			
Owners of the Company		213,783	173,251
Non-controlling interests		25,506	4,874
		<b>239,289</b>	178,125

# Consolidated Statement of Financial Position

31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	13	769,753	810,598
Investment properties	14	15,678	16,864
Investment in an associate	15	50,997	47,043
Investment in a joint venture	16	—	—
Goodwill	17	12,528	12,528
Deferred tax assets	27	236	612
Other assets	18	2,345	2,345
Total non-current assets		851,537	889,990
<b>CURRENT ASSETS</b>			
Inventories	19	82,845	87,317
Gross amount due from contract customers	20	261,303	274,368
Trade receivables	21	612,057	420,532
Retention monies receivable	20	412,932	395,830
Amount due from a joint venture	16	967	967
Prepayments, deposits and other receivables	22	108,875	57,378
Tax recoverable		19,678	853
Pledged time deposits	23	14,894	19,465
Cash and cash equivalents	23	858,797	792,555
Total current assets		2,372,348	2,049,265
<b>CURRENT LIABILITIES</b>			
Gross amount due to contract customers	20	773,072	785,272
Trade and bills payables	24	372,224	295,372
Trust receipt loans	26	138,602	171,545
Retention monies payable	20	178,537	148,537
Other payables and accruals	25	126,519	113,673
Tax payable		21,782	19,519
Interest-bearing bank borrowings	26	890	3,891
Total current liabilities		1,611,626	1,537,809
<b>NET CURRENT ASSETS</b>		<b>760,722</b>	<b>511,456</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>1,612,259</b>	<b>1,401,446</b>

# Consolidated Statement of Financial Position

31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>1,612,259</b>	1,401,446
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank borrowings	26	1,864	2,754
Deferred tax liabilities	27	92,968	79,334
Total non-current liabilities		94,832	82,088
Net assets		1,517,427	1,319,358
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Issued capital	28	59,490	59,490
Reserves	29	1,353,893	1,169,855
		1,413,383	1,229,345
Non-controlling interests		104,044	90,013
Total equity		1,517,427	1,319,358

ON BEHALF OF THE BOARD  
**James Sai-Wing Wong**  
*Director*

ON BEHALF OF THE BOARD  
**Yuen-Keung Chan**  
*Director*

# Consolidated Statement of Changes in Equity

Year ended 31 December 2016

	Attributable to owners of the Company										
	Note	Issued capital	Share premium account	Contributed surplus	Asset revaluation reserve	Legal reserve	Exchange fluctuation reserve	Retained profits	Total	Non-controlling interests	Total equity
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2015		59,490	60,978	120,946	237,792	49	2,656	469,491	951,402	—	951,402
Profit for the year		—	—	—	—	—	—	169,087	169,087	4,874	173,961
Other comprehensive income for the year:											
Surplus on revaluation of land and buildings, net of tax		—	—	—	7,672	—	—	—	7,672	—	7,672
Exchange differences related to foreign operations		—	—	—	—	—	(1,382)	—	(1,382)	—	(1,382)
Reclassification upon realisation of investment in an associate		—	—	—	—	—	(2,126)	—	(2,126)	—	(2,126)
Total comprehensive income for the year		—	—	—	7,672	—	(3,508)	169,087	173,251	4,874	178,125
Deemed disposal of partial interests in a subsidiary without losing control upon shares issued by a subsidiary to non-controlling interests	31	—	—	—	—	—	—	128,488	128,488	85,139	213,627
Release of revaluation reserve on land and buildings to retained profits		—	—	—	(7,980)	—	—	7,980	—	—	—
Final 2014 dividend declared		—	—	—	—	—	—	(23,796)	(23,796)	—	(23,796)
At 31 December 2015 and 1 January 2016		<b>59,490</b>	<b>60,978*</b>	<b>120,946*</b>	<b>237,484*</b>	<b>49*</b>	<b>(852)*</b>	<b>751,250*</b>	<b>1,229,345</b>	<b>90,013</b>	<b>1,319,358</b>
Profit for the year		—	—	—	—	—	—	209,928	209,928	25,506	235,434
Other comprehensive income for the year:											
Surplus on revaluation of land and buildings, net of tax		—	—	—	7,527	—	—	—	7,527	—	7,527
Exchange differences related to foreign operations		—	—	—	—	—	(3,672)	—	(3,672)	—	(3,672)
Total comprehensive income for the year		—	—	—	7,527	—	(3,672)	209,928	213,783	25,506	239,289
Release of revaluation reserve on land and buildings to retained profits		—	—	—	(8,541)	—	—	8,541	—	—	—
Dividends paid to non-controlling shareholders		—	—	—	—	—	—	—	—	(11,475)	(11,475)
Final 2015 dividend declared		—	—	—	—	—	—	(29,745)	(29,745)	—	(29,745)
At 31 December 2016		<b>59,490</b>	<b>60,978*</b>	<b>120,946*</b>	<b>236,470*</b>	<b>49*</b>	<b>(4,524)*</b>	<b>939,974*</b>	<b>1,413,383</b>	<b>104,044</b>	<b>1,517,427</b>

\* These reserve accounts comprise the consolidated reserves of HK\$1,353,893,000 (2015: HK\$1,169,855,000) in the consolidated statement of financial position.

# Consolidated Statement of Cash Flows

Year ended 31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		278,787	212,189
Adjustments for:			
Finance costs	6	3,239	5,150
Share of profits and losses of an associate		(5,022)	352
Gain on dissolution of a former associate	7	(6,243)	—
Changes in fair value of investment properties	14	1,186	(167)
Depreciation	7	90,797	65,737
Impairment of trade receivables	7	15	11,107
Write-off of other receivables	7	29	39
Provision/(write-back of provision) for inventories included in cost of inventories sold	7	646	(1,678)
Reclassification of exchange fluctuation reserve to profit or loss upon realisation of investment in an associate	7	—	(2,126)
Loss on disposal of items of property, plant and equipment, net	7	5,793	2,763
Interest income	5	(3,769)	(3,890)
		<b>365,458</b>	289,476
Decrease/(increase) in inventories		3,826	(13,975)
Decrease/(increase) in gross amount due from contract customers		27,624	(75,108)
Decrease/(increase) in trade receivables		(191,540)	111,263
Increase in retention monies receivable		(17,102)	(84,746)
Decrease/(increase) in prepayments, deposits and other receivables		(52,634)	49,936
Increase/(decrease) in gross amount due to contract customers		(12,200)	167,335
Increase in trade and bills payables		76,852	3,490
Increase in retention monies payable		30,000	27,775
Increase in other payables and accruals		12,846	26,005
Cash generated from operations		243,130	501,451
Interest received		1,585	1,714
Interest paid		(3,239)	(5,150)
Dividend paid		(29,745)	(23,796)
Dividend paid to non-controlling shareholders		(11,475)	—
Hong Kong profits tax paid, net		(45,105)	(23,804)
Overseas taxes paid		(1,732)	(2,849)
Net cash flows from operating activities		<b>153,419</b>	447,566

# Consolidated Statement of Cash Flows

Year ended 31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of items of property, plant and equipment		(63,858)	(167,495)
Proceeds from disposal of items of property, plant and equipment		2,069	186
Proceeds from dissolution of a former associate		7,351	—
Acquisition of a subsidiary	30	—	(11,614)
Net cash flows used in investing activities		(54,438)	(178,923)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from deemed disposal of partial interests in a subsidiary, net of expenses	31	—	213,627
Increase/(decrease) in trust receipt loans		(32,943)	6,056
New bank loans		—	64,563
Repayment of bank loans		(863)	(135,288)
Decrease in pledged time deposits		4,571	612
Net cash flows from/(used in) financing activities		(29,235)	149,570
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at beginning of year		790,527	371,578
Effect of foreign exchange rate changes, net		(476)	736
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>859,797</b>	<b>790,527</b>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	23	301,365	410,527
Non-pledged time deposits with original maturity of less than three months when acquired	23	557,432	382,028
Cash and cash equivalents as stated in the consolidated statement of financial position		858,797	792,555
Time deposit with original maturity of less than three months when acquired, pledged as security for bank overdraft facilities	23	1,000	1,000
Bank overdrafts	26	—	(3,028)
Cash and cash equivalents as stated in the consolidated statement of cash flows		859,797	790,527

# Notes to the Financial Statements

31 December 2016

## 1. Corporate and Group Information

Chinney Alliance Group Limited (the “Company”) is a limited liability company incorporated in Bermuda with its shares listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda, and the Company’s head office and principal place of business is located at 23rd Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong.

During the year, the Group was engaged in the following principal activities:

- trading of plastic and chemical products
- provision of building related contracting services for both public and private sectors, including engineering contracting services in the air-conditioning industry and provision of maintenance services
- superstructure construction works for both public and private sectors in Hong Kong and Macau
- foundation piling, and drilling and site investigation for both public and private sectors in Hong Kong and Macau
- distribution of aviation system and other hi-tech products
- property and investment holding

### Information about subsidiaries

Particulars of the Company’s principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary share/ registered share capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Apex Curtain Wall and Windows Company Limited	Hong Kong	HK\$10,000	—	100%	Contracting of building aluminium works
Apex Aluminium Fabricator Company Limited	Hong Kong	HK\$9,452,000	—	100%	Contracting of building aluminium works
Best Treasure Limited*	British Virgin Islands	US\$1	—	100%	Investment holding
Chinney Alliance Corporate Treasury Limited	Hong Kong	HK\$2	—	100%	Treasury function
Chinney Alliance Engineering Limited	Hong Kong	HK\$10,000	—	100%	Distribution and installation of aviation system, mechanical, electrical and building supplies, and other hi-tech products

# Notes to the Financial Statements

31 December 2016

## 1. Corporate and Group Information (Continued)

### Information about subsidiaries (Continued)

Name	Place of incorporation/ registration and business	Issued ordinary share/ registered share capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Chinney Alliance Trading (BVI) Limited*	British Virgin Islands	HK\$360,001	100%	—	Investment holding
Chinney Builders Company Limited	Hong Kong	HK\$2	—	100%	Building construction
Chinney Construction (BVI) Limited	British Virgin Islands	US\$10,000	—	100%	Investment holding
Chinney Construction Company, Limited	Hong Kong	HK\$18,800,000	—	100%	Building construction
Chinney Construction Group Limited	British Virgin Islands	US\$1	—	100%	Investment holding
Chinney E & M (Maintenance) Limited	Hong Kong	HK\$100	—	100%	Maintenance of air-conditioning, electrical generators, water pumps and fire prevention and fighting systems
Chinney Electrical Supplies Limited	Hong Kong	HK\$100,000	—	100%	Trading of electrical, air-conditioning and other building supplies products
Chinney Kin Wing Holdings Limited**	Bermuda	HK\$150,000,000	74.5%	—	Investment holding
Chinney Shun Cheong E&M (Shenzhen) Company Limited*	People's Republic of China	RMB10,000,000	—	100%	Trading of building decoration materials and electrical and mechanical equipment
Chinney Shun Cheong Investment Co. Ltd.	Macau	MOP100,000	—	100%	Trading of generators, electrical and mechanical engineering materials and equipment
Chinney Timfai Construction (Macau) Company Limited*	Macau	MOP1,500,000	—	100%	Property holding



# Notes to the Financial Statements

31 December 2016

## 1. Corporate and Group Information (Continued)

### Information about subsidiaries (Continued)

Name	Place of incorporation/ registration and business	Issued ordinary share/ registered share capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Chinney Timwill Construction (Macau) Company Limited*	Macau	MOP1,500,000	—	100%	Building construction and foundation piling
DMT-Jacobson Holdings Limited	British Virgin Islands	US\$2,000,000	—	100%	Investment holding
DrilTech Geotechnical Engineering Limited**	Hong Kong	HK\$10,000	—	74.5%	Drilling, site investigation and related ground engineering construction
DrilTech Ground Engineering Limited**	Hong Kong	HK\$12,500,000	—	74.5%	Drilling, site investigation and related ground engineering construction
DrilTech Ground Engineering (Macau) Limited**	Macau	MOP1,000,000	—	74.5%	Drilling, site investigation and related ground engineering construction
Gina Enterprises Limited	Hong Kong	HK\$2	—	100%	Property holding
Jackson Mercantile Trading Company Limited	Hong Kong	Ordinary HK\$2,000; Non-voting deferred HK\$5,000,000	—	100%	Property holding
Jacobson van den Berg (China) Limited	Hong Kong	HK\$1,000,000	—	100%	Trading of electrical, mechanical and other products
Jacobson van den Berg (Hong Kong) Limited	Hong Kong	Ordinary HK\$1,000; Non-voting deferred HK\$35,486,600	—	100%	Investment holding and agency trading of industrial products

# Notes to the Financial Statements

31 December 2016

## 1. Corporate and Group Information (Continued)

### Information about subsidiaries (Continued)

Name	Place of incorporation/ registration and business	Issued ordinary share/ registered share capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Kin Wing Chinney (BVI) Limited**	British Virgin Islands	US\$208	—	74.5%	Investment holding
Kin Wing Engineering Company Limited**	Hong Kong	HK\$20,000,000	—	74.5%	Foundation piling
Kin Wing Foundations Limited**	Hong Kong	HK\$10,000	—	74.5%	Foundation piling
Kin Wing Machinery & Transportation Limited**	Hong Kong	HK\$100	—	74.5%	Equipment and machinery leasing
Kinwing Engineering (Macau) Company Limited**	Macau	MOP1,000,000	—	74.5%	Foundation piling
LabTech Testing Limited**	Hong Kong	HK\$10,000	—	74.5%	Construction material testing
Lei Kee Development Company Limited	Hong Kong	HK\$2	—	100%	Property holding
Merchant Choice Limited*	British Virgin Islands	US\$1	100%	—	Investment holding
Right Able Limited	Hong Kong	HK\$1	—	100%	Property holding
Shun Cheong Building Services (Macau) Limited	Macau	MOP100,000	—	100%	Installation and maintenance of electrical, mechanical, heat ventilation and air-conditioning systems
Shun Cheong Electrical Engineering Company Limited	Hong Kong	"A" ordinary HK\$700,000; Non-voting deferred HK\$4,000,000	—	100%	Design, installation, repair and maintenance of electrical and mechanical systems

# Notes to the Financial Statements

31 December 2016

## 1. Corporate and Group Information (Continued)

### Information about subsidiaries (Continued)

Name	Place of incorporation/ registration and business	Issued ordinary share/ registered share capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Shun Cheong Electrical Products Factory Limited	Hong Kong	HK\$1,000,000	—	100%	Trading of electrical installation products
Shun Cheong Investments Limited	British Virgin Islands	US\$100	—	100%	Investment holding
Shun Cheong Management Limited	Hong Kong	HK\$2	—	100%	Provision of management services
Shun Cheong Real Estates Limited	Hong Kong	HK\$10,000	—	100%	Property holding
Shun Cheong Trade and Development Company Limited	Hong Kong	HK\$663,000	—	100%	Trading of electrical generators
Tegan Holdings Limited	Hong Kong	HK\$2	—	100%	Property holding
Westco Airconditioning Limited	Hong Kong	HK\$4,700,000	—	100%	Design, installation and maintenance of heating, ventilation and air-conditioning systems
Westco Chinney Limited	Hong Kong	HK\$3,000,000	—	100%	Sale and installation of air-conditioning systems

\* Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

\*\* Chinney Kin Wing Holdings Limited (“Chinney Kin Wing”), together with its subsidiaries, was separately listed on the Main Board of the Stock Exchange during the year ended 31 December 2015 (note 31).

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

# Notes to the Financial Statements

31 December 2016

## 2.1 Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for land and buildings classified as property, plant and equipment and investment properties which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2016. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

# Notes to the Financial Statements

31 December 2016

## 2.1 Basis of preparation (Continued)

### Basis of consolidation (Continued)

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

## 2.2 Changes in accounting policies and disclosures

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to HKFRS 11 HKFRS 14	<i>Accounting for Acquisitions of Interests in Joint Operations</i> <i>Regulatory Deferral Accounts</i>
Amendments to HKAS 1	<i>Disclosure Initiative</i>
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to HKAS 16 and HKAS 41	<i>Agriculture: Bearer Plants</i>
Amendments to HKAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i>
<i>Annual Improvements 2012-2014 Cycle</i>	Amendments to a number of HKFRSs

Other than as explained below regarding the impact of amendments to HKAS 1, amendments to HKAS 16 and HKAS 38 and certain amendments included in the *Annual Improvements to HKFRSs 2012-2014 Cycle*, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

# Notes to the Financial Statements

31 December 2016

## 2.2 Changes in accounting policies and disclosures (Continued)

- (a) Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:
- (i) the materiality requirements in HKAS 1;
  - (ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;
  - (iii) that entities have flexibility as to the order in which they present the notes to financial statements; and
  - (iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The amendments have had no significant impact on the Group's financial statements.

- (b) Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments have had no impact on the financial position or performance of the Group as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.
- (c) *Annual Improvements to HKFRSs 2012-2014 Cycle* issued in October 2014 sets out amendments to a number of HKFRSs. Details of the amendments are as follows:
- *HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations*: Clarifies that changes to a plan of sale or a plan of distribution to owners should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. Accordingly, there is no change in the application of the requirements in HKFRS 5. The amendments also clarify that changing the disposal method does not change the date of classification of the non-current assets or disposal group held for sale. The amendments are applied prospectively. The amendments have had no impact on the Group as the Group did not have any change in the plan of sale or disposal method in respect of the disposal group held for sale during the year.

# Notes to the Financial Statements

31 December 2016

## 2.3 Issued but not yet effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions<sup>2</sup></i>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts<sup>2</sup></i>
HKFRS 9	<i>Financial Instruments<sup>2</sup></i>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture<sup>4</sup></i>
HKFRS 15	<i>Revenue from Contracts with Customers<sup>2</sup></i>
Amendments to HKAS 15	<i>Clarification of HKFRS 15 Revenue from Contracts with Customers<sup>2</sup></i>
HKFRS 16	<i>Leases<sup>3</sup></i>
Amendments to HKAS 7	<i>Disclosure Initiative<sup>1</sup></i>
Amendments to HKAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses<sup>1</sup></i>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2017

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>4</sup> No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet the employee's tax obligation associated with the share-based payment; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The Group expects to adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

# Notes to the Financial Statements

31 December 2016

## 2.3 Issued but not yet effective Hong Kong Financial Reporting Standards (Continued)

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group is currently assessing the impact of the standard.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for application now.

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.



# Notes to the Financial Statements

31 December 2016

## 2.3 Issued but not yet effective Hong Kong Financial Reporting Standards (Continued)

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases - Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt HKFRS 16 on 1 January 2019 and is currently assessing the impact of HKFRS 16 upon adoption.

Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from 1 January 2017.

Amendments to HKAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group expects to adopt the amendments from 1 January 2017.

## 3.1 Summary of significant accounting policies

### Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

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

The Group's investments in an associate and a joint venture are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of an associate and a joint venture is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associate or joint venture are eliminated to the extent of the Group's investments in the associate or joint venture, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of an associate or a joint venture is included as part of the Group's investments in an associate or a joint venture.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

# Notes to the Financial Statements

31 December 2016

## 3.1 Summary of significant accounting policies (Continued)

### **Business combinations and goodwill**

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

# Notes to the Financial Statements

31 December 2016

## 3.1 Summary of significant accounting policies (Continued)

### Business combinations and goodwill (Continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

# Notes to the Financial Statements

31 December 2016

## 3.1 Summary of significant accounting policies (Continued)

### Fair value measurement

The Group measures its land and buildings classified as property, plant and equipment and investment properties at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

## 3.1 Summary of significant accounting policies (Continued)

### Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, deferred tax assets, goodwill and investment properties), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/ amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

### Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

# Notes to the Financial Statements

31 December 2016

## 3.1 Summary of significant accounting policies (Continued)

### Related parties (Continued)

- (b) the party is an entity where any of the following conditions applies:
  - (i) the entity and the Group are members of the same group;
  - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
  - (iii) the entity and the Group are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a);
  - (vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
  - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

### Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the statement of profit or loss. Any subsequent revaluation surplus is credited to the statement of profit or loss to the extent of the deficit previously charged. An annual transfer from the asset revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

## 3.1 Summary of significant accounting policies (Continued)

### Property, plant and equipment and depreciation (Continued)

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Land and buildings	2% - 3%
Leasehold improvements	Over the lease terms or 10% - 33 $\frac{1}{3}$ %
Plant and machinery	6% - 25%
Furniture, fixtures and equipment	10% - 33 $\frac{1}{3}$ %
Yacht	10%
Motor vehicles	15% - 25%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

### Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above.



# Notes to the Financial Statements

31 December 2016

## 3.1 Summary of significant accounting policies (Continued)

### Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

### Investments and other financial assets

#### *Initial recognition and measurement*

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

## 3.1 Summary of significant accounting policies (Continued)

### Investments and other financial assets (Continued)

#### *Subsequent measurement*

The subsequent measurement of financial assets depends on this classification as follows:

#### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other operating expenses for receivables.

# Notes to the Financial Statements

31 December 2016

## 3.1 Summary of significant accounting policies (Continued)

### Investments and other financial assets (Continued)

#### *Available-for-sale financial investments*

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

## 3.1 Summary of significant accounting policies (Continued)

### Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

### Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor 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 observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

# Notes to the Financial Statements

31 December 2016

## 3.1 Summary of significant accounting policies (Continued)

### Impairment of financial assets (Continued)

#### *Financial assets carried at amortised cost*

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified 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 yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other operating expenses, net in the statement of profit or loss.

# Notes to the Financial Statements

31 December 2016

## 3.1 Summary of significant accounting policies (Continued)

### Impairment of financial assets (Continued)

#### *Available-for-sale financial investments*

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

# Notes to the Financial Statements

31 December 2016

## 3.1 Summary of significant accounting policies (Continued)

### Financial liabilities

#### *Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, trust receipt loans, retention monies payable, financial liabilities included in other payables and accruals and interest-bearing bank borrowings.

#### *Subsequent measurement*

The subsequent measurement of financial liabilities depends on their classification as follows:

#### *Loans and borrowings*

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

### Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

# Notes to the Financial Statements

31 December 2016

## 3.1 Summary of significant accounting policies (Continued)

### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out or the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

### Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

### Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.



# Notes to the Financial Statements

31 December 2016

## 3.1 Summary of significant accounting policies (Continued)

### Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the jurisdictions in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and a joint venture, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and a joint venture, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

## 3.1 Summary of significant accounting policies (Continued)

### Income tax (Continued)

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

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for “Construction contracts” below;
- (c) rental income, on a time proportion basis over the lease terms;
- (d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset; and
- (e) commission income, when services have been rendered.

# Notes to the Financial Statements

31 December 2016

## 3.1 Summary of significant accounting policies (Continued)

### Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised using the percentage of completion method, depends on the nature of the contract works, measured either by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract or to the percentage of certified work performed to date to the estimated total sum of the relevant contracts.

Revenue from cost plus construction contracts is recognised using the percentage of completion method, by reference to the recoverable costs incurred during the year plus the related fee earned, measured by the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

### Employee benefits

#### *Pension schemes*

The Group operates two types of defined contribution retirement benefit schemes, including a Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance and an Occupational Retirement Schemes Ordinance retirement benefit scheme (the "ORSO Scheme"), for all of its employees who are eligible to participate in the MPF Scheme or ORSO Scheme.

Under the MPF Scheme, contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

## 3.1 Summary of significant accounting policies (Continued)

### Employee benefits (Continued)

#### *Pension schemes (Continued)*

The ORSO Scheme is managed by an independent trustee. The Group makes monthly contributions to the scheme at 5% to 15% of the employees' basic salaries while the employees are not required to make any contributions. The employees are entitled to receive 100% of the contributions made by the Group together with the accrued earnings thereon upon retirement or leaving the Group after completing 10 years of service or at a reduced scale of 30% to 90% after completing three to nine years of service. Forfeited contributions and related earnings are used to reduce the contributions payable by the Group.

Prior to the MPF Scheme becoming effective, certain member companies of the Group operated defined contribution provident fund schemes (the "Provident Funds") under the Occupational Retirement Schemes Ordinance for those employees who were eligible to participate. The Provident Funds operated in a similar way to the MPF Scheme, except that when an employee left the Provident Funds prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group were reduced by the relevant amount of forfeited contributions. Upon implementation of the MPF Scheme, the Provident Funds have been frozen and no further contributions have been made by the Group or the eligible employees after that date. The eligible employees are entitled to receive their funds in accordance with the rules of the Provident Funds when they leave the Group.

The assets of both types of scheme are held separately from those of the Group in independently administered funds.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute 5% of its payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

#### *Termination benefits*

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

### Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

# Notes to the Financial Statements

31 December 2016

## 3.1 Summary of significant accounting policies (Continued)

### Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries, an associate and a joint venture are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

# Notes to the Financial Statements

31 December 2016

## 3.2 Significant accounting judgements and estimates

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

### Judgements

The preparation of the Group's financial statements requires the use of estimates and assumptions about future events and conditions. In this connection, the directors consider that the significant areas where management's judgement is necessary are those in relation to (i) the provision for foreseeable losses on the amounts due from contract customers; and (ii) the recognition of losses on the Group's trade and other receivables and retention monies receivable.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are considered to be reasonable. It should be noted that actual results could differ from those estimates.

### *Revenue recognition for construction contracts*

For the year ended 31 December 2016, the Group recognised revenue from construction contracting businesses amounting to HK\$3,993,304,000. The Group has accounted for its construction contracts by applying the percentage-of-completion method. This involves the use of management judgements and estimation uncertainty, including estimating the progress towards completion of the services, scope of deliveries and services required, total contract costs incurred and forecasts in relation to costs to complete and profit margin.

### Estimation uncertainty

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

# Notes to the Financial Statements

31 December 2016

## 3.2 Significant accounting judgements and estimates (Continued)

### Estimation uncertainty (Continued)

#### *Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2016 was HK\$12,528,000 (2015: HK\$12,528,000). Further details are given in note 17.

#### *Estimation of fair value of investment properties and revaluation of land and buildings*

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

- (a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences;
- (b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
- (c) the income capitalisation method based on the capitalisation of existing rental income and reversionary market rental income, supported by the market rentals expected by investors for similar properties in the neighbourhood and by the market yield derived from analysing the sales transactions of similar properties.

The principal assumptions for the Group's estimation of the fair value include those related to current market rents for similar properties in the same location and condition and appropriate capitalisation rates. The carrying amounts of investment properties and land and buildings at 31 December 2016 were HK\$15,678,000 (2015: HK\$16,864,000) and HK\$402,255,000 (2015: HK\$406,439,000), respectively.

#### *Impairment of property, plant and equipment*

The Group tests annually whether property, plant and equipment have suffered any impairment, in accordance with the accounting policy stated in note 3.1. The recoverable amounts of cash-generating units have been determined based on value in use calculations. These calculations require the use of estimates such as future revenue and discount rates. The carrying amount of property, plant and equipment at 31 December 2016 was HK\$769,753,000 (2015: HK\$810,598,000).

# Notes to the Financial Statements

31 December 2016

## 3.2 Significant accounting judgements and estimates (Continued)

### Estimation uncertainty (Continued)

#### *Recoverability of amounts due from contract customers for construction services*

Construction work performed which has not been certified is carried in the consolidated statement of financial position as amounts due from contract customers. Amounts due from contract customers are stated at cost less impairment. In assessing the recoverability of the amounts due from contract customers, the Group regularly reviews and, where appropriate, adjusts the financial budget of each construction work based on work progress and latest available information (including correspondence with contract customers), and estimates the amount of foreseeable losses or attributable profits of each construction contract. When it is probable that total contract costs will exceed total contract revenue which indicates an impairment, the expected loss is recognised as an expense immediately.

The gross amount due from contract customers as at 31 December 2016 was approximately HK\$261,303,000 (2015: HK\$274,368,000). The recoverability assessment of these amounts due from contract customers involves significant estimations and judgements made by management when management prepares financial budgets of each construction work.

#### *Impairment of trade receivables and retention monies receivable*

As at 31 December 2016, the Group recorded gross trade receivables and retention monies receivable of HK\$623,178,000 (2015: HK\$431,701,000) and HK\$412,932,000 (2015: HK\$395,830,000), respectively, before impairment provision of trade receivables of HK\$11,121,000 (2015: HK\$11,169,000). Management performs an impairment assessment on a regular basis, with the impairment provision estimated through the application of judgements and use of subjective assumptions.

#### *Outcome of construction contracts*

The Group determines whether the outcome of a construction contract can be estimated reliably. This requires a continuous estimation of the total contract revenue and costs and stage of completion with reference to work certified by the contract customers and the assessment of the probability of the future economic flows to the Group. The contract costs incurred plus recognised profits less recognised losses and foreseeable losses to date amounted to approximately HK\$20,448,350,000 at 31 December 2016 (2015: HK\$16,996,760,000). Further details are contained in note 20 to the financial statements.



# Notes to the Financial Statements

31 December 2016

## 4. Operating segment information

For management purposes, the Group is organised into business units based on their products and services and has five reportable operating segments as follows:

- the plastic and chemical products segment consists of importing, marketing and distributing plastic and chemical products;
- the building related contracting services segment consists of the provision of contracting services for both public and private sectors, including engineering contracting services in the air-conditioning industry and the provision of maintenance services, and the distribution of aviation system and other hi-tech products;
- the foundation piling and ground investigation segment consists of the foundation piling and sub-structure construction works for both public and private sectors;
- the building construction segment consists of superstructure construction works for both public and private sectors; and
- the “others” segment consists of property holding.

During the year, the Group reviewed the structure and internal organisation and changed the composition of its reportable segments. Accordingly, certain subsidiaries which were previously included in “Others” segment have been reclassified to the “Building related contracting services” segment. A subsidiary which was previously included in the “Building related contracting services” segment has also been reclassified to the “Building construction” segment. The relevant comparative figures have been restated to conform with the current year’s presentation. Operating segments are reported in a manner consistent with the internal reporting provided to key management personnel.

Management monitors the results of the Group’s operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group’s profit before tax except that interest income, changes in fair value of investment properties, share of profits or losses of an associate as well as unallocated corporate gains and expenses are excluded from this measurement.

Segment assets exclude deferred tax assets, tax recoverable, investment in an associate and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

# Notes to the Financial Statements

31 December 2016

## 4. Operating segment information (Continued)

Year ended 31 December 2016

	Plastic and chemical products HK\$'000	Building related contracting services HK\$'000	Building construction HK\$'000	Foundation piling and ground investigation HK\$'000	Others HK\$'000	Total HK\$'000
<b>Segment revenue:</b>						
Sales to external customers	552,121	1,583,604	1,079,307	1,355,692	—	4,570,724
Intersegment sales	185	42,781	—	30,433	—	73,399
Other revenue	2,212	427	491	691	1,209	5,030
	<u>554,518</u>	<u>1,626,812</u>	<u>1,079,798</u>	<u>1,386,816</u>	<u>1,209</u>	<u>4,649,153</u>
<i>Reconciliation:</i>						
Elimination of intersegment sales						(73,399)
Revenue						<u>4,575,754</u>
<b>Segment results</b>	<b>5,201</b>	<b>102,530</b>	<b>65,677</b>	<b>119,395</b>	<b>(1,764)</b>	<b>291,039</b>
<i>Reconciliation:</i>						
Gain on dissolution of a former associate						6,243
Interest income and unallocated gains						4,985
Unallocated expenses						(27,316)
Changes in fair value of investment properties						(1,186)
Share of profits and losses of an associate						<u>5,022</u>
Profit before tax						<u>278,787</u>

# Notes to the Financial Statements

31 December 2016

## 4. Operating segment information (Continued)

### Year ended 31 December 2016 (Continued)

	Plastic and chemical products HK\$'000	Building related contracting services HK\$'000	Building construction HK\$'000	Foundation piling and ground investigation HK\$'000	Others HK\$'000	Total HK\$'000
<b>Segment assets</b>	339,392	748,484	655,039	1,022,521	163,672	2,929,108
<i>Reconciliation:</i>						
Elimination of intersegment receivables						(23,024)
Investment in an associate						50,997
Corporate and other unallocated assets						266,804
Total assets						<u>3,223,885</u>
<b>Segment liabilities</b>	135,792	521,854	362,886	578,432	9,360	1,608,324
<i>Reconciliation:</i>						
Elimination of intersegment payables						(23,024)
Corporate and other unallocated liabilities						121,158
Total liabilities						<u>1,706,458</u>
<b>Other segment information:</b>						
Impairment of trade receivables	15	—	—	—	—	15
Write-off of other receivables	—	29	—	—	—	29
Provision for inventories included in cost of inventories sold	499	147	—	—	—	646
Depreciation	3,952	2,209	5,508	73,027	6,101	90,797
Capital expenditure *	659	4,711	1,003	46,871	10,614	63,858

\* Capital expenditure represents additions to property, plant and equipment.

# Notes to the Financial Statements

31 December 2016

## 4. Operating segment information (Continued)

Year ended 31 December 2015

	Plastic and chemical products HK\$'000	Building related contracting services HK\$'000 (Restated)	Building construction HK\$'000 (Restated)	Foundation piling and ground investigation HK\$'000	Others HK\$'000 (Restated)	Total HK\$'000
<b>Segment revenue:</b>						
Sales to external customers	566,682	1,349,367	1,120,041	1,515,393	387	4,551,870
Intersegment sales	139	91,466	—	3,533	—	95,138
Other revenue	5,827	489	4	389	1,243	7,952
	572,648	1,441,322	1,120,045	1,519,315	1,630	4,654,960
<i>Reconciliation:</i>						
Elimination of intersegment sales						(95,138)
Revenue						4,559,822
<b>Segment results</b>	7,278	25,353	34,971	168,961	(1,903)	234,660
<i>Reconciliation:</i>						
Interest income and unallocated gains						2,723
Unallocated expenses						(25,009)
Changes in fair value of investment properties						167
Share of profits and losses of an associate						(352)
Profit before tax						212,189

# Notes to the Financial Statements

31 December 2016

## 4. Operating segment information (Continued)

Year ended 31 December 2015 (Continued)

	Plastic and chemical products HK\$'000	Building related contracting services HK\$'000 (Restated)	Building construction HK\$'000 (Restated)	Foundation piling and ground investigation HK\$'000	Others HK\$'000 (Restated)	Total HK\$'000
<b>Segment assets</b>	322,982	615,575	510,339	1,050,415	161,466	2,660,777
<i>Reconciliation:</i>						
Elimination of intersegment receivables						(23,723)
Investment in an associate						47,043
Corporate and other unallocated assets						255,158
Total assets						2,939,255
<b>Segment liabilities</b>	128,798	477,115	276,343	643,432	8,977	1,534,665
<i>Reconciliation:</i>						
Elimination of intersegment payables						(23,723)
Corporate and other unallocated liabilities						108,955
Total liabilities						1,619,897
<b>Other segment information:</b>						
Impairment of trade receivables	214	10,893	—	—	—	11,107
Write-off of other receivables	—	39	—	—	—	39
Write-back of provision for inventories included in cost of inventories sold	(1,619)	(59)	—	—	—	(1,678)
Depreciation	3,585	1,715	5,726	49,971	4,740	65,737
Capital expenditure *	158	2,212	1,000	163,992	133	167,495

\* Capital expenditure represents additions to property, plant and equipment.

# Notes to the Financial Statements

31 December 2016

## 4. Operating segment information (Continued)

### Geographical information

(a) Revenue from external customers

	2016 HK\$'000	2015 HK\$'000
Hong Kong	3,927,949	4,101,375
Mainland China and Macau	642,775	450,495
	<u>4,570,724</u>	<u>4,551,870</u>

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	2016 HK\$'000	2015 HK\$'000
Hong Kong	723,889	758,451
Mainland China and Macau	61,542	69,011
	<u>785,431</u>	<u>827,462</u>

The non-current asset information above is based on the locations of the assets and excludes investment in an associate, investment in a joint venture, goodwill, deferred tax assets and other assets.

### Information about major customers

During the years ended 31 December 2016 and 2015, none of the Group's revenue derived from transactions with a single external customer amounted to 10 per cent. or more of the Group's revenue.

# Notes to the Financial Statements

31 December 2016

## 5. Revenue and other income

Revenue represents the net invoiced value of services rendered and goods sold, after allowances for returns and trade discounts, and an appropriate proportion of contract revenue of construction contracts during the year.

An analysis of revenue and other income is as follows:

	2016 HK\$'000	2015 HK\$'000
<b>Revenue</b>		
Sale of goods	577,420	591,937
Construction contracts	3,993,304	3,959,933
	<u>4,570,724</u>	<u>4,551,870</u>
<b>Other income</b>		
Interest income	3,769	3,890
Commission income	1,932	4,704
Gross rental income	1,542	1,243
Others	2,772	838
	<u>10,015</u>	<u>10,675</u>

## 6. Finance costs

An analysis of finance costs is as follows:

	2016 HK\$'000	2015 HK\$'000
Interest on bank loans and overdrafts	<u>3,239</u>	<u>5,150</u>

# Notes to the Financial Statements

31 December 2016

## 7. Profit before tax

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2016 HK\$'000	2015 HK\$'000
Cost of inventories sold		619,545	568,971
Cost of services provided		3,246,775	3,344,324
Depreciation	13	91,526	66,354
Less: Amount capitalised in contract costs		(729)	(617)
		<b>90,797</b>	65,737
Minimum lease payments under operating leases in respect of land and buildings		9,352	8,340
Auditors' remuneration			
Charge for the year		3,798	4,888
Under provision in prior years		9	—
		<b>3,807</b>	4,888
Employee benefit expense (including directors' remuneration (note 8)):			
Wages and salaries		640,351	552,823
Pension scheme contributions		22,660	19,869
Less: Forfeited contributions		—	—
Net pension scheme contributions*		22,660	19,869
		<b>663,011</b>	572,692
Less: Amount capitalised in contract costs		(441,325)	(366,380)
		<b>221,686</b>	206,312
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties		224	229
Impairment of trade receivables <sup>#</sup>	21	15	11,107
Write-off of other receivables <sup>#</sup>		29	39
Provision/(write-back of provision) for inventories included in cost of inventories sold		646	(1,678)
Loss on disposal of items of property, plant and equipment, net <sup>#</sup>		5,793	2,763



# Notes to the Financial Statements

31 December 2016

## 7. Profit before tax (Continued)

The Group's profit before tax is arrived at after charging/(crediting): (Continued)

	2016 HK\$'000	2015 HK\$'000
Gain on dissolution of a former associate <sup>#</sup>	(6,243)	—
Reclassification of exchange fluctuation reserve to profit or loss upon realisation of investment in an associate <sup>#</sup>	—	(2,126)
Foreign exchange differences, net <sup>#</sup>	<u>954</u>	<u>1,787</u>

\* As at 31 December 2016, the Group did not have significant forfeited contributions available to reduce its contributions to the pension schemes in future years (2015: Nil).

<sup>#</sup> These expenses/(income) items are included in "Other operating expenses, net" in the consolidated statement of profit or loss.

## 8. Directors' remuneration

Directors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1) (a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2016 HK\$'000	2015 HK\$'000
Fees	<u>856</u>	<u>383</u>
Other emoluments:		
Salaries, allowances and benefits in kind	4,892	4,428
Performance-related bonuses*	8,500	10,000
Pension scheme contributions	<u>156</u>	<u>79</u>
	<u>13,548</u>	<u>14,507</u>
	<u>14,404</u>	<u>14,890</u>

\* Certain executive directors of the Company are entitled to bonus payments which are determined with reference to profit for the year of the Group.

# Notes to the Financial Statements

31 December 2016

## 8. Directors' remuneration (Continued)

### (a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2016 HK\$'000	2015 HK\$'000
Yuen-Tin Ng	100	100
Chi-Chiu Wu	100	100
Ronald James Blake	100	100
Alexander Yan-Zau Fang	—	41
	<u>300</u>	<u>341</u>

There were no other emoluments payable to the independent non-executive directors during the year (2015: Nil).

### (b) Executive directors and non-executive directors

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Performance- related bonuses HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
<b>2016</b>					
Executive directors:					
James Sai-Wing Wong	—	—	—	—	—
Yuen-Keung Chan	150	266	3,000	—	3,416
James Sing-Wai Wong	50	2,624	800	156	3,630
Philip Bing-Lun Lam	50	2,002	1,700	—	3,752
	<u>250</u>	<u>4,892</u>	<u>5,500</u>	<u>156</u>	<u>10,798</u>
Non-executive directors:					
Herman Man-Hei Fung	150	—	3,000	—	3,150
Wendy Kim-See Gan	156	—	—	—	156
	<u>556</u>	<u>4,892</u>	<u>8,500</u>	<u>156</u>	<u>14,104</u>

# Notes to the Financial Statements

31 December 2016

## 8. Directors' remuneration (Continued)

### (b) Executive directors and non-executive directors (Continued)

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Performance- related bonuses HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
<b>2015</b>					
Executive directors:					
James Sai-Wing Wong	—	—	—	—	—
Yuen-Keung Chan	21	385	8,000	—	8,406
James Sing-Wai Wong	—	2,331	500	79	2,910
Philip Bing-Lun Lam	—	1,712	1,500	—	3,212
	<u>21</u>	<u>4,428</u>	<u>10,000</u>	<u>79</u>	<u>14,528</u>
Non-executive directors:					
Herman Man-Hei Fung	21	—	—	—	21
Wendy Kim-See Gan	—	—	—	—	—
	<u>42</u>	<u>4,428</u>	<u>10,000</u>	<u>79</u>	<u>14,549</u>

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

# Notes to the Financial Statements

31 December 2016

## 9. Five highest paid employees

The five highest paid employees of the Group included two (2015: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining three (2015: three) non-director highest paid employees for the year are as follows:

	2016 HK\$'000	2015 HK\$'000
Basic salaries, housing allowances and other benefits in kind	6,966	5,876
Bonuses paid and payable	11,310	15,120
Pension scheme contributions	384	201
	<u>18,660</u>	<u>21,197</u>

The number of non-director highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2016	2015
HK\$3,000,001 to HK\$3,500,000	—	1
HK\$3,500,001 to HK\$4,000,000	1	—
HK\$4,000,001 to HK\$4,500,000	1	1
HK\$10,500,001 to HK\$11,000,000	1	—
HK\$13,500,001 to HK\$14,000,000	—	1
	<u>3</u>	<u>3</u>

# Notes to the Financial Statements

31 December 2016

## 10. Income tax

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2016 HK\$'000	2015 HK\$'000
Current – Hong Kong		
Charge for the year	27,427	30,563
Over provision in prior years	(244)	(212)
Current – Elsewhere		
Charge for the year	3,797	2,173
Over provision in prior years	(625)	(29)
Deferred (note 27)	12,998	5,733
Total tax charge for the year	<u>43,353</u>	<u>38,228</u>

A reconciliation of the tax expense applicable to profit before tax at the statutory rate to the tax charge for the year is as follows:

	2016 HK\$'000	2015 HK\$'000
Profit before tax	<u>278,787</u>	<u>212,189</u>
Tax at the applicable statutory tax rate	43,995	34,203
Over provision in prior years	(869)	(241)
Income not subject to tax	(985)	(1,476)
Expenses not deductible for tax	502	4,037
Profits and losses attributable to an associate	(829)	58
Tax losses utilised from previous periods	(2,167)	(2,396)
Tax losses not recognised	2,857	2,988
Others	849	1,055
Tax charge for the year at effective rate of 15.6% (2015: 18.0%)	<u>43,353</u>	<u>38,228</u>

# Notes to the Financial Statements

31 December 2016

## 11. Dividends

	2016 HK\$'000	2015 HK\$'000
Proposed final – HK6.0 cents (2015: HK5.0 cents) per ordinary share	<u>35,694</u>	<u>29,745</u>

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

## 12. Earnings per share attributable to ordinary equity holders of the Company

The calculation of the basic earnings per share amount is based on the profit for the years ended 31 December 2016 and 2015 attributable to ordinary equity holders of the Company, and the number of ordinary shares in issue during the years ended 31 December 2016 and 2015.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2016 and 2015.

The calculations of basic and diluted earnings per share are based on:

	2016 HK\$'000	2015 HK\$'000
<b>Earnings</b>		
Profit attributable to ordinary equity holders of the Company	<u>209,928</u>	<u>169,087</u>

  

	Number of shares	
	2016	2015
<b>Shares</b>		
Number of ordinary shares in issue during the year	<u>594,899,245</u>	<u>594,899,245</u>

# Notes to the Financial Statements

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## 13. Property, plant and equipment

	Land and buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Yacht HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>31 December 2016</b>							
At 31 December 2015 and 1 January 2016:							
Cost or valuation	406,439	17,953	573,550	17,321	—	9,009	1,024,272
Accumulated depreciation	—	(9,881)	(187,778)	(11,668)	—	(4,347)	(213,674)
Net carrying amount	<u>406,439</u>	<u>8,072</u>	<u>385,772</u>	<u>5,653</u>	<u>—</u>	<u>4,662</u>	<u>810,598</u>
At 1 January 2016, net of accumulated depreciation							
	406,439	8,072	385,772	5,653	—	4,662	810,598
Additions	—	2,358	46,384	2,533	9,893	2,690	63,858
Disposals	—	—	(7,758)	(104)	—	—	(7,862)
Transfer to costs of construction contracts	—	—	(13,830)	—	—	—	(13,830)
Surplus on revaluation credited to other comprehensive income	8,539	—	—	—	—	—	8,539
Depreciation provided during the year	(12,723)	(1,745)	(71,585)	(2,349)	(988)	(2,136)	(91,526)
Exchange realignment	—	—	—	(19)	—	(5)	(24)
At 31 December 2016, net of accumulated depreciation	<u>402,255</u>	<u>8,685</u>	<u>338,983</u>	<u>5,714</u>	<u>8,905</u>	<u>5,211</u>	<u>769,753</u>
At 31 December 2016:							
Cost or valuation	402,255	20,257	560,893	19,707	9,893	11,186	1,024,191
Accumulated depreciation	—	(11,572)	(221,910)	(13,993)	(988)	(5,975)	(254,438)
Net carrying amount	<u>402,255</u>	<u>8,685</u>	<u>338,983</u>	<u>5,714</u>	<u>8,905</u>	<u>5,211</u>	<u>769,753</u>

# Notes to the Financial Statements

31 December 2016

## 13. Property, plant and equipment (Continued)

	Land and buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>31 December 2015</b>						
At 1 January 2015:						
Cost or valuation	405,848	17,473	445,548	14,939	8,220	892,028
Accumulated depreciation	—	(8,086)	(171,387)	(9,872)	(3,057)	(192,402)
Net carrying amount	<u>405,848</u>	<u>9,387</u>	<u>274,161</u>	<u>5,067</u>	<u>5,163</u>	<u>699,626</u>
At 1 January 2015, net of						
accumulated depreciation	405,848	9,387	274,161	5,067	5,163	699,626
Arising on acquisition of a subsidiary	—	—	12	3	24	39
Additions	—	509	162,841	2,579	1,566	167,495
Disposals	—	—	(2,912)	(4)	(33)	(2,949)
Surplus on revaluation credited to other comprehensive income	12,753	—	—	—	—	12,753
Depreciation provided during the year	(12,162)	(1,823)	(48,330)	(1,991)	(2,048)	(66,354)
Exchange realignment	—	(1)	—	(1)	(10)	(12)
At 31 December 2015, net of accumulated depreciation	<u>406,439</u>	<u>8,072</u>	<u>385,772</u>	<u>5,653</u>	<u>4,662</u>	<u>810,598</u>
At 31 December 2015:						
Cost or valuation	406,439	17,953	573,550	17,321	9,009	1,024,272
Accumulated depreciation	—	(9,881)	(187,778)	(11,668)	(4,347)	(213,674)
Net carrying amount	<u>406,439</u>	<u>8,072</u>	<u>385,772</u>	<u>5,653</u>	<u>4,662</u>	<u>810,598</u>



# Notes to the Financial Statements

31 December 2016

## 13. Property, plant and equipment (Continued)

The Group's land and buildings were revalued individually on 31 December 2016 by Savills Valuation and Professional Services Limited, independent professionally qualified valuers, at an aggregate open market value of HK\$402,255,000 based on their existing uses. Revaluation surplus of HK\$8,539,000, resulting from the above valuations, has been credited to other comprehensive income.

At 31 December 2016, certain of the Group's land and buildings with a net carrying amount of approximately HK\$146,730,000 (2015: HK\$270,230,000) were pledged to secure banking facilities granted to the Group (note 26).

### Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's properties held for own use:

	Fair value measurement as at 31 December 2016 using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Recurring fair value measurement for: Properties held for own use	—	—	402,255	402,255

	Fair value measurement as at 31 December 2015 using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Recurring fair value measurement for: Properties held for own use	—	—	406,439	406,349

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2015: Nil).

# Notes to the Financial Statements

31 December 2016

## 13. Property, plant and equipment (Continued)

### Fair value hierarchy (Continued)

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	<b>Properties held for own use HK\$'000</b>
Carrying amount at 1 January 2015	405,848
Depreciation	(12,162)
Surplus on revaluation recognised in other comprehensive income	12,753
Carrying amount at 31 December 2015 and 1 January 2016	<b>406,439</b>
Depreciation	<b>(12,723)</b>
Surplus on revaluation recognised in other comprehensive income	<b>8,539</b>
Carrying amount at 31 December 2016	<b>402,255</b>

Below is a summary of the valuation technique used and the key input to the valuation of the Group's properties held for own use:

	Valuation techniques	Significant unobservable inputs	Range or weighted average	
			2016	2015
Properties held for own use	Direct comparison approach	Premium on characteristics of the properties	<b>-10% to 10%</b>	-10% to 10%

The fair value of properties held for own use is determined using direct comparison approach for valuing these properties in their respective existing condition and use on the market basis assuming sale with immediate vacant possession and by making reference to comparable sales evidence. The valuations take into account the characteristics of the properties which included the location, size, view, floor level, year of completion and other factors collectively. Higher premium for properties with positive characteristics will result in a higher fair value measurement.

# Notes to the Financial Statements

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## 14. Investment properties

	2016 HK\$'000	2015 HK\$'000
Carrying amount at 1 January	16,864	16,697
Net gain/(loss) from a fair value adjustment	(1,186)	167
Carrying amount at 31 December	<u>15,678</u>	<u>16,864</u>

The Group's investment properties were revalued on 31 December 2016 based on valuations performed by Savills Valuation and Professional Services Limited, independent professionally qualified valuers, at HK\$15,678,000.

Certain investment properties are leased to third parties under operating leases, further summary details of which are included in note 34(a) to the financial statements.

# Notes to the Financial Statements

31 December 2016

## 14. Investment properties (Continued)

### Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement as at 31 December 2016 using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Recurring fair value measurement for: Commercial properties	—	—	15,678	15,678

	Fair value measurement as at 31 December 2015 using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Recurring fair value measurement for: Commercial properties	—	—	16,864	16,864

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2015: Nil).

# Notes to the Financial Statements

31 December 2016

## 14. Investment properties (Continued)

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	<b>Commercial properties HK\$'000</b>
Carrying amount at 1 January 2015	16,697
Net gain from a fair value adjustment recognised in other operating expenses, net in profit or loss	167
Carrying amount at 31 December 2015 and 1 January 2016	<b>16,864</b>
Net loss from a fair value adjustment recognised in other operating expenses, net in profit or loss	<b>(1,186)</b>
Carrying amount at 31 December 2016	<b>15,678</b>

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

	Valuation techniques	Significant unobservable inputs	Range or weighted average	
			2016	2015
Commercial properties	Income capitalisation approach	Market rental value (per sq.m. and per day)	HK\$5.4 to HK\$6.6	HK\$4.8 to HK\$6.9
		Capitalisation rate	7%	7%

### The income capitalisation approach

Under the income capitalisation approach, fair value is estimated on the basis of capitalisation of existing rental income and reversionary market rental income.

The market rentals of the investment properties are assessed and capitalised at market yield expected by investors for this type of properties. The market rents are assessed by reference to the rentals achieved in the investment properties as well as other lettings of similar properties in the neighbourhood. The market yield, which is the capitalisation rate adopted, is made by reference to the yields derived from analysing the sales transactions of similar properties and adjusted to take account of the valuers' knowledge of the market expectation from property investors to reflect factors specific to the Group's investment properties.

The key inputs were the market rent/market price and the market yield, which a significant increase/decrease in the market rent/market price in isolation would result in a significant increase/decrease in the fair value of the investment properties and a significant increase/decrease in the market yield in isolation would result in a significant decrease/increase in the fair value of the investment properties.

# Notes to the Financial Statements

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## 15. Investment in an associate

	2016 HK\$'000	2015 HK\$'000
Share of net assets	11,511	9,741
Loan to an associate	39,486	37,302
	<u>50,997</u>	<u>47,043</u>

The movement in provision for impairment is as follows:

	2016 HK\$'000	2015 HK\$'000
At 1 January	—	7,200
Impairment loss reversed	—	(7,200)
At 31 December	<u>—</u>	<u>—</u>

The loan to an associate is unsecured, bears interest at 9.7% per annum and is repayable on demand. In the opinion of the directors, the loan is considered as part of the Company's net investment in the associate.

Particulars of the associate are as follows:

Name	Place of incorporation/ registration and business	Particulars of issued capital held	Percentage of ownership interest attributable to the Group		Principal activity
			2016	2015	
Fineshade Investments Limited ("Fineshade")*	British Virgin Islands/ Mainland China	US\$1,221,200	21.5%	21.5%	Investment holding

\* Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

# Notes to the Financial Statements

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## 15. Investment in an associate (Continued)

The above investment is indirectly held by the Company.

The following table illustrates the financial information of the Group's associate that is not individually material:

	2016 HK\$'000	2015 HK\$'000
Share of an associate's profit/(loss) for the year	5,022	(352)
Share of an associate's other comprehensive expense	(3,252)	(2,133)
Share of an the associate's total comprehensive income/(expense)	1,770	(2,485)
Aggregate carrying amount of the Group's investment in an associate	<u>50,997</u>	<u>47,043</u>

# Notes to the Financial Statements

31 December 2016

## 16. Investment in a joint venture

	2016 HK\$'000	2015 HK\$'000
Share of net assets	—	—

The balance with a joint venture is unsecured, interest-free and repayable on demand.

Particulars of the Group's joint venture are as follows:

Name	Place of registration and business	Percentage of			Principal activity
		Ownership interest	Voting power	Profit sharing	
Chinney P & H Studio Co., Ltd. ("Chinney P & H")	Macau	50	50	50	Provision of fitting out works

The investment in a joint venture is indirectly held by the Company. The above joint venture is not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

The following table illustrates the summarised financial information of Chinney P & H adjusted for any differences in accounting policies and reconciled to the carrying amount in the financial statements:

	2016 HK\$'000	2015 HK\$'000
Share of the joint venture's assets and liabilities:		
Current assets	186	186
Current liabilities	(484)	(484)
Net liabilities	(298)	(298)
Share of the joint venture's results:		
Total revenue	—	—
Total expenses	—	—
Loss after tax	—	—

The Group has discontinued the recognition of its share of losses of the joint venture because they exceeded the Group's investment in the joint venture. In the opinion of the directors, the Group will not continue to provide further financial support or capital injection to the joint venture. The Group does not have any unrecognised share of losses of the joint venture for the current year (2015: Nil). At 31 December 2016, the aggregate unrecognised share of losses of the joint venture amounted to HK\$298,000 (2015: HK\$298,000).



# Notes to the Financial Statements

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## 17. Goodwill

	2016 HK\$'000	2015 HK\$'000
Cost and carrying amount at 1 January	12,528	5,767
Acquisition of a subsidiary (note 30)	—	6,761
Cost and carrying amount at 31 December	12,528	12,528

### Impairment testing of goodwill

For impairment testing, goodwill acquired through business combination has been allocated to two cash-generating units which are involved in building related contracting services and trading of electrical installation products.

#### *Building related contracting services*

The recoverable amount of the building related contracting services cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management. The discount rate applied to the cash flow projections is 10% (2015: 10%).

#### *Trading of electrical installation products*

The recoverable amount of the trading of electrical installation products cash-generating units has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management. The discount rate applied to the cash flow projections is 15% (2015: 15%).

Assumptions used in the value in use calculation for 31 December 2016 are as follows:

**Budgeted gross margins:** The basis used to determine the value assigned to the budgeted gross margins is the estimated gross margins related to signed but uncompleted construction contracts on hand and estimated product sales of confirmed orders.

**Discount rates:** The discount rates used are before tax and reflect specific risks relating to the relevant units.

The values assigned to the key assumptions on market development of building related contracting services industries, budgeted gross margins and discount rates are consistent with external information sources.

# Notes to the Financial Statements

31 December 2016

## 18. Other assets

	2016 HK\$'000	2015 HK\$'000
Club memberships, at cost	3,283	3,283
Provision for impairment <sup>#</sup>	(938)	(938)
	<u>2,345</u>	<u>2,345</u>

<sup>#</sup> An impairment was recognised for a club membership with a carrying amount of HK\$1,220,000 (before deducting the impairment loss) (2015: HK\$1,220,000) because the recoverable amount of the club membership is less than its carrying amount.

## 19. Inventories

	2016 HK\$'000	2015 HK\$'000
Raw materials	60,686	65,069
Finished goods	22,159	22,248
	<u>82,845</u>	<u>87,317</u>

## 20. Construction contracts

	2016 HK\$'000	2015 HK\$'000
Gross amount due from contract customers	261,303	274,368
Gross amount due to contract customers	(773,072)	(785,272)
	<u>(511,769)</u>	<u>(510,904)</u>
Contract costs incurred plus recognised profits less recognised losses and foreseeable losses to date	20,448,350	16,996,760
Less: Progress billings	(20,960,119)	(17,507,664)
	<u>(511,769)</u>	<u>(510,904)</u>

# Notes to the Financial Statements

31 December 2016

## 20. Construction contracts (Continued)

At 31 December 2016, the retentions held by customers for contract works included in retention monies receivable included in the current assets of the Group amounted to approximately HK\$412,932,000 (2015: HK\$395,830,000).

At 31 December 2016, the retentions held by the Group for contract works included in retention monies payable included in the current liabilities of the Group amounted to approximately HK\$178,537,000 (2015: HK\$148,537,000).

## 21. Trade receivables

	2016 HK\$'000	2015 HK\$'000
Trade receivables	623,178	431,701
Impairment	(11,121)	(11,169)
	<b>612,057</b>	<b>420,532</b>

The Group's trading terms with its customers are mainly on credit. The credit periods range from cash on delivery to 60 days. A longer credit period may be allowed for customers with good business relationships with the Group. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	2016 HK\$'000	2015 HK\$'000
Current to 30 days	416,630	278,724
31 to 60 days	129,727	92,784
61 to 90 days	43,029	23,561
Over 90 days	22,671	25,463
	<b>612,057</b>	<b>420,532</b>

# Notes to the Financial Statements

31 December 2016

## 21. Trade receivables (Continued)

The movements in provision for impairment of trade receivables are as follows:

	2016 HK\$'000	2015 HK\$'000
At 1 January	11,169	2,195
Impairment losses recognised (note 7)	15	11,107
Amount written off as uncollectible	(63)	(2,133)
At 31 December	<u>11,121</u>	<u>11,169</u>

The above provision for impairment of trade receivables represented provision for individually impaired trade receivables with a carrying amount before provision of HK\$11,121,000 (2015: HK\$11,169,000) which related to customers that were in default or delinquency in payments. The Group does not hold any collateral or other credit enhancements over these balances.

An aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	2016 HK\$'000	2015 HK\$'000
Neither past due nor impaired	442,933	268,134
Less than 30 days past due	107,602	61,067
31 to 90 days past due	44,406	69,968
Past due over 90 days	17,116	21,363
	<u>612,057</u>	<u>420,532</u>

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

# Notes to the Financial Statements

31 December 2016

## 22. Prepayments, deposits and other receivables

	2016 HK\$'000	2015 HK\$'000
Prepayments	4,228	3,044
Deposits and other receivables	104,647	54,334
	<b>108,875</b>	<b>57,378</b>

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

## 23. Cash and cash equivalents and pledged time deposits

	2016 HK\$'000	2015 HK\$'000
Cash and bank balances	301,365	410,527
Time deposits	557,432	382,028
Pledged time deposits	14,894	19,465
	<b>873,691</b>	<b>812,020</b>
Less: Pledged time deposits:		
Pledged for letters of guarantee and performance bonds	(13,894)	(18,465)
Pledged for bank overdraft facilities (note 26)	(1,000)	(1,000)
Cash and cash equivalents	<b>858,797</b>	<b>792,555</b>

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$13,515,000 (2015: HK\$17,572,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Certain of the Group's cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

# Notes to the Financial Statements

31 December 2016

## 24. Trade and bills payables

	2016 HK\$'000	2015 HK\$'000
Trade payables	357,877	278,797
Bills payable	14,347	16,575
	<u>372,224</u>	<u>295,372</u>

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2016 HK\$'000	2015 HK\$'000
Current to 30 days	286,752	221,670
31 to 60 days	44,235	27,851
61 to 90 days	11,134	14,865
Over 90 days	15,756	14,411
	<u>357,877</u>	<u>278,797</u>

The trade payables are non-interest-bearing and are normally settled within terms of 60 to 120 days.

## 25. Other payables and accruals

	2016 HK\$'000	2015 HK\$'000
Other payables	18,442	14,108
Accruals	103,577	92,065
Due to a major shareholder (note 33(c))	4,500	7,500
	<u>126,519</u>	<u>113,673</u>

Other payables are non-interest-bearing and have an average term of three months.

# Notes to the Financial Statements

31 December 2016

## 26. Interest-bearing bank borrowings

	31 December 2016			31 December 2015		
	Effective interest rate %	Maturity	HK\$'000	Effective interest rate %	Maturity	HK\$'000
<b>Current</b>						
Trust receipt loans	1.82-3.25	on demand	138,602	1.83-3.85	on demand	171,545
Bank overdrafts - unsecured			—	6.50	on demand	3,028
Bank loan - secured	3.10	2017	890	3.10	2016	863
			890			3,891
Total current			139,492			175,436
<b>Non-current</b>						
Bank loan - secured	3.10	2019	1,864	3.10	2019	2,754
<b>Total</b>			141,356			178,190

The maturity of the above bank borrowings is as follows:

	2016 HK\$'000	2015 HK\$'000
Analysed into:		
Bank loans and overdrafts and trust receipt loans repayable:		
Within one year or on demand	139,492	175,436
In the second year	918	890
In the third to fifth years, inclusive	946	1,864
	141,356	178,190

# Notes to the Financial Statements

31 December 2016

## 26. Interest-bearing bank borrowings (Continued)

Notes:

- (a) The Group's trust receipt loans were secured by corporate guarantees given by the Company and certain subsidiaries. Trust receipt loans were repayable within six months from the date of advance, and bore interest at floating interest rates.
- (b) All bank borrowings as set out above are denominated in Hong Kong dollars and bear interest at floating interest rates.
- (c) The Group's bank borrowings are secured by:
  - (i) the corporate guarantees given by the Company and certain subsidiaries;
  - (ii) certain land and buildings with an aggregate carrying value at the end of the reporting period of approximately HK\$146,730,000 (2015: HK\$270,230,000) (note 13); and
  - (iii) a time deposit of HK\$1,000,000 (2015: HK\$1,000,000) (note 23).



# Notes to the Financial Statements

31 December 2016

## 27. Deferred tax

The movements in deferred tax liabilities and assets during the year are as follows:

### Deferred tax liabilities

	Depreciation allowance in excess of related depreciation		Revaluation of properties		Total	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
At 1 January	40,475	36,293	38,859	33,866	79,334	70,159
Deferred tax charged/(credited) to the statement of profit or loss during the year (note 10)	12,720	4,182	(98)	(88)	12,622	4,094
Deferred tax charged to other comprehensive income	—	—	1,012	5,081	1,012	5,081
Gross deferred tax liabilities at 31 December	<u>53,195</u>	<u>40,475</u>	<u>39,773</u>	<u>38,859</u>	<u>92,968</u>	<u>79,334</u>

### Deferred tax assets

	Related depreciation over depreciation allowance	
	2016 HK\$'000	2015 HK\$'000
At 1 January	612	2,229
Acquisition of a subsidiary	—	22
Deferred tax charged to the statement of profit or loss during the year (note 10)	(376)	(1,639)
Gross deferred tax assets at 31 December	<u>236</u>	<u>612</u>

The Group has estimated tax losses arising in Hong Kong of approximately HK\$186,480,000 (2015: HK\$247,701,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in Mainland China of HK\$1,263,000 (2015: Nil) that will expire in five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and, in the opinion of the directors, it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

# Notes to the Financial Statements

31 December 2016

## 28. Share capital

### Shares

	2016 HK\$'000	2015 HK\$'000
Authorised: 2,500,000,000 (2015: 2,500,000,000) ordinary shares of HK\$0.10 (2015: HK\$0.10) each	<u>250,000</u>	<u>250,000</u>
Issued and fully paid: 594,899,245 (2015: 594,899,245) ordinary shares of HK\$0.10 (2015: HK\$0.10) each	<u>59,490</u>	<u>59,490</u>

## 29. Reserves

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 51 of the financial statements.

## 30. Business combination

On 12 June 2015, the Group acquired the entire interest in the issued capital of Shun Cheong Electrical Products Factory Limited from a third party. Shun Cheong Electrical Products Factory Limited was engaged in trading of electrical installation products. The acquisition was made to expand the product line of the Group. The purchase consideration for the acquisition was in the form of cash, with HK\$11,916,000 paid at the acquisition date.

# Notes to the Financial Statements

31 December 2016

## 30. Business combination (Continued)

The fair values of the identifiable assets and liabilities of Shun Cheong Electrical Products Factory Limited as at the date of acquisition were as follows:

	Fair value recognised on acquisition HK\$'000
Property, plant and equipment	39
Deferred tax assets	22
Inventories	1,831
Trade receivables	3,218
Prepayments, deposits and other receivables	668
Cash and cash equivalents	302
Trade payables	(718)
Other payables and accruals	(207)
Total identifiable net assets at fair value	5,155
Goodwill on acquisition	6,761
	<u>11,916</u>
Satisfied by:	
Cash	<u>11,916</u>

The fair values and net contractual amounts of the trade receivables and other receivables as at the date of acquisition amounted to HK\$3,218,000 and HK\$559,000, respectively.

None of the goodwill recognised was expected to be deductible for income tax purposes.

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	HK\$'000
Cash consideration	(11,916)
Cash and bank balances acquired	302
Net outflow of cash and cash equivalents included in cash flows from investing activities	<u>(11,614)</u>

Since the acquisition, Shun Cheong Electrical Products Factory Limited contributed HK\$14,180,000 to the Group's revenue and a loss of HK\$1,176,000 to the consolidated profit for the year ended 31 December 2015.

Had the combination taken place at the beginning of the prior year, the revenue of the Group and the profit of the Group for the prior year would have been HK\$4,563,114,000 and HK\$173,281,000, respectively.

# Notes to the Financial Statements

31 December 2016

## 31. Deemed disposal of partial interests in a subsidiary

During the year ended 31 December 2015, the board of directors of the Company applied, on behalf of the Company, to the Listing Committee of Stock Exchange, pursuant to paragraph 2 of Practice Note 15 to the Listing Rules, for a proposed spin-off and separate listing of the Group's foundation piling construction, and drilling and site investigation business (the "Spin-off"). The Spin-off was conducted by way of a separate listing of Chinney Kin Wing, a then wholly-owned subsidiary of the Company with 10,000 shares in issue, together with its subsidiaries, on the Main Board of the Stock Exchange. The Spin-off was achieved by capitalisation issue of 1,117,490,000 shares and global offering of 387,500,000 shares at an issue price of HK\$0.59 per share. The shares of Chinney Kin Wing have been listed in the Stock Exchange since 11 November 2015. Upon completion of the listing of Chinney Kin Wing, the Group's equity interest in Chinney Kin Wing is diluted from 100% to 74.5% which Chinney Kin Wing is still classified as a subsidiary of the Company.

	HK\$'000
Net assets disposed to non-controlling interests	85,139
Gain on deemed disposal of partial interests in a subsidiary without losing control upon shares issued by a subsidiary to non-controlling interests	<u>128,488</u>
	<u>213,627</u>
Satisfied by:	
Cash	<u>213,627</u>

An analysis of the cash flows in respect of the deemed disposal of partial interests in a subsidiary was as follows:

	HK\$'000
Cash consideration and net inflow of cash and cash equivalents in respect of the deemed disposal of partial interests in a subsidiary	<u>213,627</u>

# Notes to the Financial Statements

31 December 2016

## 32. Partly-owned subsidiary with material non-controlling interests

Details of the Group's subsidiary that has material non-controlling interests are set out below:

	2016	2015
Percentage of equity interest held by non-controlling interests: Chinney Kin Wing	<u>25.5%</u>	<u>25.5%</u>
	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
Profit for the year allocated to non-controlling interests: Chinney Kin Wing	<u>25,506</u>	<u>4,874</u>
Accumulated balances of non-controlling interests at the reporting dates: Chinney Kin Wing	<u>104,044</u>	<u>90,013</u>

The following tables illustrate the summarised financial information of Chinney Kin Wing. The amounts disclosed are before any inter-company eliminations:

	2016	2015
	<b>HK\$'000</b>	HK\$'000
Revenue	<b>1,386,125</b>	1,518,926
Total expenses	<b>(1,284,097)</b>	(1,378,427)
Profit for the year	<b>102,028</b>	140,499
Total comprehensive income for the year	<u>102,028</u>	<u>140,499</u>
Current assets	<b>697,881</b>	659,296
Non-current assets	<b>336,946</b>	383,162
Current liabilities	<b>(579,882)</b>	(657,656)
Non-current liabilities	<b>(52,231)</b>	(39,116)
Net cash flows from operating activities	<b>93,274</b>	330,882
Net cash flows used in investing activities	<b>(38,243)</b>	(165,699)
Net cash flows used in financing activities	<b>(45,000)</b>	(18,335)
Net increase in cash and cash equivalents	<u>10,031</u>	<u>146,848</u>

# Notes to the Financial Statements

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## 33. Related party transactions

- (a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Notes	2016 HK\$'000	2015 HK\$'000
Management fee to a major shareholder	(i)	4,500	7,500
Share of rental and office expenses with a related company	(ii)	2,730	3,001
Interest income from an associate	(iii)	(2,779)	(2,772)

Notes:

- (i) The management fee was charged by Chinney Investments, Limited ("Chinney Investments") based on the time involvement of the personnel providing services. Dr. James Sai-Wing Wong, a director of the Company, is also a director of and has beneficial interests in Chinney Investments. Mr. Herman Man-Hei Fung and Mr. James Sing-Wai Wong are common directors of the Company and Chinney Investments.
- (ii) The rental and office expenses were charged by Hon Kwok Land Investment Company, Limited ("Hon Kwok"), a subsidiary of Chinney Investments, on an actual basis. Dr. James Sai-Wing Wong is a director of and has a beneficial interest in Hon Kwok. Mr. Herman Man-Hei Fung and Mr. Yuen-Keung Chan are common directors of the Company and Hon Kwok.
- (iii) The interest income was charged on a loan to an associate, Fineshade, at 9.7% per annum.
- (b) Compensation of key management personnel of the Group:

	2016 HK\$'000	2015 HK\$'000
Short term employee benefits	62,144	63,937
Post-employment benefits	1,870	1,539
Total compensation paid to key management personnel	64,014	65,476

- (c) Outstanding balances with related parties:

The Group had an outstanding balance due to a major shareholder, Chinney Investments, of HK\$4,500,000 (2015: HK\$7,500,000) included in other payables and accruals as at the end of the reporting period. This balance is unsecured, interest-free and has no fixed terms of repayment.

# Notes to the Financial Statements

31 December 2016

## 33. Related party transactions (Continued)

(d) Other transaction with related parties:

On 20 September 2016, Gold Famous Development Limited (“Gold Famous”), an indirect wholly-owned subsidiary of Hon Kwok and an indirect non wholly-owned subsidiary of Chinney Investments, entered into a framework agreement (the “Framework Agreement”) with Kin Wing Foundations Limited (“KWF”), an indirect wholly-owned subsidiary of Chinney Kin Wing and an indirect non wholly-owned subsidiary of the Company, as a contractor for the construction of piling foundation, pipe piling, bored pile wall works at K.C.T.L. 495, Kin Chuen Street, Kwai Chung, New Territories, Hong Kong (the “Land”) at a contract sum of HK\$210 million (the “Foundation Construction Works”).

The contract sum was arrived at after arm’s length negotiations between Gold Famous and KWF by reference to prevailing market rate. KWF offered a quotation to Gold Famous after considering the geological condition of the Land, the complexity and difficulty of the Foundation Construction Works and estimated project costs. The entering into the Framework Agreement constituted a connected transaction of the Group under the Listing Rules. As the applicable percentage ratio of the connected transaction is more than 5% and the contract sum is more than HK\$10 million, it constituted a non-exempt connected transaction under Chapter 14A of the Listing Rules and was subject to the reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules. On 7 November 2016, at the respective special general meeting held by Chinney Kin Wing and the Company, the transaction was approved by the independent shareholders of each of Chinney Kin Wing and the Company.

## 34. Operating lease arrangements

(a) As lessor

During the year, the Group leases certain of its investment properties (note 14) under operating lease arrangements, with leases negotiated for terms of two years (2015: two years). The terms of the leases generally also require the tenants to pay security deposits.

At 31 December 2016, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2016 HK\$’000	2015 HK\$’000
Within one year	1,160	100
In the second to fifth years, inclusive	97	—
	<u>1,257</u>	<u>100</u>

# Notes to the Financial Statements

31 December 2016

## 34. Operating lease arrangements (Continued)

### (b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years (2015: one to five years).

At 31 December 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2016 HK\$'000	2015 HK\$'000
Within one year	2,148	5,706
In the second to fifth years, inclusive	2,019	1,469
	<u>4,167</u>	<u>7,175</u>

## 35. Commitments

In addition to the operating lease commitments detailed in note 34 above, the Group had the following capital commitments at the end of the reporting period:

	2016 HK\$'000	2015 HK\$'000
Contracted, but not provided for:		
Plant and machinery	30,735	11,913
Intangible assets	—	102
Capital contribution to a subsidiary	—	1,192
	<u>30,735</u>	<u>13,207</u>

## 36. Note to the consolidated statement of cash flows

### Major non-cash transaction

During the year, the Group had non-cash interest income amounting to HK\$2,184,000 (2015: HK\$2,176,000).



# Notes to the Financial Statements

31 December 2016

## 37. Contingent liabilities

As at 31 December 2016, the Group provided corporate guarantees and indemnities to certain banks and financial institutions for an aggregate amount of HK\$558,297,000 (2015: HK\$525,603,000) for the issue of performance bonds in its ordinary course of business. Certain of these performance bonds were also secured by time deposits amounting to HK\$13,894,000 (2015: HK\$18,465,000).

## 38. Financial instruments by category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

**2016**

### *Financial assets*

	Loans and receivables HK\$'000	Available- for-sale financial assets HK\$'000	Total HK\$'000
Other assets	—	2,345	2,345
Trade receivables	612,057	—	612,057
Retention monies receivable	412,932	—	412,932
Amount due from a joint venture	967	—	967
Financial assets included in prepayments, deposits and other receivables	104,647	—	104,647
Pledged time deposits	14,894	—	14,894
Cash and cash equivalents	858,797	—	858,797
	<u>2,004,294</u>	<u>2,345</u>	<u>2,006,639</u>

### *Financial liabilities*

	Financial liabilities at amortised cost HK\$'000
Trade and bills payables	372,224
Trust receipt loans	138,602
Retention monies payable	178,537
Financial liabilities included in other payables and accruals	75,957
Interest-bearing bank borrowings	2,754
	<u>768,074</u>

# Notes to the Financial Statements

31 December 2016

## 38. Financial instruments by category (continued)

2015

### Financial assets

	Loans and receivables HK\$'000	Available- for-sale financial assets HK\$'000	Total HK\$'000
Other assets	—	2,345	2,345
Trade receivables	420,532	—	420,532
Retention monies receivable	395,830	—	395,830
Amount due from a joint venture	967	—	967
Financial assets included in prepayments, deposits and other receivables	54,334	—	54,334
Pledged time deposits	19,465	—	19,465
Cash and cash equivalents	792,555	—	792,555
	<u>1,683,683</u>	<u>2,345</u>	<u>1,686,028</u>

### Financial liabilities

	Financial liabilities at amortised cost HK\$'000
Trade and bills payables	295,372
Trust receipt loans	171,545
Retention monies payable	148,537
Financial liabilities included in other payables and accruals	67,629
Interest-bearing bank borrowings	6,645
	<u>689,728</u>

# Notes to the Financial Statements

31 December 2016

## 39. Fair value and fair value hierarchy of financial instruments

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
<b>Financial liabilities</b>				
Interest-bearing bank borrowings (note 26)	<u>2,754</u>	<u>6,645</u>	<u>2,754</u>	<u>6,645</u>

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade receivables, trade and bills payables, trust receipt loans, retention monies receivable and payable, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, loan to an associate and amount due from a joint venture approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair value of the non-current portion of interest-bearing bank borrowings has been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank borrowings as at 31 December 2016 was assessed to be insignificant.

### Fair value hierarchy

As at 31 December 2016 and 31 December 2015, the Group did not have any financial assets measured at fair value.

The Group did not have any financial liabilities measured at fair value as at 31 December 2016 and 31 December 2015. As at 31 December 2016, the Group's financial liabilities not measured at fair value but for which fair values were disclosed included interest-bearing bank borrowings of HK\$2,754,000 (2015: HK\$6,645,000). The fair values of these financial liabilities disclosed were measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly (Level 2).

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2015: Nil).

# Notes to the Financial Statements

31 December 2016

## 40. Financial risk management objectives and policies

The Group's principal financial instruments comprise interest-bearing bank loans and overdrafts, cash and bank balances, and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables, retention monies receivable and payable, deposits and other receivables, balances with an associate and a joint venture, trade and bills payables, other payables, and trust receipt loans, which arise directly from the Group's operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The directors meet periodically to analyse and formulate measures to manage each of these risks and they are summarised below.

### Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with a floating interest rate.

The interest rates and terms of repayment of interest-bearing bank borrowings are disclosed in note 26 to the financial statements. Other financial assets and liabilities of the Group do not have material interest rate risk. Interest-bearing bank borrowings, cash and bank balances, and short-term deposits are stated at cost and are not revalued on a periodic basis. Floating-rate interest income and expenses are credited or charged to the statement of profit or loss as incurred.

The nominal interest rates of the financial instruments approximate to their respective effective interest rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity.

# Notes to the Financial Statements

31 December 2016

## 40. Financial risk management objectives and policies (Continued)

### Interest rate risk (Continued)

	Increase/ (decrease) in basis points HK\$'000	Increase/ (decrease) in profit before tax HK\$'000	Increase/ (decrease) in equity* HK\$'000
<b>2016</b>			
Hong Kong dollar	50	(719)	—
Hong Kong dollar	(50)	719	—
<b>2015</b>			
Hong Kong dollar	50	(1,149)	—
Hong Kong dollar	(50)	1,149	—

\* Excluding retained profits

### Foreign currency risk

The Group has transactional currency exposures. These exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. It is the Group's policy not to enter into forward contracts until a firm commitment is in place.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the United States dollar and Renminbi ("RMB") exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity.

# Notes to the Financial Statements

31 December 2016

## 40. Financial risk management objectives and policies (Continued)

### Foreign currency risk (Continued)

	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in profit before tax HK\$'000	Increase/ (decrease) in equity* HK\$'000
<b>2016</b>			
If Hong Kong dollar weakens against United States dollar	1	358	—
If Hong Kong dollar strengthens against United States dollar	(1)	( 358)	—
If Hong Kong dollar weakens against RMB	5	936	—
If Hong Kong dollar strengthens against RMB	(5)	( 936)	—
<b>2015</b>			
If Hong Kong dollar weakens against United States dollar	1	309	—
If Hong Kong dollar strengthens against United States dollar	(1)	( 309)	—
If Hong Kong dollar weakens against RMB	5	1,170	—
If Hong Kong dollar strengthens against RMB	(5)	(1,170)	—

\* Excluding retained profits

### Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are closely monitored on an ongoing basis to minimise the Group's exposure to bad debts.

With respect to credit risk arising from the other financial assets of the Group, which mainly comprise cash and cash equivalents, pledged time deposits, amounts due from an associate and a joint venture, and deposits and other receivables, arises from default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments.

### Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and overdrafts and trust receipt loans. The Group's policy is to maintain the Group at a net current asset position.

# Notes to the Financial Statements

31 December 2016

## 40. Financial risk management objectives and policies (Continued)

### Liquidity risk (Continued)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

#### 2016

	On demand and/or less than 12 months HK\$'000	More than 1 year but less than 2 years HK\$'000	More than 2 years but less than 5 years HK\$'000	Total HK\$'000
Trade and bills payables	372,224	—	—	372,224
Trust receipt loans	138,602	—	—	138,602
Retention monies payable	178,537	—	—	178,537
Financial liabilities included in other payables and accruals	75,957	—	—	75,957
Interest-bearing bank borrowings	963	963	963	2,889
	<b>766,283</b>	<b>963</b>	<b>963</b>	<b>768,209</b>

#### 2015

	On demand and/or less than 12 months HK\$'000	More than 1 year but less than 2 years HK\$'000	More than 2 years but less than 5 years HK\$'000	Total HK\$'000
Trade and bills payables	295,372	—	—	295,372
Trust receipt loans	171,545	—	—	171,545
Retention monies payable	148,537	—	—	148,537
Financial liabilities included in other payables and accruals	67,629	—	—	67,629
Interest-bearing bank borrowings	3,991	963	1,925	6,879
	<b>687,074</b>	<b>963</b>	<b>1,925</b>	<b>689,962</b>

## 40. Financial risk management objectives and policies (Continued)

### Liquidity risk (Continued)

Included in interest-bearing bank borrowings and trust receipt loans are certain of the Group's bank loans in the amount of HK\$138,602,000 (2015: HK\$174,573,000), of which the loan agreements contain repayment on demand clauses giving the banks the unconditional right to call in the loans at any time. Therefore, for the purpose of the above maturity profile, the amounts are classified as "on demand and/or less than 12 months".

Notwithstanding the above clause, the directors do not believe that the loans will be called in their entirety within 12 months, and they consider that these borrowings will be repaid in accordance with the maturity dates as set out in the loan agreements. This evaluation was made considering: the financial position of the Group at the date of approval of the financial statements; the Group's compliance with the loan covenants; the lack of events of default, and the fact that the Group has made all previously scheduled repayments on time.

In accordance with the terms of the Group's bank loans, the maturity profile of the contractual undiscounted payments at 31 December 2016 is HK\$140,316,000 in 2017, HK\$963,000 in 2018, HK\$963,000 from 2019 to 2021 and nil beyond 2021.

### Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 31 December 2015.



# Notes to the Financial Statements

31 December 2016

## 40. Financial risk management objectives and policies (Continued)

### Capital management (Continued)

The Group monitors capital using a gearing ratio, which is total interest-bearing borrowings divided by the total capital. Total interest-bearing bank borrowings include trust receipt loans and interest-bearing bank borrowings. Capital includes equity attributable to owners of the Company. The gearing ratios as at the end of the reporting periods were as follows:

	2016 HK\$'000	2015 HK\$'000
Trust receipt loans	138,602	171,545
Interest-bearing bank borrowings	2,754	6,645
Total interest-bearing borrowings	141,356	178,190
Equity attributable to owners of the Company	1,413,383	1,229,345
Gearing ratio	10.0%	14.5%

## 41. Events after the reporting period

On 9 February 2017, Chinney Shun Cheong Holdings Limited (“Chinney Shun Cheong”), a direct wholly-owned subsidiary of the Company, and FRO Management Holdings Limited (the “Subscriber”), an independent third party, entered into a subscription agreement (the “Subscription Agreement”) pursuant to which Chinney Shun Cheong has conditionally agreed to issue, and the Subscriber has conditionally agreed to subscribe for the convertible bond in the principal amount of HK\$40 million (the “Convertible Bond”), which may be converted into 50,000 new ordinary shares of HK\$0.1 each in the share capital of Chinney Shun Cheong (the “Conversion Shares”) based on the initial conversion price of HK\$800 per Conversion Share, subject to adjustment. The Convertible Bond will bear interest at 5% per annum and mature on 30 June 2018, unless extended to such later date as may be agreed in writing by Chinney Shun Cheong and holder of the Convertible Bond. As at the date of the approval of these financial statements, the Subscription Agreement is not yet completed. Details of the above transaction were set out in the Company’s announcement dated 9 February 2017.

# Notes to the Financial Statements

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## 42. Comparative amounts

The comparative operating segment information has been represented as if the change of the composition of the Group's reportable segments has been effected at the beginning of the comparative period.

## 43. Statement of financial position of the Company

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2016 HK\$'000	2015 HK\$'000
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	667	66
Investments in subsidiaries	177,913	177,140
Other assets	282	282
Total non-current assets	178,862	177,488
<b>CURRENT ASSETS</b>		
Amounts due from subsidiaries	114,521	101,736
Prepayments, deposits and other receivables	237	271
Tax recoverable	—	107
Cash and cash equivalents	234,854	251,471
Total current assets	349,612	353,585
<b>CURRENT LIABILITIES</b>		
Other payables and accruals	5,597	9,881
Amounts due to subsidiaries	9,789	7,464
Total current liabilities	15,386	17,345
<b>NET CURRENT ASSETS</b>	334,226	336,240
Net assets	513,088	513,728
<b>EQUITY</b>		
Issued capital	59,490	59,490
Reserves (note)	453,598	454,238
Total equity	513,088	513,728

# Notes to the Financial Statements

31 December 2016

## 43. Statement of financial position of the Company (Continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium account HK\$'000	Contributed surplus* HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2015	60,978	120,946	125,196	307,120
Final 2014 dividend declared	—	—	(23,796)	(23,796)
Total comprehensive income for the year	—	—	170,914	170,914
At 31 December 2015 and at 1 January 2016	<b>60,978</b>	<b>120,946</b>	<b>272,314</b>	<b>454,238</b>
Final 2015 dividend declared	—	—	(29,745)	(29,745)
Total comprehensive income for the year	—	—	29,105	29,105
At 31 December 2016	<b>60,978</b>	<b>120,946</b>	<b>271,674</b>	<b>453,598</b>

\* The Company's contributed surplus arose from the capital reorganisation which involved the consolidation of the capital reserve and share premium account in a prior year and the capital reduction involving cancellation of a portion of paid-up capital during that year.

There is no specific provision in the Bermuda Companies Act which regulates the use of contributed surplus save that the Company cannot make a distribution out of the contributed surplus to the shareholders if there are reasonable grounds for believing that Company (i) is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium.

## 44. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 30 March 2017.