CHTC FONG'S INTERNATIONAL COMPANY LIMITED

(Incorporated in Bermuda with limted liability)

(Stock Code: 641)

Annual Report 2017

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CORPORATE INFORMATION

CHAIRMAN EMERITUS

Mr. Fong Sou Lam

BOARD OF DIRECTORS

Executive Directors

Mr. Ye Maoxin *(Chairman)*
Mr. Ji Xin *(Chief Executive Officer)*
Mr. Du Qianyi *(Chief Financial Officer)*

Non-executive Director

Mr. Fong Kwok Leung, Kevin

Independent Non-executive Directors

Mr. Ying Wei
Dr. Yuen Ming Fai
Mr. Li Jianxin

COMPANY SECRETARY

Mr. Lee Che Keung

AUTHORISED REPRESENTATIVES

Mr. Ji Xin
Mr. Lee Che Keung

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

LEGAL ADVISER

Reed Smith Richards Butler

AUDITOR

PKF Hong Kong Limited

PRINCIPAL BANKERS IN HONG KONG

Hang Seng Bank Limited
Bank of China (Hong Kong) Limited
Chong Hing Bank Limited
Standard Chartered Bank (Hong Kong) Limited
Dah Sing Bank, Limited
The Hongkong and Shanghai Banking Corporation Limited
CTBC Bank Co., Ltd.

PRINCIPAL BANKERS IN THE PEOPLE'S REPUBLIC OF CHINA

Bank of China Limited
Agricultural Bank of China Limited
Industrial and Commercial Bank of China Limited

BERMUDA PRINCIPAL REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH REGISTRAR AND TRANSFER OFFICE

Tricor Secretaries Limited
Level 22, Hopewell Centre,
183 Queen's Road East, Hong Kong
Tel: (852) 2980 1333
Fax: (852) 2810 8185

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

8th Floor,
22-28 Cheung Tat Road,
Tsing Yi, Hong Kong
Tel: (852) 2497 3300
Fax: (852) 2432 2552

WEBSITE ADDRESS

http://www.fongs.com

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board") of CHTC Fong's International Company Limited (the "Company", together with its subsidiaries, the "Group"), I am pleased to present to the shareholders the audited annual results of the Group for the year ended 31 December 2017

For the year ended 31 December 2017, the Group recorded consolidated revenue of approximately HK$3,404,000,000 (2016: HK$3,126,000,000), representing an increase of 9% over last year. Profit attributable to owners of the Company was approximately HK$281,000,000 (2016: HK$91,000,000), representing an increase of 209% over last year. Basic earnings per share for the year was 25.56 HK cents as compared to 8.28 HK cents for last year. The Board recommended the payment of a final dividend of 8 HK cents per share for the year ended 31 December 2017.

During the year, all business segments of the Group achieved steady growth in terms of turnover, profit and sales volume of products. The manufacture of dyeing and finishing machines business remains the core business of the Group, accounting for 78% of the Group's consolidated revenue for the year, while the manufacture of stainless steel casting products and trading of stainless steel supplies businesses accounted for 13% and 9% of the Group's consolidated revenue for the year respectively. During the year, the Chinese economy has continued to maintain its rising trend at a stable pace, and major economies around the world showed broad-based improvements, especially accelerating recovery in some developing countries. All these positive trends helped propel the Group's performance to achieve its expected growth target. Meanwhile, through strategic adjustments and business enhancement with a two-pronged approach for broadening income sources and reducing costs, the manufacture of dyeing and finishing machines business managed growth in sales, which enhanced overall operational effectiveness and rendered an obvious improvement in operating profit. The Group will continue to proactively adjust its operating strategies and employ stringent controls over costs and cash flows, so as to reinforce its leading position in the market and enhance its overall profitability.

CHAIRMAN'S STATEMENT

The implementation of the "One Belt and One Road" initiative lays out the future direction for China's economic development and will have significant positive impact on the steady growth of both Eurasia and China. Furthermore with the "Made in China 2025" initiative launched by the Central Government, the manufacturing industry will be actuated to upgrade and transform, which is likely to give rise to more investment and upgrading projects in both domestic and overseas markets, driving up the demand for our dyeing and finishing machines.

The Group will adhere to its strategy of achieving growth while maintaining stability. Meanwhile, continued efforts will be made on strengthening our core businesses, streamlining our corporate structure, exploring and seeking synergic investment opportunities, with a view to laying a solid foundation for the Group's sound development in the long run. In order to grow its business portfolio, the Group acquired 51% equity interest in Beijing CSCE Environmental Engineering Technology Co., Ltd. ("CSCE") during the year. CSCE is a private company established in the PRC and principally engages in providing full spectrum of services (such as contracting, advisory and operation management services) on municipal wastewater and solid waste treatment projects (including kitchen wastes recycling and innocuous treatment, municipal solid waste incineration power generation, municipal sewage sludge treatment and high concentration organic wastewater treatment projects, etc.) in the PRC. This acquisition is an unrivalled opportunity for the Group to expand its business scope by participating in the fast growing environmental waste treatment industry in China. The acquisition would bring income to the Group to further enhance the Group's overall profitability and yield prosperous returns to our shareholders.

As stated in the announcement of the Company dated 7 February 2018, the name of the Company has been changed from "CHTC Fong's Industries Company Limited 恒天立信工業有限公司" to "CHTC Fong's International Company Limited 中國恒天立信國際有限公司" with effect from 29 December 2017. The new company name better reflects the Group's business strategy to become an international corporation.

CHAIRMAN'S STATEMENT

As disclosed in the announcement of the Company dated 11 November 2016, on 10 November 2016, China Hi-Tech Group Corporation（中國恒天集團有限公司）("CHTC"), the controlling shareholder of the Company, signed a reorganisation framework agreement with China National Machinery Industry Corporation（中國機械工業集團有限公司）("SINOMACH"), pursuant to which, subject to the approval of the State-owned Assets Supervision and Administration Commission of the State Council of the People's Republic of China ("SASAC") and relevant regulatory authorities, SASAC will transfer its entire equity interest in CHTC to SINOMACH ("Proposed Reorganisation"). Therefore, upon completion of the Proposed Reorganisation, the Company will become a listed subsidiary of SINOMACH while CHTC will remain as an indirect controlling shareholder of the Company and SASAC will remain as the ultimate controlling shareholder of the Company. It was noted that the Proposed Reorganisation has been approved by SASAC and the Ministry of Commerce, the registration procedure of the equity transfer is currently in progress. The Company will closely monitor the development of the Proposed Reorganisation and make further disclosure in due course. CHTC is currently holding approximately 55.94% of the issued capital of the Company through its wholly-owned subsidiaries.

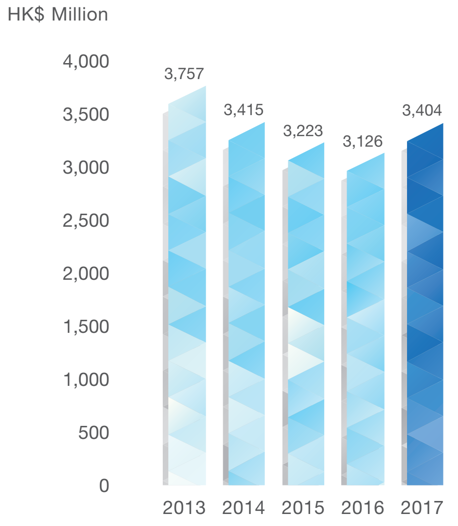
On behalf of the Board, I would like to express my appreciation to all shareholders, customers, suppliers, banks and business partners for their continued support and confidence in the Group. I would also like to thank our management team and staff for their efforts and significant contributions in the past year and in the years to come.

Ye Maoxin
Chairman

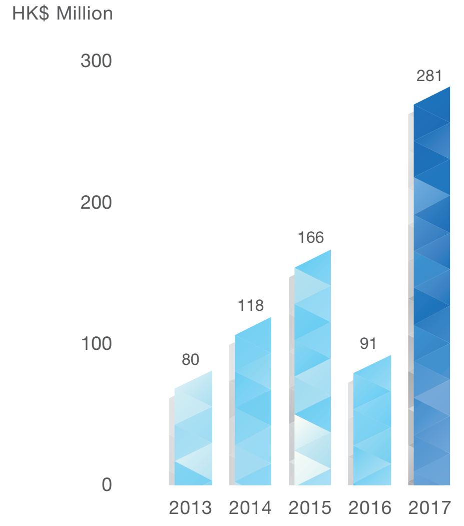
Hong Kong, 23 March 2018

FINANCIAL HIGHLIGHTS

REVENUE

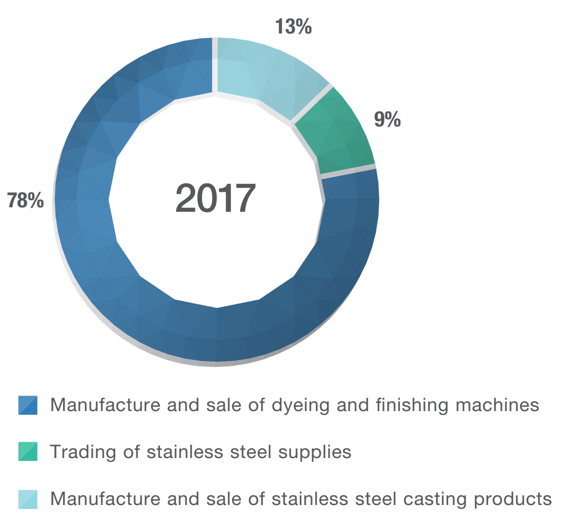


PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

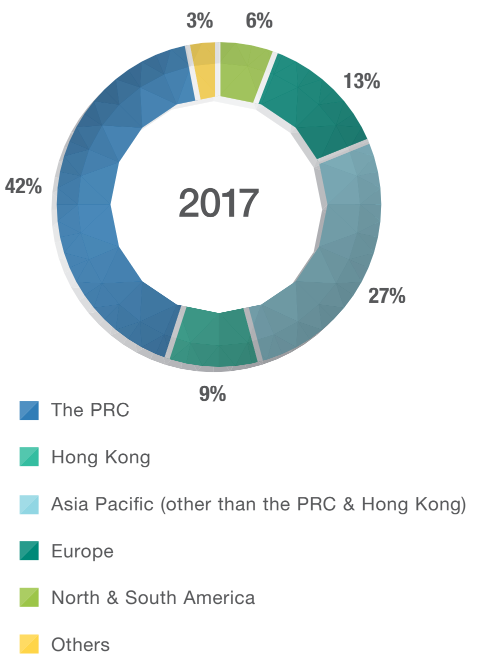


ANALYSIS OF REVENUE FOR THE YEAR

By principal activity



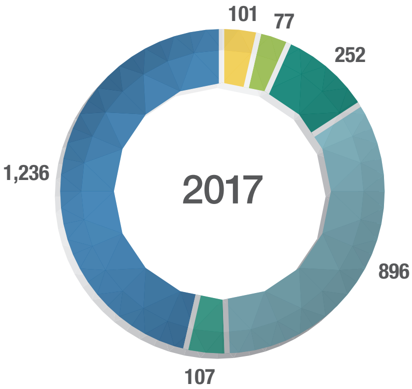
By geographical region



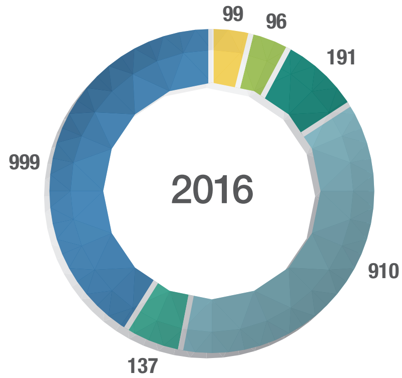
ANALYSIS OF REVENUE FOR THE YEAR *(continued)*

Manufacture and Sale of Dyeing and Finishing Machines

By geographical region

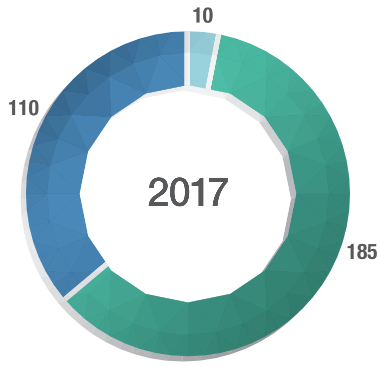


HK$ Million		HK$ Million
1,236	The PRC	999
107	Hong Kong	137
896	Asia Pacific	910
252	Europe	191
77	North & South America	96
101	Others	99
2,669		2,432

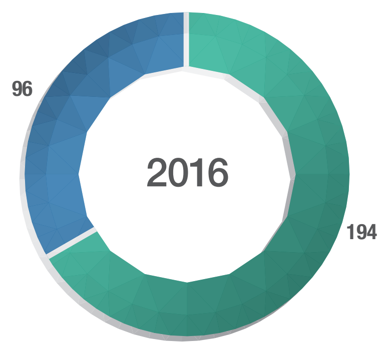


Trading of Stainless Steel Supplies

By geographical region

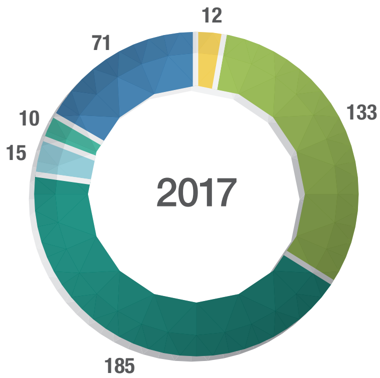


HK$ Million		HK$ Million
110	The PRC	96
185	Hong Kong	194
10	Asia Pacific	0
305		290

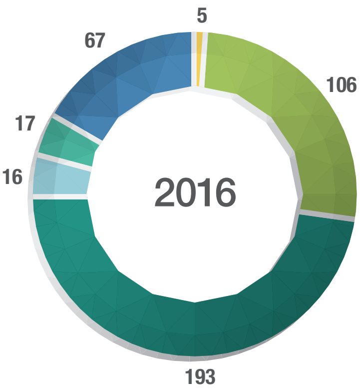


Manufacture and Sale of Stainless Steel Casting Products

By geographical region



HK$ Million		HK$ Million
71	The PRC	67
10	Hong Kong	17
15	Asia Pacific	16
185	Europe	193
133	North & South America	106
12	Others	5
426		404



DIRECTORS AND SENIOR MANAGEMENT PROFILE

Chairman Emeritus

Mr. Fong Sou Lam, aged 83, is the founder of the Group and the Chairman Emeritus of the Company. Mr. Fong established the dyeing and finishing machine manufacturing business in 1963 and has over 50 years of business experience in the industry.

MEMBERS OF THE BOARD OF DIRECTORS

Chairman and Executive Director

Mr. Ye Maoxin, aged 55, joined the Company as a Non-executive Director and the Vice-Chairman of the Board on 9 June 2011 and has been re-designated as an Executive Director and the Chairman of the Board with effect from 1 September 2015. Mr. Ye is also the Chairman of the Nomination Committee and a member of the Remuneration Committee of the Company. Mr. Ye is responsible for formulating the overall directions, corporate strategies and policies of the Group. Mr. Ye holds a Bachelor of Engineering degree in machinery manufacturing from Xian Jiaotong University (西安交通大學) and an Executive Master of Business Administration degree from Guanghua School of Management, Beijing University (北京大學光華管理學院). Mr. Ye is currently the vice-president of China Hi-Tech Group Corporation (中國恒天集團有限公司), the general manager of China Textile Machinery (Group) Company Limited (中國紡織機械(集團)有限公司), a director of China Hi-Tech Holding Company Limited and the president of Newish Trading Limited. Mr. Ye is also the chairman of Jingwei Textile Machinery Company Limited (經緯紡織機械股份有限公司), a company listed on the Shenzhen Stock Exchange (A-share stock code: 000666). Mr. Ye has over 30 years of solid experience in business management in the textile machinery industry.

Executive Directors

Mr. Ji Xin, aged 48, has been appointed as an Executive Director of the Company with effect from 15 March 2012, and has acted as the Chief Executive Officer with effect from 1 January 2013. Mr. Ji is also a member of the Nomination Committee and Remuneration Committee of the Company. Mr. Ji received his Bachelor's degree in Engineering in Mechanical Designs from Tianjin Polytechnic University (天津工業大學) in 1991 and an Executive Master of Business Administration degree from the School of Economics and Management of Tsinghua University (清華大學) in 2008. He is a senior engineer and has been appointed as a visiting professor by Tianjin Polytechnic University (天津工業大學) since 2008. Mr. Ji had held the positions as the chairman of Qingdao Textile Machinery Co., Ltd. (青島紡織機械股份有限公司) and as the chairman of Qingdao Hongda Textile Machinery Co., Ltd. (青島宏大紡織機械有限責任公司), being corporations affiliated with China Hi-Tech Group Corporation (中國恒天集團有限公司). In addition, Mr. Ji is currently a director of China Textile Industry Association (中國紡織工業聯合會), the vice-president of China Textile Machinery Association (中國紡織機械器材工業協會), the vice-president of China Nonwovens & Industrial Textiles Association (中國產業用紡織品行業協會) and the vice-president of China Dyeing and Printing Association (中國印染行業協會). Mr. Ji was accredited as Qingdao City Excellent Entrepreneur (青島市優秀企業家), Qingdao City Labour Model (青島市勞動模範), Labour Model in China Textile Industry (全國紡織工業勞動模範) and Top Ten Innovative Figure in China Textile Industry in 2007(二零零七年中國紡織行業十大創新人物). Mr. Ji has rich experience in areas ranging from operational management, sales and marketing, capital operations and strategic planning.

Mr. Du Qianyi, aged 52, joined the Company on 15 March 2012 and has been appointed as an Executive Director of the Company with effect from 18 April 2016, he is currently the Chief Financial Officer of the Group. Mr. Du had previously served as an Executive Director of the Company during the period from 15 March 2012 to 31 December 2012. Since 1986, Mr. Du had worked for corporations affiliated with China Hi-Tech Group Corporation (中國恒天集團有限公司) and had held positions as finance director, chief accountant and financial controller of Shaoyang Textile Machinery Co., Ltd. (邵陽紡織機械有限責任公司) during the period from 1997 to 2003. He had also held the positions as deputy finance director and finance director of China Textile Machinery (Group) Co., Ltd. (中國紡織機械(集團)有限公司) and as the finance director of China Hi-Tech Group Corporation (中國恒天集團有限公司). Mr. Du has been working in the textile machinery industry for a prolonged period, knowing the traits in the markets and operations of the textile machinery industry, having extensive experience in corporate management as well as solid theoretical foundation and rich practical experience in the areas of capital operations, operational management and financial management.

Non-executive Director

Mr. Fong Kwok Leung, Kevin, aged 56, is the eldest son of Mr. Fong Sou Lam who is the founder of the Group as well as the Chairman Emeritus and a substantial shareholder of the Company. Mr. Fong holds a Bachelor's degree in Business Administration from the Simon Fraser University, Canada. Mr. Fong joined the Group in 1986 and was appointed as an Executive Director of the Company on 25 July 1990. Mr. Fong had been responsible for overseeing the stainless steel trading and stainless steel casting businesses of the Group for a long period. With effect from 1 October 2016, Mr. Fong has been re-designated from an Executive Director to an Non-executive Director of the Company due to his desire to devote more time to his family business. Mr. Fong has also been appointed as a consultant of the Company as from 1 October 2016 for providing consultancy services in relation to the business development of the Group.

Independent Non-executive Directors

Mr. Ying Wei, aged 51, has been appointed as an Independent Non-executive Director of the Company since 1 September 2011. Mr. Ying is also the Chairman of the Audit Committee and a member of the Remuneration Committee and Nomination Committee of the Company. Mr. Ying holds a Master's Degree in Business Administration from the University of San Francisco and a Bachelor's Degree in Economics from the Zhejiang Gongshang University (浙江工商大學) (formerly known as Hangzhou Institute of Commerce (杭州商學院)) in the PRC. He is a non-practicing member of the Chinese Institute of Certified Public Accountants (中國註冊會計師協會). Mr. Ying is currently an independent non-executive director of Fountain Set (Holdings) Limited (stock code: 420), an independent non-executive director of Zhongsheng Group Holdings Limited (stock code: 881), a non-executive director of China Health Group Limited (stock code: 673) and the chairman and a non-executive director of New Focus Auto Tech Holdings Limited (stock code: 360). Mr. Ying is also the Managing Director of CDH Investments.

Dr. Yuen Ming Fai, aged 67, has been appointed as an Independent Non-executive Director of the Company since 1 September 2004. He is also a member of the Audit Committee, Nomination Committee and Remuneration Committee of the Company. Dr. Yuen is currently the Professor Emeritus of the Department of Mechanical and Aerospace Engineering at the Hong Kong University of Science and Technology. Dr. Yuen holds a doctorate degree in Mechanical Engineering from the University of Bristol, the United Kingdom and is a fellow member of both the Institution of Mechanical Engineers (UK) and the Hong Kong Institution of Engineers. Dr. Yuen had also been an independent non-executive director of UDL Holdings Limited (now re-named as DTXS Silk Road Investment Holdings Company Limited) (stock code: 620) during the period from April 2002 to 2 November 2015.

Mr. Li Jianxin, aged 64, has been appointed as an Independent Non-executive Director of the Company since 1 July 2014. Mr. Li is also the Chairman of the Remuneration Committee and a member of the Audit Committee and Nomination Committee of the Company. Mr. Li graduated from Inner Mongolia Engineering College (內蒙古工學院) (currently known as Inner Mongolia University of Technology (內蒙古工業大學)) specialising in chemical machinery and obtained a Bachelor of Engineering degree. Mr. Li completed his study of the postgraduate course on Chinese Culture and Modernisation (中國文化與現代化) at Tsinghua University (清華大學) in 2003. Over the period between 1985 until his retirement in 2013, Mr. Li had been working for a large Chinese state-owned commercial bank and held positions as the assistant general manager of Credit and Investment Approval Department, a commission member of Investment Commission and a member of the Credit Policy Committee at the Main Office focusing on approval of corporate finance. Mr. Li holds the title of Senior Economist having many years of experience in financial affairs and in-depth knowledge of the business operations of a wide range of industries and has accumulated extensive experience in financial analysis, project finance, investment management and risk control.

SENIOR MANAGEMENT

Mr. Zhao Chuancong, aged 44, joined the Group on 19 May 2011. Mr. Zhao is a vice-president of the Company and his main responsibilities in the Group are to manage the investment and strategic development division of the Group, as well as the environmental protection business. Mr. Zhao holds a Bachelor's degree of economics in international enterprises management from China Anhui University (中國安徽大學) and a Master of Engineering degree in software engineering from Beihang University (北京航空航天大學). He also completed the part-time master degree studies in respect of the course in investment project management at the Chinese Academy of Social Sciences (中國社會科學院), the CFO training course at the School of Economics of Peking University (北京大學) and a part-time doctorate degree course in finance at the Chinese Academy of Social Sciences (中國社會科學院).

Dr. Tsui Tak Ming, William, aged 59, is a vice-president of the Company and is in charge of the research and development division of the Group. Dr. Tsui is a chartered engineer and chartered I.T. professional, he holds a bachelor of science degree and a doctorate of philosophy degree in Aeronautical Engineering from the University of Manchester, the United Kingdom and is a fellow member of both the Institution of Mechanical Engineers (UK) and the Hong Kong Institution of Engineers. Dr. Tsui is also a corporate member of the British Royal Aeronautical Society, the Hong Kong Computer Society and the British Computer Society. Dr. Tsui is an expert in Physics, Computing, Automation Control and Management issues. Dr. Tsui joined the Group in 1989 and has over 30 years of experience in research and development on mechanical engineering and information technology. Dr. Tsui is the inventor of over 50 inventions of the Group with patent granted. He has been a member of the advisory committee in various universities including the University of Hong Kong, the Hong Kong Polytechnic University and the City University of Hong Kong.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

Mr. Wong Tak Man, Francis, aged 53, is a sales director of Fong's National Engineering Company, Limited (a wholly-owned subsidiary of the Company) and is responsible for overseeing the sales and marketing activities of the dyeing and finishing machine business of the Group in the knitting market in China. Mr. Wong is also responsible for overseeing the operations of the wastewater treatment business. Mr. Wong graduated from the Hong Kong Polytechnic (which was subsequently renamed the Hong Kong Polytechnic University) with a Higher Diploma in Marine Engineering. Mr. Wong joined the Group in 1987.

Mr. Leung Sheung Wai, Walter, aged 51, is a sales director of Fong's National Engineering Company, Limited (a wholly-owned subsidiary of the Company) and is responsible for overseeing the sales and marketing activities of the dyeing and finishing machine business of the Group in the overseas market. Mr. Leung graduated from the Hong Kong Polytechnic (which was subsequently renamed the Hong Kong Polytechnic University) with a Higher Diploma in Textile Chemistry. He is also a Chartered Member of the Textile Institute and a Fellow of the Society of Dyers and Colourists. Mr. Leung joined the Group in 1997.

Mr. Wong Ching Chuen, Patrick, aged 56, is a sales director of Fong's National Engineering Company, Limited (a wholly-owned subsidiary of the Company) and is responsible for overseeing the sales and marketing activities of the dyeing and finishing machine business of the Group in the woven market in China. Mr. Wong has been educated in the Hong Kong Polytechnic (which was subsequently renamed the Hong Kong Polytechnic University) for Mechanical Engineering and Griffith University in Australia for law. Mr. Wong has extensive experience in China trade for industrial equipment supplies and engineering work. Mr. Wong joined the Group in July 2000.

Mr. Roland Hampel, aged 63, is the Joint Managing Director of A. Monforts Textilmaschinen GmbH & Co. KG ("German Monforts"), a wholly-owned subsidiary of the Company. Mr. Hampel graduated from Aachen Technical High School with a Diploma in Engineering. He is an engineer with more than 30 years' experience as an executive manager in the design of textile machines especially driers and thermo treatment machines. Mr. Hampel joined the German Monforts in 1999 and has been heading all administrative, technical and financial issues including its manufacturing plant in Austria since 2007. Mr. Hampel is also a board member of Monforts Fong's Textile Machinery Co. Limited and a member of the technical advisory committee of the German machine builder's guild VDMA (German Engineering Federation).

Mr. Lee Che Keung, aged 56, is the company secretary of the Company. Mr. Lee graduated from the Hong Kong Polytechnic (which was subsequently renamed the Hong Kong Polytechnic University) with a Professional Diploma in Company Secretaryship and Administration and is an associate member of the Hong Kong Institute of Chartered Secretaries. Mr. Lee is responsible for the investor relations of the Company and the overall corporate secretarial matters of the Group. Mr. Lee joined the Group in February 1990.

BUSINESS PERFORMANCE

For the year ended 31 December 2017, the Group recorded consolidated revenue of approximately HK$3,404,000,000, representing an increase of 9% as compared to approximately HK$3,126,000,000 for last year. Profit attributable to owners of the Company was approximately HK$281,000,000, representing a significant increase of 209% as compared to approximately HK$91,000,000 for last year. Basic earnings per share for the year was 25.56 HK cents as compared to 8.28 HK cents for last year.

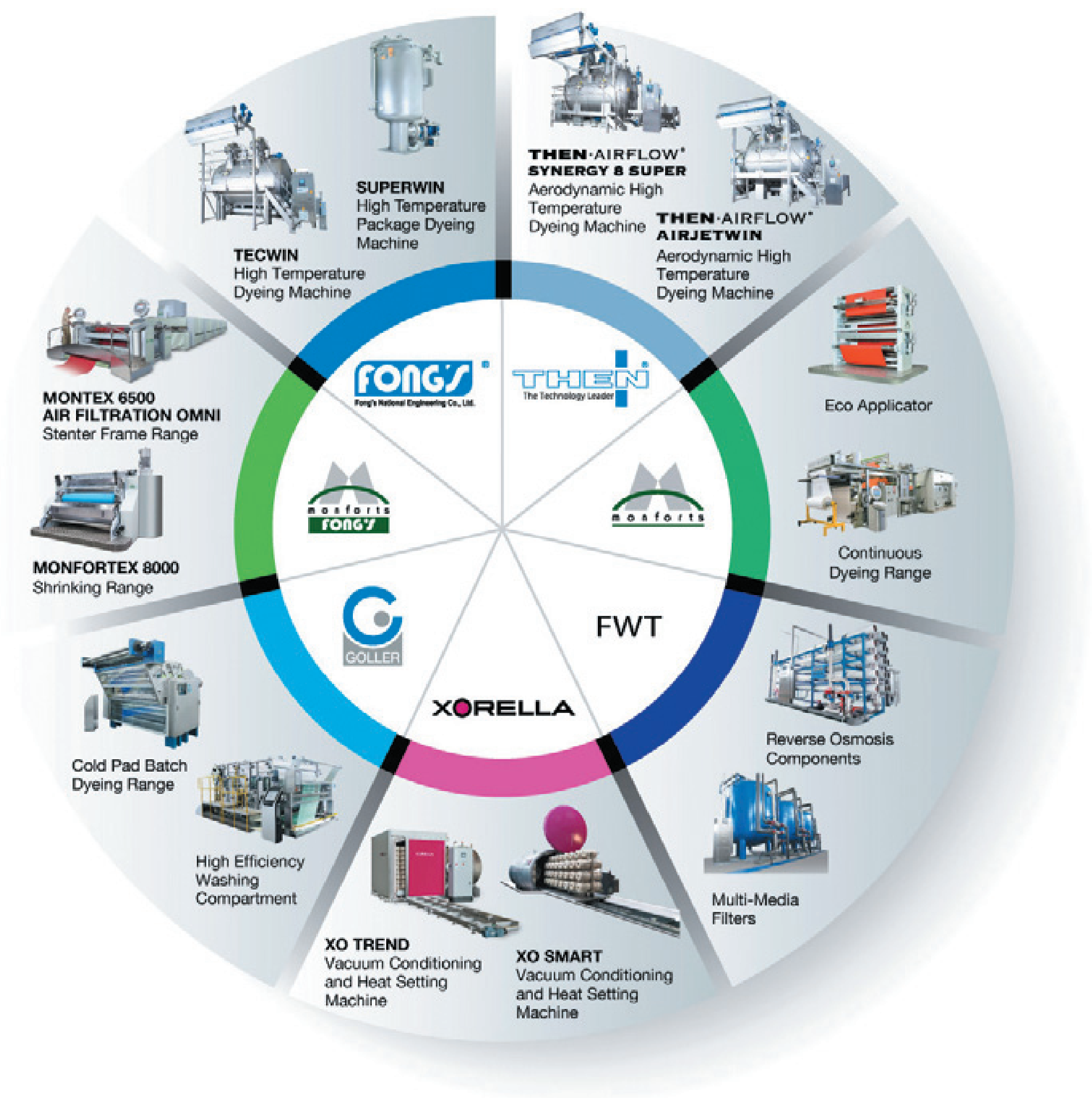
MANUFACTURE AND SALE OF DYEING AND FINISHING MACHINES

Riding on the recovering global economy in 2017, coupled with the concerted efforts of the Group's operating team to strengthen the marketing forces and improve the performance price ratio of our products, the dyeing and finishing machines business achieved satisfactory results with growth in both sales volume and operating profit. For the year ended 31 December 2017, this business segment recorded revenue of approximately HK$2,669,000,000, accounting for 78% of the Group's revenue and representing an increase of 10% from approximately HK$2,432,000,000 for last year. In particular, combined sales from Hong Kong and the PRC markets were approximately HK$1,343,000,000, representing an increase of 18% from approximately HK$1,136,000,000 for last year; while sales from overseas markets were approximately HK$1,326,000,000, representing an increase of 2% from approximately HK$1,296,000,000 for last year. Operating profit increased by 101% to approximately HK$300,000,000 from approximately HK$149,000,000 for last year.

Such significant improvement in results during the year was primarily due to the proactive launch of innovative products by the Group in the past, while our efforts in product enhancement and quality improvement began to bear fruits and gain ground, resulting in reinforced market competitiveness and increased revenue. In addition, the Group has continuously improved its production processes in recent years, and endeavoured to optimise its raw material purchase, which along with relatively stable prices of stainless steel as the major raw materials, led to higher gross profit margin.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group has successfully launched numerous new dyeing and finishing machines in recent years, including DYECOWIN High Temperature Dyeing Machine, JUMBOTEC High Temperature Dyeing Machine, SUPERWIN High Temperature Package Dyeing Machine, SINTENSA CYCLONE TANDEM High Efficiency Washing Compartment, MONTEX 6500 Stenter Frame Range, MONFORTEX 8000 Shrinking Range and TIMATEC coating technology, etc. These new models and technologies, which are more environmentally friendly and energy efficient, helped solidify the Group's market share and have received high recognition from the customers. They also reinforced perception of the Group as a high-quality, leading technology brand and enhanced our customer confidence, thus helped to boost sales. It has been the Group's persistent business direction to maintain long-term sustainable development. Hence, facing the various market and operational challenges, the Group will continue to focus on the proactive investment in research and development of technology and technical processes in regards to dyeing and finishing machinery, optimising existing product designs and enhancing the quality and reliability of its products so as to maintain its competitiveness.



In order to cater to the future development of the textile industry, the demand on automated production and the new trend of smart factories, the Group will continue to invest resources in enhancing the efficiency, as well as the functions of environmental protection, energy saving and automation of its dyeing and finishing machines so as to deliver premium products and provide innovative products and solutions of energy conservation and environment protection to customers, thus creating more value. In mid-2017, the Group signed a strategic cooperation agreement with Yantai Yelin Textile Printing & Dyeing Co., Ltd.（煙臺業林紡織印染有限責任公司）to form a joint venture company in Yantai. The joint venture company will engage in printing, dyeing and after-finishing of high-end fabrics by developing the most advanced automatic printing and dyeing production line in the PRC with the new automatic printing and dyeing solution of the Group. The concept of automatic printing and dyeing production line has been listed as one of the typical fields of national intelligent manufacturing enterprises by the Ministry of Industry and Information Technology. The joint venture company will become the first demonstration enterprise, where the Group will be able to showcase its automatic production solution on printing and dyeing to customers.

Leaders of CHTC Fong's and Yantai Yelin signed a cooperation agreement in relation to an intelligent dyeing and finishing project

CHTC Fong's collaboratively hosted the Annual Conference 2017 cum the 3rd Meeting of the 5th Members' General Meeting of the Commercial Culture Association of China in Shenzhen

MANAGEMENT DISCUSSION AND ANALYSIS

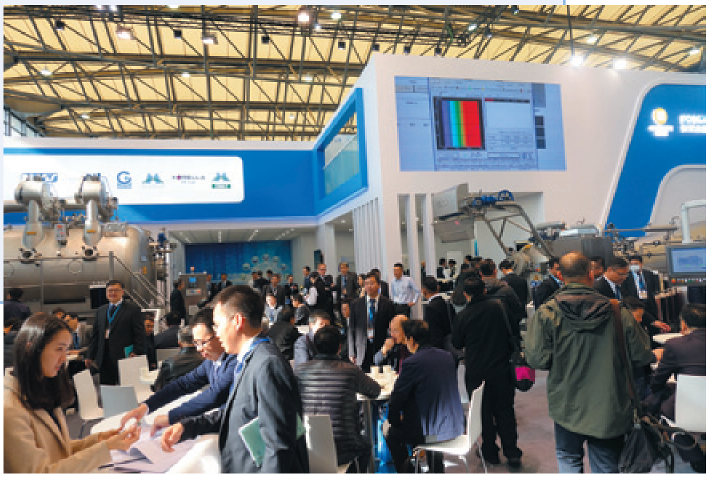
The Group will continue to streamline its organisational structure and business process to improve overall operating performance and productivity; maintain its commitment to employing stringent controls over supply chain costs and quality; and explore new markets and sales channels to expand the Group's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

A delegation of officials led by Vice Minister of Ministry of Textile, India visited CHTC Fong's Shenzhen Headquarters

CHTC Fong's held a seminar to showcase innovative solutions for synthetic fabric to customers in Indonesia

Looking forward, Chinese government has proactively launched various reforming and innovative initiatives in recent years to promote requirements on "Environment Protection and Energy Saving" as well as to encourage technological transformation and upgrading in traditional industries. At the meantime, policies including the "One Belt and One Road" and "Made in China 2025" initiatives have been implemented to drive economic growth. Those policies will have a positive effect on economic growth in the long run, and also provide new opportunities for the Group's medium to long-term development. The Board believes that the Group has laid a solid foundation for its mission to "become a world-class manufacturer of dyeing and finishing machinery". By excelling ourselves and striving to continuously broaden product offerings for our customers, we will use our best endeavour to increase our market share and make the Group bigger and stronger. In addition, the Group will continue to pursue its strategy of making advancement in stable operation and actively explore and identify investment opportunities with synergistic effects so as to lay a solid foundation for the Group in achieving long-term and healthy development.

CHTC Fong's participated in the 18th International Exhibition on Textile Industry in Shanghai



The new production plant of the Group located at Linhai Industrial Park, Tsui Hang New District, Zhongshan City, Guangdong Province is expected to start operations in phases. Upon full operation of the new plant, the Group's production capacity is expected to increase significantly. The new plant will be keen on energy conservation, production efficiency and high efficiency in the design of production processes and will apply more automated processes to reduce manpower requirement and labour costs.

The Zhongshan plant of Monforts Fong's

The plan of Phase II of the Zhongshan plant of CHTC Fong's

TRADING OF STAINLESS STEEL SUPPLIES

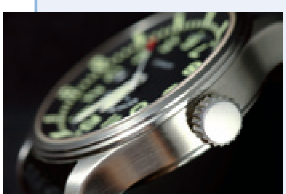
Driven by improved market demand and the inventory level remaining at a historical low, the stainless steel price has begun a steady rise since the beginning of 2017, and the gross profit margin from stainless steel distribution also experienced an increase. For the year ended 31 December 2017, this business segment recorded revenue of approximately HK$305,000,000, accounting for 9% of the Group's revenue, representing an increase of 5% as compared to approximately HK$290,000,000 for last year. Operating profit for the year amounted to approximately HK$14,000,000 as compared to profit of approximately HK$7,000,000 for last year.

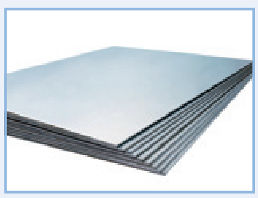
In respect of trading of stainless steel supplies, the Group has established strong relationship with some global leading steel manufacturing companies since commencing the business in 1988. As such, it is able to provide a diverse range of reliable and high-quality steel supplies to end-users, while procuring stainless steel raw materials for the Group's dyeing and finishing machines business in a more cost-effective way.

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

Looking into 2018, the price of stainless steel is expected to remain stable with slight fluctuations. The construction industry in Hong Kong is booming as more major infrastructure projects have commenced, which, coupled with the accelerated pace of urbanisation and infrastructure construction in the PRC, will provide opportunities for trading of stainless steel. Therefore, the Group remains optimistic on the prospect of the stainless steel trading business. The Group will closely monitor and response to market changes to maintain steady growth in this business segment.

outokumpu
high performance stainless steel

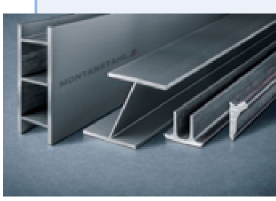


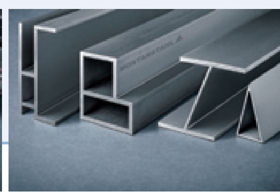


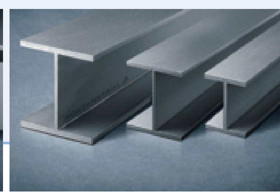
Outokumpu Stainless Steel Watchcase Material – Sole Distributor in the PRC, Hong Kong and Macau

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

MONTANSTAHL
special profiles in steel







MANAGEMENT DISCUSSION AND ANALYSIS

MANUFACTURE AND SALE OF STAINLESS STEEL CASTING PRODUCTS

The products of this business segment are primarily high-quality castings and machined processing parts made of stainless steel, dual-phase steel and nickel-based alloys that are widely used in industrial equipment in industries such as valves, pumps, chemical, oil and natural gas and foods, with customers principally hailing from Europe, the United States and Japan.

For the year 2017, this business segment recorded revenue of approximately HK$426,000,000, accounting for 13% of the Group's revenue and representing an increase of 5% as compared to approximately HK$404,000,000 for last year. Operating profit increased to approximately HK$56,000,000 from approximately HK$30,000,000 for last year. This business segment reported satisfactory performance as a whole and the results were in line with the targets.

The Group will continue to optimise cost control, improve workshops and the production processes of certain products, increase automated production equipment, reduce the scrappage rate of its products and enhance product quality, and develop new customers, with a view to laying a solid foundation for sustainable and healthy development of this business segment.

The Group believes that market demand for high-quality stainless steel casting products will continue to grow in the mid to long term. It is anticipated that, this business segment will maintain steady revenue growth and make sustainable contribution to the Group's profit.

▶ MAGMA Cast simulation software

▼ Machining Part

▼ Machine centre

NEW BUSINESS SEGMENT—ENVIRONMENTAL PROTECTION SERVICES

As a leading textile machinery manufacturer, the Group not only dedicates to the dyeing and finishing machines sector, but also actively pursues business development along the whole industrial chain, especially in wastewater treatment operation where we develop, construct and provide wastewater treatment equipment for our customers in dyeing and finishing industry and provide them with relevant technical consultancy services.

Furthermore, in order to broaden its income streams, the Group entered into an equity transfer agreement with an independent third party for the acquisition of 41% equity interest in Beijing CSCE Environmental Engineering Technology Co., Ltd. ("CSCE") at a consideration of RMB16,605,000 in August 2017. Subsequently in October 2017, the Group acquired additional 10% equity interest in CSCE at a consideration of RMB4,050,000. Both acquisitions were completed on 27 October 2017, whereby CSCE became a 51% non-wholly owned subsidiary of the Group. CSCE is a private company established in the PRC and principally engages in providing full spectrum of services (such as contracting, advisory and operation management services) on municipal wastewater and solid waste treatment projects (including kitchen wastes recycling and innocuous treatment, municipal solid waste incineration power generation, municipal sewage sludge treatment and high concentration organic wastewater treatment projects, etc.) in the PRC. With years of experience, CSCE has gained the relevant expertise in environmental protection and has obtained necessary licenses from the PRC authorities to operate the approved projects.

The Board considered that this acquisition was an unrivalled opportunity for the Group to expand its business scope by participating in the fast growing environmental waste treatment operation in China. The acquisition would also bring the Group additional income for further enhancement of the Group's results performance. Moving forward, the Group will continue to explore potential investment opportunities to expand this business.

DISPOSAL OF MAJOR ASSETS

On 28 March 2014, Fong's National Engineering (Shenzhen) Company, Limited ("FNES"), a wholly owned subsidiary of the Company, entered into a conditional co-operation agreement with (among others) an independent third party in respect of the redevelopment of FNES's existing land (the "Land") in Buji, Shenzhen by way of urban renewal. Further details of the co-operation agreement were disclosed in the Company's announcement dated 1 April 2014 and the Company's circulars dated 25 April 2014, 21 April 2015 and 6 May 2016. Pursuant to the co-operation agreement, FNES will receive, through resettlement and demolition compensation, a total of RMB1 billion in cash by five installments; and the facilities to be constructed on the redeveloped Land with a total gross floor area of approximately 30,000㎡ (and, in addition, at least 100 car-parks), which are expected to be used as the Group's sales office, product design and research and development facilities. The co-operation agreement constituted a very substantial disposal for the Company and has been approved by the shareholders of the Company at the special general meeting held on 15 May 2014 and by the State-owned Assets Supervision and Administration Commission of the State Council of the PRC. FNES also received the first installment of cash compensation of RMB100 million in December 2014, the second installment of cash compensation of RMB100 million in September 2016, and the third installment of cash compensation of RMB100 million in September 2017. The cash compensation received from the urban renewal project was partially used to fund the Group's plan to relocate all of its manufacturing facilities in Shenzhen to Zhongshan (including the construction cost for Phase II of the Zhongshan manufacturing plant). The new Zhongshan plant is expected to start operations in phases. The urban renewal project signifies the Group's contribution to urban renewal in Shenzhen and is expected to enhance the manufacturing technology of the Group, optimise its industrial layout and logistics and increase the automation level of its factories, thus improve its overall cost competitiveness. Meanwhile, the co-operation agreement will facilitate the Group to modernise its Shenzhen operations especially in terms of its product design, sales and research and development through the retention of the new property on the Land upon completion of the urban renewal project.

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

HUMAN RESOURCES

As at 31 December 2017, the Group had a total of approximately 4,500 employees (31 December 2016: approximately 4,300 employees) across mainland China, Hong Kong, Macau, Germany, Switzerland, Austria, Thailand, India, Turkey and Central and South America. In 2017, total staff costs (including Directors' emoluments, employees' remuneration and contribution to retirement benefits scheme) amounted to approximately HK$745,000,000 (2016: approximately HK$729,000,000), accounting for 22% (2016: 23%) of our revenue. The Group will continue to monitor the market situation and consolidate its human resource and labour structure in order to utilise manpower more efficiently and enhance operational productivity.

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

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

LIQUIDITY AND CAPITAL SOURCES

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

During the year ended 31 December 2017, the Group's net cash inflow from operating activities was approximately HK$54,000,000. As at 31 December 2017, the Group's inventory level increased to approximately HK$751,000,000 as compared to approximately HK$573,000,000 as at 31 December 2016.

As at 31 December 2017, bank borrowings of the Group amounted to approximately HK$1,161,000,000. Most of the bank borrowings were sourced from Hong Kong, with 94% denominated in Hong Kong dollars and 6% in United States dollars. The Group's bank borrowings are predominantly subject to floating interest rates.

As at 31 December 2017, the Group's bank balances and cash amounted to approximately HK$573,000,000, of which 62% was denominated in Renminbi, 15% in Hong Kong dollars, 11% in Euros, 10% in United States dollars and the remaining 2% in other currencies.

The Group continued to maintain prudent financial management policies during the year. As at 31 December 2017, the Group's gearing ratio, defined as net bank borrowings (other than payables in ordinary course of business) over total equity, increased to 36% (31 December 2016: 22%) and its current ratio was 0.97 (31 December 2016: 0.99). The Board considers these ratios to be at healthy and appropriate levels.

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

The Board is pleased to present this Corporate Governance Report for the year ended 31 December 2017.

CORPORATE GOVERNANCE

The Board of the Company recognises the importance of good corporate governance practices in enhancing the performance of the Company and its subsidiaries and balancing the interests of shareholders, customers and employees. The Board is committed to maintaining and ensuring a high standard of corporate governance practices.

Throughout the year ended 31 December 2017, the Company has complied with all the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

CODES FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules. All the Directors have confirmed, following a specific enquiry by the Company, that they have complied with the required standard as set out in the code of conduct regarding securities transactions by the Directors adopted by the Company during the year ended 31 December 2017.

BOARD OF DIRECTORS

The overall management of the Company's business is vested in the Board, which assumes the responsibilities for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs in the interests of the Company. The key responsibilities of the Board are to establish strategic direction, general policies and strategic business plans; to monitor and control the operating and financial performance of the Group; to implement the best corporate governance practices throughout the Group; and to set appropriate policies to assess and manage risks in pursuit of the strategic objective of the Group.

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

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

Executive Directors
Mr. Ye Maoxin *(Chairman)*
Mr. Ji Xin *(Chief Executive Officer)*
Mr. Du Qianyi *(Chief Financial Officer)*

Non-executive Director
Mr. Fong Kwok Leung, Kevin

Independent Non-executive Directors
Mr. Ying Wei
Dr. Yuen Ming Fai
Mr. Li Jianxin

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

The Board has delegated a number of responsibilities to the Executive Directors and the management of the Company. The management under the Chief Executive Officer is responsible for implementing the strategies and business plans set by the Board and to manage the Group's business operations in accordance with the policies and directives of the Board. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the management team. The Board will also review the management structure of the Group from time to time and will adopt appropriate measures as may be desirable for future development of the operating activities or business of the Group.

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

The Company has also arranged appropriate insurance coverage on directors' and officers' liabilities in respect of legal actions against them arising from the Group's business activities. During the year, no claim was made against any Directors and officers of the Company. The Company reviews the extent of insurance coverage on an annual basis.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Ye Maoxin is the Chairman of the Board and Mr. Ji Xin is the Chief Executive Officer of the Company. The roles of the Chairman and the Chief Executive Officer are defined clearly to ensure their accountability and responsibilities with respect to the management of the Company.

The Chairman focuses on overall corporate development and strategic directions of the Group, provides leadership to the Board, and oversees the efficient functioning of the Board. The Chairman is also responsible for instilling corporate culture and developing strategic plans for the Group.

The Chief Executive Officer is responsible for managing the business of the Group, policy making and corporate management and the implementation of strategies and initiatives adopted by the Board with the support from the management.

NON-EXECUTIVE DIRECTOR AND INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Fong Kwok Leung, Kevin has been re-designated from an Executive Director to a Non-executive Director of the Company with effect from 1 October 2016 due to his desire to devote more time to his own family business. The Company entered into a service contract with Mr. Fong for a term of two years commencing on 1 October 2016 and expiring on 30 September 2018 at a director's fee of HK$180,000 per annum, but such service contract is determinable by either party giving to the other party at least one month's prior written notice. In addition, Mr. Fong and the Company entered into a consultancy agreement without a fixed term of service on 15 October 2016 whereby Mr. Fong was appointed as a consultant of the Company with retrospective effect from 1 October 2016 for providing consultancy services to the Company in respect of the business development of the Group, but such consultancy agreement is determinable by either party giving to the other party at least one month's prior written notice. Mr. Fong is entitled to a monthly remuneration of HK$100,000 and the use of a private car provided by the Group under the consultancy agreement.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2017, the Board has met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors (representing at least one-third of the Board members), with at least one Independent Non-executive Director possessing appropriate professional qualifications and accounting and related financial management expertise.

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

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

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

The Independent Non-executive Directors will take lead in considering matters which a substantial shareholder or a director has conflict of interest. Board committee comprising Independent Non-executive Directors will be formed to advise the independent shareholders on connected transactions or continuing connected transactions to be approved by the independent shareholders at the special general meeting of the Company.

BOARD MEETINGS

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

The Board is scheduled to meet regularly at least four times a year at approximately quarterly intervals to discuss the overall strategy as well as the operational and financial performance of the Group. Other board meetings will be held when necessary. The Bye-laws of the Company allows board meetings to be conducted by way of telephone or video conference and any resolutions to be passed by way of written resolutions circulated to and signed by all Directors from time to time when necessary unless any matters in which a substantial shareholder or a Director or their respective associates has a conflict of interest. As some of the Directors are on occasional, and sometimes unexpected, business trips and/or are stationed in different regions of the PRC, it may, in practice, be inconvenient to convene a full board meeting on a frequent basis. Hence, the Board may approve certain issues in the form of a written resolution. With a view to facilitating Directors' attendance at board meetings and committee meetings as well as corporate events, the Company Secretary will seek advice from the Board and prepare an annual plan for the Board. The Board held a total of eleven board meetings (including four meetings by way of circulation of written resolutions and two meetings which were held regarding matters involving the attendance of Executive Directors only) during the year ended 31 December 2017. The attendance record of each Director at the board meetings is disclosed below in this Corporate Governance Report.

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

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

CORPORATE GOVERNANCE FUNCTIONS

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

BOARD DIVERSITY POLICY

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

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

BOARD COMMITTEES

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

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

NOMINATION COMMITTEE

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

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

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

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

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

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

APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

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

Pursuant to code provision A.4.3 of the CG Code, if an Independent Non-executive Director has served for more than nine years, any further appointment of such Independent Non-executive Director should be subject to a separate resolution to be approved by the Shareholders.

In accordance with the above provisions of the Bye-laws of the Company, Dr. Yuen Ming Fai and Mr. Li Jianxin, both are Independent Non-executive Directors, will retire from office as Directors by rotation at the forthcoming annual general meeting. The retiring Directors are eligible for re-election and have agreed to offer themselves for re-election at the forthcoming annual general meeting.

Dr. Yuen Ming Fai was appointed as an Independent Non-executive Director in September 2004. During his tenure of office over the past years, Dr. Yuen had performed his duty as an Independent Non-executive Director to the satisfaction of the Board. The Board is of the opinion that Dr. Yuen remains independent notwithstanding the length of his service and believes that his valuable professional knowledge and general business acumen will continue to generate significant contribution to the Board, the Company and the Shareholders as a whole. Pursuant to code provision A.4.3 of the CG Code, a separate ordinary resolution will be proposed at the forthcoming annual general meeting of the Company to approve the re-election of Dr. Yuen as an Independent Non-executive Director.

INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

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

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

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

During the year, the Company Secretary provided all the Directors with latest information on the Listing Rules, corporate governance practices and other applicable requirements. Some of the Directors also attended other external training seminars.

The Company has prepared a training record in order to assist the Directors to record the trainings that have undertaken. According to the records maintained by the Company, the trainings undertaken by each of the Directors during the year ended 31 December 2017 are summarised as follows:

	Trainings undertaken by Director	
Name of Director	**A**	**B**
Executive Directors		
Mr. Ye Maoxin	✓	✓
Mr. Ji Xin	✓	✓
Mr. Du Qianyi	✓	✓
Non-executive Director		
Mr. Fong Kwok Leung, Kevin	✓	✓
Independent Non-executive Directors		
Mr. Ying Wei	✓	✓
Dr. Yuen Ming Fai	✓	✓
Mr. Li Jianxin	✓	✓

A – Attending seminar(s)/forum(s)

B – Reading materials relating to corporate governance, directors' duties and responsibilities

REMUNERATION COMMITTEE

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

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

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

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

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

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

AUDIT COMMITTEE

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

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

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

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

The external auditors were invited to attend meetings of the Audit Committee held during the year to discuss with the members of the Audit Committee on issues arising from the audit and financial reporting matters. The Chairman of the Audit Committee provided the Board with a briefing on the significant issues after each meeting of the Audit Committee. There was no disagreement between the Board and the Audit Committee on the selection and appointment of the external auditors during the year ended 31 December 2017.

The Audit Committee held three meetings in 2017 and the attendance record of individual member is set out in this Corporate Governance Report. In discharging its responsibilities, the Audit Committee has performed the following works during the year of 2017:

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

(ii) reviewed the changes in accounting standards and their impacts on the Group's financial statements;

(iii) reviewed the Company's relationship with the external auditor with reference to the work they performed, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditor.

(iv) reviewed the connected transactions and continuing connected transactions entered into by the Group;

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

(vi) considered the appointment of PKF Hong Kong Limited as auditor of the Company to fill the vacancy following the resignation of Baker Tilly Hong Kong Limited.

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

ATTENDANCE RECORD OF INDIVIDUAL DIRECTOR AT MEETINGS IN 2017

	Number of Attendance/Number of Possible Attendance					
	Board Meeting	Audit Committee Meeting	Nomination Committee Meeting	Remuneration Committee Meeting	Annual General Meeting	Special General Meeting
Executive Directors						
Mr. Ye Maoxin	9/11	3/3	2/2	1/1	1/1	1/1
Mr. Ji Xin	11/11	3/3	2/2	1/1	1/1	1/1
Mr. Du Qianyi	11/11	3/3	2/2	1/1	1/1	1/1
Non-executive Director						
Mr. Fong Kwok Leung, Kevin	10/10	3/3	2/2	–	1/1	1/1
Independent Non-executive Directors						
Mr. Ying Wei	8/9	2/3	2/2	1/1	1/1	1/1
Dr. Yuen Ming Fai	9/9	3/3	2/2	1/1	1/1	1/1
Mr. Li Jianxin	9/9	3/3	2/2	1/1	1/1	1/1

AUDITOR'S REMUNERATION

During the year, Baker Tilly Hong Kong Limited had resigned as auditor of the Company with effect from 27 October 2017 and PKF Hong Kong Limited has been appointed as auditor of the Company on 27 October 2017 to fill up the casual vacancy. PKF Hong Kong Limited (which for the purpose includes any entity under common control, ownership or management with the auditor or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally) provided the following audit and non-audit services to the Group:

(i) Audit services; and

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

Remunerations paid for the above audit services and non-audit services were approximately HK$3,329,000 and approximately HK$30,000 respectively.

CORPORATE GOVERNANCE REPORT

RESPONSIBILITY FOR PREPARATION AND REPORTING OF ACCOUNTS

The consolidated financial statements of the Company for the year ended 31 December 2017 have been reviewed by the Audit Committee and audited by the external auditor, PKF Hong Kong Limited. The Directors acknowledged their responsibility for preparing the financial statements of the Group which were prepared in accordance with statutory requirements and applicable accounting standards. A statement by the external auditor about their reporting responsibilities is set out in the Independent Auditor's Report of this Annual Report.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board has overall responsibility for evaluating and determining the nature and extent of the risks taken by the Group to achieve its strategic business objectives. The Board, through its Audit Committee, regularly reviews the effectiveness of the risk management and internal control systems and monitors the corporate governance practices and compliance procedures on an ongoing basis.

The risk management system comprises a well-developed organisational structure which emphasizes segregation of duties that facilitates identification of risks, business development or otherwise, and their effective management. The internal control system focuses on the efficiency and effectiveness of business operations, reliability of accounting system and financial reporting, and compliance with applicable laws and regulations.

The Company has an internal audit department, which plays a major role in monitoring the corporate governance of the Group and providing objective assurance to the Board that a sound internal control system is maintained and operated by the management. The head of the internal audit department reports to the Chairman of the Board and the Audit Committee. The internal audit department will plan internal audit schedules annually in consultation with, but independent of, the management, and the audit plan is submitted to the Audit Committee for approval. The annual audit work plan covers major activities and processes of the Group's operating business. Moreover, ad hoc reviews will be performed on specific areas of concern identified by the Audit Committee and the management.

During 2017, members of the internal audit department carried out an internal audit project to identify the key risk areas which covered all aspects of corporate strategies, operation and finance of the Group. The Board has reviewed the risk assessment documents and considered that the resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget are adequate during the year under review. The Board has also reviewed the effectiveness of the Group's internal controls and considered that key areas of the Group's system of internal controls are reasonably implemented, which provide prevention of material misstatement or loss, safeguard the Group's assets, maintain appropriate accounting records and financial reporting, efficiency of operations and ensure compliance with the Listing Rules and all other applicable laws and regulations.

For the purpose of handling and disseminating inside information pursuant to Rules 13.09 and 13.10 of the Listing Rules and Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), the Group has taken various procedures and measures, including arousing the awareness to preserve confidentiality of inside information within the Group, sending blackout period and securities dealing restrictions notifications to the Directors and relevant employees regularly, disseminating information to specified persons on a need-to-know basis and regarding closely to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission in June 2012.

COMPANY SECRETARY

The Company Secretary, Mr. Lee Che Keung, is a full time employee of the Group and reports to the Chairman of the Board. He is responsible to the Board for ensuring that procedures are followed and that all applicable laws, rules and regulations are complied with. The Company Secretary supports the Board by ensuring good information flow within the Board and is also a source of advice to the Chairman and to the Board on corporate governance and the implementation of the CG Code. The biography of Mr. Lee is set out on page 12 of this Annual Report.

Mr. Lee has duly complied with the relevant professional training requirements under Rule 3.29 of the Listing Rules for the year ended 31 December 2017.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

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

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

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

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

During the year ended 31 December 2017, the Company held an annual general meeting on 25 May 2017 and a special general meeting on 21 December 2017 respectively. The Company's notice to shareholders for the annual general meeting was sent to shareholders at least 20 clear business days before such meeting and the notice to shareholders for the special general meeting was sent to shareholders at least 10 clear business days before such meeting. The Chairman of the Board and the external auditors were available at the annual general meeting held on 25 May 2017 to answer questions from the shareholders. The Chairman of the annual general meeting and special general meeting had explained the procedures for conducting a poll during the meetings.

CHANGE OF COMPANY NAME AND STOCK SHORT NAME

As announced on 7 February 2018, the English name of the Company has been changed from "CHTC Fong's Industries Company Limited" to "CHTC Fong's International Company Limited" and the Chinese name of the Company has been changed from "恒天立信工業有限公司" to "中國恒天立信國際有限公司" as the secondary name with effect from 29 December 2017.

The stock short name of the Company for trading in the shares on the Stock Exchange has been changed from "CHTC FONG'S" to "CHTC FONG'S INT" in English and from "恒天立信" to "中國恒天立信國際" in Chinese with effect from 12 February 2018. The stock code of the Company remains unchanged as "641".

SHAREHOLDERS' RIGHTS

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

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

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

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

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

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

On behalf of the Board

Ye Maoxin
Chairman

Hong Kong, 23 March 2018

DIRECTORS' REPORT

The Directors present their Annual Report and the audited consolidated financial statements for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company acts as an investment holding company.

The subsidiaries of the Company are principally engaged in the manufacture and sale of dyeing and finishing machines, trading of stainless steel supplies, manufacture and sale of stainless steel casting products and provision of environmental protection services. The activities of its principal subsidiaries are set out in Note 36 to the consolidated financial statements.

Further review and analysis of these business activities, including the risks and uncertainties facing the Group and likely future developments in the Group's businesses, are set out in the Chairman's Statement and Management Discussion and Analysis sections on pages 3 to 5 and pages 13 to 24 of this Annual Report respectively. These review and analysis form part of this report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 69 to 70.

The Board recommended the payment of a final dividend of 8 HK cents per share, totalling approximately HK$88,017,000 in respect of the year to shareholders whose names appear on the register of members of the Company on 8 June 2018. The proposed final dividend for the year ended 31 December 2017 was approved at the Company's board meeting held on 23 March 2018. Details of the dividends for the year ended 31 December 2017 are set forth in Note 10 to the consolidated financial statements.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the annual general meeting of the Company to be held on Friday, 25 May 2018 ("2018 AGM"), the register of members of the Company will be closed from Monday, 21 May 2018 to Friday, 25 May 2018, both days inclusive, during which period no transfer of shares of the Company will be effected. In order to be eligible to attend and vote at the 2018 AGM, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Registrar, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 18 May 2018.

Subject to the approval of the proposed final dividend at the 2018 AGM, the register of members of the Company will be closed from Monday, 4 June 2018 to Friday, 8 June 2018, both days inclusive, for the purpose of determining the entitlements of the shareholders to the proposed final dividend. In order to qualify for the proposed final dividend, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Registrar, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 1 June 2018. Dividend warrants will be despatched on Friday, 22 June 2018.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in Note 12 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2017, the aggregate amount of revenue attributable to the Group's five largest customers represented less than 7% of the Group's total revenue.

The aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 23% of the Group's total purchases and the amount of purchases attributable to the Group's largest supplier was approximately 10% of the total purchases.

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

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2017 were as follows:

	HK$'000
Contributed surplus	23,033
Retained profits	148,975
	172,008

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

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

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

DIRECTORS AND SERVICE CONTRACTS

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

Executive Directors:
Mr. Ye Maoxin *(Chairman)*
Mr. Ji Xin *(Chief Executive Officer)*
Mr. Du Qianyi *(Chief Financial Officer)*

Non-executive Director:
Mr. Fong Kwok Leung, Kevin

Independent Non-executive Directors:
Mr. Ying Wei
Dr. Yuen Ming Fai
Mr. Li Jianxin

Mr. Fong Kwok Leung, Kevin has been re-designated from an Executive Director to a Non-executive Director of the Company with effect from 1 October 2016 due to his desire to devote more time to his own family business. The Company entered into a service contract with Mr. Fong for a term of two years commencing on 1 October 2016 and expiring on 30 September 2018 at a director's fee of HK$180,000 per annum, but such service contract is determinable by either party giving to the other party at least one month's prior written notice. In addition, Mr. Fong and the Company entered into a consultancy agreement without a fixed term of service on 15 October 2016 whereby Mr. Fong was appointed as a consultant of the Company with retrospective effect from 1 October 2016 for providing consultancy services to the Company in respect of the business development of the Group, but such consultancy agreement is determinable by either party giving to the other party at least one month's prior written notice. Mr. Fong is entitled to a monthly remuneration of HK$100,000 and the use of a private car provided by the Group under the consultancy agreement.

Mr. Ying Wei was appointed under a contract for a term of two years commencing on 1 September 2015 and expiring on 31 August 2017. Upon expiry, his term of office has been extended to 31 August 2019.

Dr. Yuen Ming Fai was appointed under a contract for a term of 2 years commencing on 1 September 2016 and expiring on 31 August 2018.

Mr. Li Jianxin was appointed under a contract for a term of 2 years commencing on 1 July 2016 and expiring on 30 June 2018.

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

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

In accordance with the Company's Bye-laws, Dr. Yuen Ming Fai and Mr. Li Jianxin, both are Independent Non-executive Directors, will retire from the Board by rotation at the forthcoming 2018 AGM. The retiring Directors are eligible for re-election and have agreed to offer themselves for re-election at the forthcoming 2018 AGM.

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

DIRECTORS' INTERESTS IN THE SHARES OF THE COMPANY

As at 31 December 2017, the interests of the Directors and their associates in the shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long position in shares of the Company

Name of Director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. Fong Kwok Leung, Kevin	Beneficial owner	3,100,000	0.28%
	Held by spouse	200,000	0.02%
	Beneficiary of a discretionary trust (Note)	126,104,220	11.46%
		129,404,220	11.76%

Note: Mr. Fong Kwok Leung, Kevin is a beneficiary of a discretionary trust which owns (i) the entire share capital of Loyal Mate Limited which in turn beneficially owns 5,100,000 shares; and (ii) the entire issued share capital of GBOGH Assets Limited which in turn beneficially owns the entire share capital of the following companies which in turn beneficially own an aggregate of 121,004,220 shares as follows:

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

By virtue of the SFO, Mr. Fong Kwok Leung, Kevin is deemed to be interested in 126,104,220 shares which the discretionary trust owns.

Save as disclosed above, none of the Directors, chief executive nor their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2017.

SHARE OPTIONS

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

Particulars of the Scheme and a summary of the movements of the share options, which were granted under the Scheme during the year ended 31 December 2017, are set out in Note 31 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

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

ARRANGEMENTS TO PURCHASE SHARES OR DEBT SECURITIES

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

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2017, the Group had entered into the following connected transactions and continuing connected transactions which are exempted from independent shareholders' approval requirements, but are subject to the reporting and announcement requirements set out in Chapter 14A of the Listing Rules.

Connected transactions

(a) Entrusted Loan Agreement

On 23 January 2017, Fong's National Engineering (Shenzhen) Co., Ltd.(立信染整機械(深圳)有限公司)(an indirect wholly-owned subsidiary of the Company) ("FNES") entered into an entrusted loan agreement with Hengtian Real Estate Company Limited(恒天地產有限公司)("Hengtian Real Estate") and Bank of China Limited, Buji, Shenzhen Branch(中國銀行股份有限公司深圳布吉支行)(the "Bank"), pursuant to which FNES (as the entrusting party and lender) agreed to provide an entrusted loan in the principal amount of RMB80 million at the interest rate of 11% per annum to Hengtian Real Estate (as the borrower) through the Bank (as the entrusted party and lending agent). For details of the transaction, please refer to the announcement of the Company dated 23 January 2017. The entrusted loan was drawdown on 23 January 2017 and fully repaid in one lump sum on 29 December 2017. The total interest received from Hengtian Real Estate during the loan period amounted to RMB8,311,111.

Hengtian Real Estate is a company established in the PRC and owned as to 13.26% by FNES. To the best of the Directors' knowledge, information and belief after having made all reasonable enquires, Hengtian Real Estate is also owned as to 42.74% by China Hi-Tech Group Corporation(中國恒天集團有限公司), the controlling shareholder of the Company currently holding approximately 55.94% interest of the Company as at the date hereof and as to the remaining approximately 44.06% by third parties independent of the Company and its connected persons.

(b) Sale of equipment

(i) On 30 June 2017, FNES entered into an equipment sales agreement with China Textile Industrial Corporation for Foreign Economic and Technical Cooperation（中國紡織工業對外經濟技術合作公司） (the "Purchaser") whereby FNES agreed to sell, and the Purchaser agreed to purchase certain dyeing and finishing machines comprising eleven sets of ALLWIN High-temperature dyeing machine, two sets of radio frequency dryer and one set of LABWIN high-temperature laboratory dyeing machine (together with the provision of technical and engineering support, software and training service in relation thereto) at the aggregate consideration of RMB7,753,086, such dyeing and finishing machines are for re-sale to a designated end-user customer. For details of the transaction, please refer to the announcement of the Company dated 30 June 2017.

To the best of the Directors' knowledge, information and belief after having made all reasonable enquires, the Purchaser is a company established in the PRC and wholly-owned by China Hi-Tech Group Corporation（中國恒天集團有限公司）.

(ii) On 10 July 2017, Monforts Fong's Textile Machinery (Zhongshan) Co., Ltd.（立信門富士紡織機械（中山）有限公司）(an indirect wholly-owned subsidiary of the Company) ("Monforts Fong's Zhongshan") entered into a sales contract with CHTC Jiahua Nonwoven Co., Ltd.（恒天嘉華非織造有限公司）("CHTC Jiahua") whereby Monforts Fong's Zhongshan agreed to sell, and CHTC Jiahua agreed to purchase the production equipment comprising one set of MONFONGS 828 TwinAir Stenter Frame Range (together with the provision of technical and engineering support, software and training service in relation thereto) at the selling price of RMB3,180,000. For details of the transaction, please refer to the announcement of the Company dated 10 July 2017.

To the best of the Directors' knowledge, information and belief after having made all reasonable enquires, CHTC Jiahua is a company established in the PRC and owned as to 57.02% by China Hi-Tech Group Corporation（中國恒天集團有限公司）.

Continuing connected transactions

(i) Tenancy Agreements

On 30 December 2016, Fong's National Engineering Company, Limited ("FNECL"), an indirect wholly-owned subsidiary of the Company, entered into a tenancy agreement with Sou Lam Company Limited ("Sou Lam") for the use of a portion of a factory building by the Group as general office as well as for industrial or godown purposes having a total gross floor area of approximately 66,667 square feet at a monthly rental of HK$960,000 and monthly management fee of HK$104,686 (exclusive of government rates, government rent and other outgoings) for a term of three years commencing on 1 January 2017 and ending on 31 December 2019. Details of the transaction were set out in the announcement of the Company dated 30 December 2016.

The total rental paid by the Group to Sou Lam for the year ended 31 December 2017 amounted to HK$11,520,000.

To the best of the Directors' knowledge, information and belief after having made all reasonable enquires, Sou Lam is a company currently beneficially owned by a discretionary trust of which Mr. Fong Sou Lam (the Chairman Emeritus and a substantial shareholder of the Company) is the founder and Mr. Fong Kwok Leung, Kevin (a Non-executive Director and a substantial shareholder of the Company) is a beneficiary respectively.

(ii) Procurement Agreement

On 29 December 2016, FNES as purchaser entered into a procurement agreement with Keyvalve (Shenzhen) Co., Ltd. (奇偉閥門(深圳)有限公司) ("Keyvalve") as seller whereby FNES has agreed to purchase from Keyvalve certain categories of valves for its production of dyeing and finishing machines by issuing purchase orders from time to time to Keyvalve under the terms and conditions as stipulated therein during the period from 4 November 2016 to 31 December 2018 (both days inclusive). The annual cap for the contract price of the valves purchased by FNES from Keyvalve for the period from 4 November 2016 to 31 December 2016 and for the financial years ended 31 December 2017 and 2018 are RMB5 million, RMB16 million and RMB20 million respectively. Details of the transaction were set out in the announcement of the Company dated 29 December 2016.

The amount of valves purchased by FNES from Keyvalve during the year ended 31 December 2017 was RMB15,999,840 (equivalent to approximately HK$17,967,000).

To the best of the Directors' knowledge, information and belief after having made all reasonable enquires, Keyvalve is a wholly-foreign owned enterprise currently beneficially owned as to 66% equity interest by Mr. Fong Kwok Leung, Kevin (a Non-executive Director and a substantial shareholder of the Company).

(iii) Licences and Cooperation Agreement

On 12 May 2017, Monforts Fong's Textile Machinery Co. Limited (an indirect wholly-owned subsidiary of the Company) ("Monforts Fong's") entered into the licences and cooperation agreement with Autefa Solutions Switzerland AG ("AUTEFA") whereby AUTEFA has agreed to grant Monforts Fong's an exclusive and non-transferable licence to use and exploit the technologies for the manufacture of HiPer Shrink Relaxation Dryer (the "Product") at the production plant of Monforts Fong's in the PRC and also the right to sell the Product to customers outside the non-woven market worldwide. As part and parcel of the grant of the licence to use the technologies, AUTEFA has agreed to grant Monforts Fong's a non-exclusive right of use of the trademark STRAHM in connection with the marketing and sale of the Product. As it is contemplated that the licences and cooperation agreement will continue for more than three years, BOSC International Company Limited ("BOSC International") has been appointed as the independent financial adviser to advise the Company on the term of the licences and cooperation agreement. BOSC International has identified five comparable transactions involving the entering into of technology transfer and licensing arrangements by companies whose shares are listed on the Main Board of the Stock Exchange and noted that the term of the technology transfer and licensing agreements involved in the comparable transactions exceeded three years with a range from 10 to 20 years. As such, BOSC International has confirmed that it is normal business practice for the licences and cooperation agreement to be of such long duration which exceeds three years. The annual cap of the engineering fee and royalty payable by the Group to AUTEFA is HK$10 million. Details of the transaction were set out in the announcement of the Company dated 12 May 2017.

The amount of engineering fee paid by the Group to AUTEFA during the year ended 31 December 2017 was HK$1,258,986.

To the best of the Directors' knowledge, information and belief after having made all reasonable enquires, AUTEFA is a company incorporated in Switzerland and owned as to approximately 95.88% by China Hi-Tech Group Corporation（中國恒天集團有限公司）.

Pursuant to Rule 14A.56 of the Listing Rules, the Company has engaged PKF Hong Kong Limited, the auditor of the Company to perform certain work in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants.

The Board has received a letter of confirmation from the auditor stating that the above continuing connected transactions (i) have been approved by the Board; (ii) have been conducted in accordance with the relevant agreements governing the relevant transactions; and (iii) the aggregate amounts incurred in 2017 have not exceeded the annual cap disclosed in the previous announcements. The auditor issued its unqualified letter containing its findings and conclusions in respect of the transactions disclosed above in accordance with Rule 14A.56 of the Listing Rules. The Company has provided a copy of the said letter to the Stock Exchange.

The Independent Non-executive Directors of the Company have reviewed the continuing connected transactions set out above and have confirmed that they have been entered into (i) in the ordinary and usual course of business of the Group: (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

MATERIAL RELATED PARTY TRANSACTIONS

During the year ended 31 December 2017, the Group entered into certain transactions with "related parties" as defined under the applicable accounting standards. Details of the material related party transactions are disclosed in Note 35 to the consolidated financial statements.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

Other than the connected transactions and continuing connected transactions as disclosed above, no other transactions, arrangements and contracts of significance in relation to which the Company, its ultimate holding company, or any of its subsidiaries or fellow subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year ended 31 December 2017 or at any time during that year.

PERMITTED INDEMNITY PROVISIONS

A permitted indemnity provision for the benefit of the Directors of the Company is currently in force and was in force throughout the year ended 31 December 2017. The Company has maintained liability insurance to provide appropriate cover for the Directors of the Company and its subsidiaries.

MANAGEMENT CONTRACTS

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

DISCLOSURE PURSUANT TO RULE 13.21 OF THE LISTING RULES

In accordance with the requirements under Rule 13.21 of the Listing Rules, the Board reported below details of loan facilities which exist at any time during the year ended 31 December 2017 and up to the date of this Annual Report and include covenants requiring specific performance obligations of the controlling shareholder of the Company.

(i) On 28 October 2015, the Group accepted the renewal of banking facilities to the extent of approximately HK$317 million offered by a bank. The renewed banking facilities include a term fixed loan of the outstanding principal amount of approximately HK$142 million and other trade finance facilities. The term loan will be used for the construction cost of buildings and facilities as well as purchase of production equipment in respect of the new Zhongshan factory premises of the Group. The terms and conditions of the banking facilities include, inter alia, a condition that it will be an event of default if China Hi-Tech Group Corporation（中國恒天集團有限公司）, the controlling shareholder of the Company currently holding approximately 55.94% interest of the Company, ceases to maintain not less than 51% of shareholding (whether directly or indirectly) of the Company throughout the life of the banking facilities.

(ii) On 31 March 2016, certain wholly-owned subsidiaries of the Company (as borrowers) accepted the banking facilities offered by a bank (as lender) as stipulated in the two facility letters dated 20 November 2015 and 18 February 2016 (the "1st Facility Letter" and "2nd Facility Letter" respectively and collectively the "Facility Letters").

The 1st Facility Letter is for trade finance facilities up to an aggregate amount of HK$60 million being available to two wholly-owned subsidiaries of the Company namely Fong's National Engineering Company, Limited and Fong's Steels Supplies Company Limited. The 2nd Facility Letter is for a three-year term loan facility of a principal amount of HK$100 million (the "Term Loan") being available to Tycon Alloy Industries Holding Limited, a wholly-owned subsidiary of the Company. The Term Loan will be utilised for the construction cost of buildings and facilities as well as purchase of production equipment in respect of the new Zhongshan factory premises of the Group. Pursuant to the terms and conditions of the Facility Letters, it will be an event of default if China Hi-Tech Group Corporation（中國恒天集團有限公司）ceases to maintain an aggregate beneficial ownership (directly or indirectly) of not less than 51% in the issued share capital of the Company throughout the life of the Facility Letters.

(iii) On 1 June 2017, a wholly-owned subsidiary of the Company (as borrower) accepted the term loan facility of up to HK$100 million offered by a bank. The term loan shall be repaid by seven quarterly instalments commencing 18 months after the date of drawdown. The term loan will be used for the construction cost of buildings and facilities as well as purchase of production equipment in respect of the new Zhongshan factory premises of the Group. The terms and conditions of the banking facilities include, inter alia, a condition that it will be an event of default if China Hi-Tech Group Corporation（中國恒天集團有限公司）ceases to maintain not less than 51% of shareholding (whether directly or indirectly) of the Company throughout the life of the banking facilities.

(iv) On 31 July 2017, certain indirect wholly-owned subsidiaries of the Company accepted the revised banking facilities offered by a bank. The revised banking facilities comprise three term loans and other trade related facilities up to an aggregate maximum amount of approximately HK$525 million. The terms and conditions of the banking facilities include, inter alia, a condition that it will be an event of default if China Hi-Tech Group Corporation（中國恒天集團有限公司）ceases to maintain not less than 51% of shareholding (whether directly or indirectly) of the Company throughout the life of the banking facilities.

(v) On 19 September 2017, the Group accepted the renewal of banking facilities to the extent of approximately HK$121.51 million offered by a bank. The renewed banking facilities include an outstanding 3-year term loan of US$10.45 million and other trade finance facilities up to HK$40 million. The term loan is used for the construction cost of buildings and facilities as well as purchase of production equipment in respect of the new Zhongshan factory premises of the Group. The terms and conditions of the banking facilities include, inter alia, a condition that it will be an event of default if China Hi-Tech Group Corporation（中國恒天集團有限公司）ceases to maintain not less than 51% of shareholding (whether directly or indirectly) of the Company throughout the life of the banking facilities.

(vi) On 22 January 2018, certain indirect wholly-owned subsidiaries of the Company accepted the renewal of banking facilities to the extent of approximately HK$451 million offered by a bank. The renewed banking facilities comprise an outstanding 3-year term loan of HK$50 million (the principal loan amount was HK$100 million) (the "First Term Loan"), an outstanding 3-year term loan of HK$250 million (the "Second Term Loan") and other trade-related facilities up to HK$151 million. The banking facilities will be used for financing the general corporate funding requirements of the Group (including refinancing the existing loans and financing the construction of the buildings and facilities as well as purchase of production equipment in respect of the new Zhongshan factory premise of the Group. The First Term Loan of HK$100 million has been drawn down in October 2015 and shall be repaid by four semi-annually Instalments commencing 18 months after the date of first drawdown. The Second Term Loan of HK$250 million shall be repayable in full by seven quarterly instalments commencing 18 months after the date of first drawdown of each tranche. The terms and conditions of the banking facilities include, inter alia, a condition that China Hi-Tech Group Corporation（中國恒天集團有限公司）undertakes it will at all times maintain not less than 51% of shareholding (whether directly or indirectly) of the Company throughout the life of the banking facilities.

(vii) On 28 February 2018, certain indirect wholly-owned subsidiaries of the Company accepted the banking facilities offered by a bank. The banking facilities comprise a 3-year term loan up to HK$200 million and other trade related facilities up to HK$100 million. The terms and conditions of the banking facilities include, inter alia, a condition that it will be an event of default if China Hi-Tech Group Corporation（中國恒天集團有限公司）ceases to maintain not less than 51% of shareholding (whether directly or indirectly) of the Company throughout the life of the banking facilities.

Save as disclosed above, the Directors are not aware of any circumstances which would give rise to a disclosure obligation pursuant to the requirements under Rule 13.18 of the Listing Rules as at 31 December 2017 and as at the date of this Annual Report.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

As at 31 December 2017, the register maintained by the Company pursuant to Section 336 of the SFO shows that, other than the interests disclosed above in respect of certain Directors, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company as follows:

Long position in shares of the Company

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
China Hi-Tech Group Corporation	Corporate interests (Note A)	615,408,140	55.94%
Mr. Fong Sou Lam	Beneficial owner	48,800,000	4.44%
	Held by spouse	10,000,000	0.91%
	Founder of a discretionary trust (Note B)	126,104,220	11.46%
		184,904,220	16.81%

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

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

Mr. Ye Maoxin and Mr. Du Qianyi, both being Executive Directors of the Company, are the directors of Newish Trading Limited.

Mr. Ye Maoxin, Mr. Ji Xin and Mr. Du Qianyi, all being Executive Directors of the Company, are the directors of China Hi-Tech Holding Company Limited.

Note B: Mr. Fong Sou Lam is the founder of a discretionary trust which owns (i) the entire share capital of Loyal Mate Limited which in turn beneficially owns 5,100,000 shares; and (ii) the entire issued share capital of GBOGH Assets Limited which in turn beneficially owns the entire share capital of the following companies which in turn beneficially own an aggregate of 121,004,220 shares as follows:

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

By virtue of the SFO, Mr. Fong Sou Lam is deemed to be interested in 126,104,220 shares which the discretionary trust owns.

Save as disclosed above, as at 31 December 2017, the Company had not been notified of any person who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

DONATIONS

During the year, the Group made charitable and other donations amounting to HK$118,000.

EMOLUMENT POLICY

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

PRE-EMPTIVE RIGHTS

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

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

During the year ended 31 December 2017, the Company purchased certain of its ordinary shares on the Stock Exchange and these shares were subsequently cancelled by the Company. The summary details of those transactions are as follows:

Month	Number of shares repurchased	Price by share		Total price paid
		Highest	Lowest	
		HK$	HK$	HK$
February 2017	2,676,000	1.99	1.88	5,273,280

The issued share capital of the Company was reduced by the par value thereof. The premium paid on the purchases of the Company's shares of HK$5,139,480 has been charged to the share premium account of the Company. An amount of HK$133,800 equivalent to the par value of the shares cancelled has been transferred from the retained profits of the Company to the capital redemption reserve. The purchase of the Company's shares was effected by the Directors pursuant to the mandate from shareholders received at the annual general meeting of the Company held on 25 May 2016.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2017.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, throughout the year ended 31 December 2017 and as at the date of this Annual Report, the Company has maintained a sufficient public float of not less than 25% of the Company's issued shares being held by the public as required under the Listing Rules.

AUDITOR

The consolidated financial statements for the year ended 31 December 2017 were audited by PKF Hong Kong Limited which would retire at the conclusion of the 2018 AGM and, being eligible, offer themselves for re-appointment. An ordinary resolution will be proposed to re-appoint PKF Hong Kong Limited as the independent auditor of the Company and to authorise the Board to fix their remuneration at the 2018 AGM.

The Company has appointed PKF Hong Kong Limited as auditor of the Company on 27 October 2017 to fill the causal vacancy following the resignation of Baker Tilly Hong Kong Limited.

Save as disclosed above, there has been no other change in auditors of the Company in any of the preceding three years.

CHANGE OF COMPANY NAME AND STOCK SHORT NAME

As announced on 7 February 2018, the English name of the Company has been changed from "CHTC Fong's Industries Company Limited" to "CHTC Fong's International Company Limited" and the Chinese name of the Company has been changed from "恒天立信工業有限公司" to "中國恒天立信國際有限公司" as the secondary name with effect from 29 December 2017.

The stock short name of the Company for trading in the shares on the Stock Exchange has been changed from "CHTC FONG'S" to "CHTC FONG'S INT" in English and from "恒天立信" to "中國恒天立信國際" in Chinese with effect from 12 February 2018. The stock code of the Company remains unchanged as "641".

For details, please refer to the announcements of the Company dated 17 November 2017, 21 December 2017, and 7 February 2018 and the circular of the Company dated 28 November 2017.

On behalf of the Board

Ji Xin
Director

Hong Kong, 23 March 2018

大信梁學濂(香港)會計師事務所有限公司

PKF
Accountants &
business advisers

26/F, Citicorp Centre
18 Whitfield Road
Causeway Bay
Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
CHTC FONG'S INTERNATIONAL COMPANY LIMITED
(FORMERLY KNOWN AS "CHTC FONG'S INDUSTRIES COMPANY LIMITED")
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of CHTC Fong's International Company Limited (formerly known as "CHTC Fong's Industries Company Limited") (the "Company") and its subsidiaries (together the "Group") set out on pages 69 to 173, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

GOODWILL IMPAIRMENT ASSESSMENT – MANUFACTURE AND SALE OF DYEING AND FINISHING MACHINES SEGMENT

Refer to Notes 4 and 14 to the consolidated financial statements.

Key Audit Matter	How the matter was addressed in our audit procedures
As at 31 December 2017, the Group had goodwill of approximately HK$533,515,000 relating to the manufacture and sale of dyeing and finishing machines business segment. Management performed its annual impairment review and concluded that there was no impairment in respect of the goodwill. A significant risk of material misstatement may exist as a result of the application of management judgement and estimation in performing the impairment review, in particular, in relation to the forecasting of future cash flows, the growth rates used by management to extrapolate the cash flows after the first 5-year period and the selection of an appropriate discount rate.	Our procedures in relation to management's impairment assessment of goodwill included: – Assessing the value-in-use calculations methodology adopted by management; – Reconciling input data and relevant parameters to supporting evidence, such as approved financial budgets and considering the reasonableness of those budgets; – Assessing the reasonableness of key assumptions based on our understanding of the business and industry; and – Considering the potential impact of reasonably possible upside/downside changes in these key assumptions. In our professional judgement, we found the assumptions made by management in relation to the value-in-use calculations to be reasonable based on available evidence.

IMPAIRMENT OF TRADE RECEIVABLES ASSESSMENT

Refer to Notes 4 and 20 to the consolidated financial statements.

Key Audit Matter	How the matter was addressed in our audit procedures
As at 31 December 2017, the Group had trade receivables amounting to HK$351,025,000. In determining whether there was objective evidence of impairment loss, specific factors that management considered include the ageing analysis of the relevant balance, recent historical settlement patterns, prevailing economic conditions and any other available information concerning the creditworthiness of the counterparty which may involves significant management's judgement.	Our procedures in relation to management's impairment assessment of trade receivables included: – Testing the adequacy of allowance for doubtful debts recorded against trade receivable balances by assessing and evaluating the ageing of trade receivables at year end and cash received after year end, as well as the internal controls over management's assessment on allowance for doubtful debts; – Assessing the accuracy of historical provisions for bad debts by examining the utilisation or release of previously recorded provisions; and – Considering the adequacy of disclosures in relation to management's impairment assessment with reference to the risks concerning recoverability of trade receivables. In our professional judgement, we found the impairment of trade receivables provided by management to be adequate and not excessive based on available evidence.

VALUATION AND IMPAIRMENT OF INVENTORIES

Refer to Notes 4 and 19 to the consolidated financial statements.

Key Audit Matter	How the matter was addressed in our audit procedures
As at 31 December 2017, the Group had inventories amounting to HK$750,830,000. The inventory held at the year end covers a wide range of products and the demand for these inventories and the ability of the Group to sell these inventories in the future may be adversely affected by many factors including the global economic situation, changes in customer preferences, competitor activity including pricing and the introduction of new products and technology. Management estimates the net realisable value for inventories based primarily on the latest invoice prices and current market conditions, ageing analysis of the inventories and carrying out an inventory review on a product-by-product basis at the end of the reporting period and making provisions for slow moving and obsolete items.	Our procedures in relation to management's valuation and impairment assessment of inventories included: – Inspecting the ageing of the inventories, testing the accuracy of the ageing data, identifying any slow moving inventories, and critically assessing whether appropriate provisions had been made for slow moving and obsolete items; – Comparing most recent prices achieved on sales across the range of products to test whether these prices exceeded the carrying values of the inventories at year end; – Comparing the basis and assumptions used by management in calculating the inventory provision to those used in prior years and considering the possible effects of changes in market conditions; – Assessing the accuracy of historical provisions recorded by examining the utilisation or release of previously recorded provisions; and – Considering the adequacy of management's disclosures in relation to the carrying values of the inventory. In our professional judgement, we considered the Group's disclosures in relation to the carrying values of the inventory to be adequate.

BUSINESS COMBINATION

Refer to Notes 4 and 27 to the consolidated financial statements.

Key Audit Matter	How the matter was addressed in our audit procedures

The Group's acquisition of 51% equity interest in Beijing CSCE Environmental Engineering Technology Co., Ltd. and its subsidiaries (collectively known as the "CSCE Group") was determined to be a key audit matter because of the complexity in relevant financial reporting requirements for business combination, the significant estimation uncertainty resulted from the use of unobservable inputs and the significant judgement made in selecting the valuation methods in measuring the fair values of the identified assets and liabilities of the CSCE Group at the date of acquisition.	Our procedures in relation to management's valuation of the fair values of the CSCE Group at the date of acquisition included:
	
	– Evaluating accounting policies and disclosures;
	
	– Reviewing management's assessment that the acquisition should be accounted for as a business combination;
	
	– Assessing management's assessment of the date of acquisition;
	
	– Challenging and evaluating the valuation method adopted, assumptions made and data used by the management's expert in valuing the identifiable assets acquired and the liabilities assumed in the business combination, including:
	
	    – challenging the adequacy of the sensitivity calculations over the estimation;
	
	    – reviewing the subsequent events relevant to the estimation; and
	
	    – determining whether indication of possible management bias exist;

BUSINESS COMBINATION *(Continued)*

Key Audit Matter	How the matter was addressed in our audit procedures
	– Evaluating the expert's competence and independence; – Testing the calculation of goodwill from business combination; and – Inquiring the reasons which resulted in goodwill from business combination. In our professional judgement, we considered the Group's acquisition of 51% equity interest in the CSCE Group is accounted for in accordance with the relevant accounting standards.

OTHER INFORMATION IN THE ANNUAL REPORT

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

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

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

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 skepticism throughout the audit. We also: (Continued)

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

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

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

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

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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

PKF Hong Kong Limited
Certified Public Accountants

Tan Yik Chung Wilson
Practising certificate number P05103

Hong Kong, 23 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Revenue	5	**3,403,822**	3,125,687
Cost of sales		**(2,194,128)**	(2,020,979)
Gross profit		**1,209,694**	1,104,708
Interest income		**13,581**	2,206
Other income	8	**32,632**	19,603
Other gains (losses)	8	**22,946**	(8,031)
Selling and distribution costs		**(288,152)**	(270,267)
Administrative and other expenses		**(602,631)**	(660,407)
Finance costs	6	**(37,274)**	(36,699)
Share of results of an associate	17	**(4)**	–
Profit before tax		**350,792**	151,113
Income tax expense	7	**(67,704)**	(59,824)
Profit for the year	8	**283,088**	91,289
Other comprehensive income (expense), net of tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation		**90,446**	(99,283)
Exchange difference reclassified to profit or loss upon deregistration of a subsidiary		**(6,991)**	–
		83,455	(99,283)
Item that will not be reclassified to profit or loss:			
Remeasurement gain (loss) on defined benefit plan		**1,092**	(2,954)
Other comprehensive income (expense) for the year		**84,547**	(102,237)
Total comprehensive income (expense) for the year		**367,635**	(10,948)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Profit for the year attributable to:			
Owners of the Company		**281,263**	91,289
Non-controlling interests		**1,825**	–
		283,088	91,289
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		**365,810**	(10,948)
Non-controlling interests		**1,825**	–
		367,635	(10,948)
Earnings per share			
Basic	11(a)	**25.56 HK cents**	8.28 HK cents
Diluted	11(b)	**25.52 HK cents**	8.28 HK cents

The accompanying notes form part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment	12	**956,735**	660,497
Prepaid lease payments	13	**226,101**	218,196
Goodwill	14	**538,050**	533,515
Intangible assets	15	**261,590**	101,651
Available-for-sale financial assets	16	**186,332**	174,640
Investment in an associate	17	**29,718**	–
Deposits for acquisition of property, plant and equipment		**47,484**	5,415
Deposits for acquisition of leasehold land		**7,702**	7,219
Deferred tax assets	18	**20,482**	10,665
		2,274,194	1,711,798
Current assets			
Inventories	19	**750,830**	572,992
Trade and other receivables	20	**664,125**	442,076
Prepaid lease payments	13	**5,473**	5,159
Tax recoverable		**3,290**	138
Cash and cash equivalents	21	**573,198**	790,259
		1,996,916	1,810,624
Current liabilities			
Trade and other payables	22	**959,972**	785,507
Warranty provision	23	**15,963**	16,287
Tax liabilities		**31,758**	25,202
Borrowings	24	**1,060,887**	1,009,638
		2,068,580	1,836,634
Net current liabilities		**(71,664)**	(26,010)
Total assets less current liabilities		**2,202,530**	1,685,788

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Non-current liabilities			
Borrowings	24	**100,000**	80,000
Deferred revenue	25	**40,115**	25,757
Deferred tax liabilities	18	**54,820**	23,701
Other payable	22	**356,004**	222,236
		550,939	351,694
Net assets		**1,651,591**	1,334,094
Capital and reserves			
Total equity attributable to owners of the Company			
Share capital	26(b)	**55,011**	55,145
Share premium and reserves		**1,575,518**	1,278,949
		1,630,529	1,334,094
Non-controlling interests		**21,062**	–
Total equity		**1,651,591**	1,334,094

The consolidated financial statements on pages 69 to 173 were approved and authorised for issue by the Board of Directors on 23 March 2018 and are signed on its behalf by:

Ye Maoxin
Director

Ji Xin
Director

The accompanying notes form part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to owners of the Company										
	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Capital redemption reserve HK$'000	Translation reserve HK$'000	Retained profits HK$'000	Contributed surplus HK$'000 (Note)	Share option reserve HK$'000	Subtotal HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2016	55,145	157,261	(581)	2,370	67,100	1,062,050	25,582	3,503	1,372,430	–	1,372,430
Profit for the year	–	–	–	–	–	91,289	–	–	91,289	–	91,289
Exchange difference arising on translation	–	–	–	–	(99,283)	–	–	–	(99,283)	–	(99,283)
Remeasurement loss on defined benefit plan	–	–	–	–	–	(2,954)	–	–	(2,954)	–	(2,954)
Other comprehensive expense for the year, net of tax	–	–	–	–	(99,283)	(2,954)	–	–	(102,237)	–	(102,237)
Total comprehensive (expense) income for the year	–	–	–	–	(99,283)	88,335	–	–	(10,948)	–	(10,948)
Effects of share options (Note 31)	–	–	–	–	–	–	–	5,699	5,699	–	5,699
Final dividend for 2015 paid (Note 10)	–	–	–	–	–	(33,087)	–	–	(33,087)	–	(33,087)
At 31 December 2016	55,145	157,261	(581)	2,370	(32,183)	1,117,298	25,582	9,202	1,334,094	–	1,334,094

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to owners of the Company										
	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Capital redemption reserve HK$'000	Translation reserve HK$'000	Retained profits HK$'000	Contributed surplus HK$'000 (Note)	Share option reserve HK$'000	Subtotal HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2017	55,145	157,261	(581)	2,370	(32,183)	1,117,298	25,582	9,202	1,334,094	–	1,334,094
Profit for the year	–	–	–	–	–	281,263	–	–	281,263	1,825	283,088
Exchange difference arising on translation	–	–	–	–	90,446	–	–	–	90,446	–	90,446
Exchange difference reclassified to profit or loss upon deregistration of a subsidiary	–	–	–	–	(6,991)	–	–	–	(6,991)	–	(6,991)
Remeasurement gain on defined benefit plan	–	–	–	–	–	1,092	–	–	1,092	–	1,092
Other comprehensive income for the year, net of tax	–	–	–	–	83,455	1,092	–	–	84,547	–	84,547
Total comprehensive income for the year	–	–	–	–	83,455	282,355	–	–	365,810	1,825	367,635
Non-controlling interests arising from business combination (Note 27)	–	–	–	–	–	–	–	–	–	19,237	19,237
Effects of share options (Note 31)	–	–	–	–	–	–	–	7,412	7,412	–	7,412
Repurchase and cancellation of shares (Note 26)	(134)	(5,139)	–	134	–	(134)	–	–	(5,273)	–	(5,273)
Final dividend for 2016 paid (Note 10)	–	–	–	–	–	(38,508)	–	–	(38,508)	–	(38,508)
Interim dividend for 2017 paid (Note 10)	–	–	–	–	–	(33,006)	–	–	(33,006)	–	(33,006)
At 31 December 2017	55,011	152,122	(581)	2,504	51,272	1,328,005	25,582	16,614	1,630,529	21,062	1,651,591

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

The accompanying notes form part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
OPERATING ACTIVITIES		
Profit before tax	**350,792**	151,113
Adjustments for:		
Interest expense	**29,135**	25,854
Interest income	**(13,581)**	(2,206)
Depreciation and amortisation	**63,022**	75,887
(Reversal of allowance) allowance for doubtful debts, net	**(414)**	510
Reversal of allowance for inventories	**(628)**	(4,949)
Share of results of an associate	**4**	–
Share-based payments	**7,412**	5,699
Gain on disposal of property, plant and equipment	**(379)**	(267)
Gain on deregistration of a subsidiary	**(6,991)**	–
Recognition of government grants	**(3,506)**	(2,784)
Warranty provision expense	**21,609**	24,875
Operating cash flows before movements in working capital	**446,475**	273,732
(Increase) decrease in inventories	**(166,756)**	81,210
(Increase) decrease in trade and other receivables	**(184,061)**	92,181
Increase in trade and other payables	**31,957**	189,634
Utilisation of warranty provision	**(22,691)**	(24,337)
Cash generated from operations	**104,924**	612,420
Hong Kong Profits Tax paid	**(8,429)**	(9,057)
Overseas income tax and the PRC Corporate Income Tax paid	**(42,630)**	(38,190)
Hong Kong Profits Tax refunded	**–**	545
Overseas income tax and the PRC Corporate Income Tax refunded	**30**	1,061
NET CASH GENERATED FROM OPERATING ACTIVITIES	**53,895**	566,779

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
INVESTING ACTIVITIES		
Deposits paid for acquisition of property, plant and equipment	**(47,484)**	(5,415)
Loan advance to a related party	**(90,152)**	–
Repayment of loan received from a related party	**94,504**	–
Proceeds from disposal of property, plant and equipment	**1,766**	3,103
Payments for acquisition of subsidiaries, net of cash and cash equivalents acquired (Note 27)	**(19,416)**	–
Payment for acquisition of an associate	**(29,722)**	–
Interest received	**13,581**	2,206
Prepaid lease payments made	**–**	(6)
Purchases of intellectual property rights	**–**	(8,645)
Purchases of property, plant and equipment	**(273,412)**	(219,840)
Receipt of government grants	**3,732**	23,685
Receipt of deposit from urban renewal project	**117,180**	116,260
NET CASH USED IN INVESTING ACTIVITIES	**(229,423)**	(88,652)
FINANCING ACTIVITIES		
Repayment of borrowings	**(1,558,840)**	(1,287,691)
Dividends paid	**(71,514)**	(33,087)
Interest paid on borrowings	**(35,235)**	(33,512)
New borrowings raised	**1,594,422**	1,285,150
Payment on repurchases of shares	**(5,273)**	–
NET CASH USED IN FINANCING ACTIVITIES	**(76,440)**	(69,140)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(251,968)**	408,987
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**790,259**	443,115
Exchange gain (loss) on cash and cash equivalents	**34,907**	(61,843)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**573,198**	790,259

The accompanying notes form part of the consolidated financial statements.

1 GENERAL

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

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

As disclosed in the announcement of the Company dated 3 July 2017, on 29 June 2017, it came to the attention of the Board that on 24 June 2017, SASAC granted the approval of the proposed reorganisation (the "Proposed Reorganisation") in relation to the transfer of the entire equity interest of CHTC from SASAC to China National Machinery Industry Corporation（中國機械工業集團有限公司）("SINOMACH"), a state-owned enterprise under the direct supervision and administration of, and is beneficially owned by SASAC.

Upon completion of the Proposed Reorganisation, CHTC will be directly owned by SINOMACH and the Company will therefore become a listed subsidiary of SINOMACH. It remains unchanged that CHTC is an intermediate controlling shareholder of the Company and SASAC is the ultimate controlling shareholder of the Company.

The address of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" in this Annual Report.

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

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

2 APPLICATION OF REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND POSSIBLE IMPACT OF NEW AND REVISED HKFRSs ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Annual Improvements to HKFRSs (2014-2016)	Amendments to HKFRS 12

Amendments to HKAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

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

A reconciliation between the opening and closing balances of these items is provided in Note 21(b). Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in Note 21(b), the application of these amendments has had no impact on the Group's consolidated financial statements.

The application of the other amendments to HKFRSs in the current year has had no material effect on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2 APPLICATION OF REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND POSSIBLE IMPACT OF NEW AND REVISED HKFRSs ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 *(Continued)*

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective for the year ended 31 December 2017:

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

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective for annual periods beginning on or after a date to be determined

2 APPLICATION OF REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND POSSIBLE IMPACT OF NEW AND REVISED HKFRSs ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 *(Continued)*

HKFRS 9 "Financial Instruments"

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

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

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods and their fair value changes are recognised in profit or loss. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

2 APPLICATION OF REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND POSSIBLE IMPACT OF NEW AND REVISED HKFRSs ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 *(Continued)*

HKFRS 9 "Financial Instruments" *(Continued)*

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the Directors of the Company anticipate that the following potential impact on initial application of HKFRS 9:

Classification and measurement

Equity securities classified as available-for-sale investments carried at cost less impairment: these securities qualified for designation as FVTOCI under HKFRS 9 and the Group will measure these securities at fair value at the end of subsequent accounting periods with fair value gains and losses to be recognised as other comprehensive income and accumulated in the investments revaluation reserve. Upon initial recognition of HKFRS 9, the difference between the previous carrying amount and the fair value relating to these securities would be adjusted to investment revaluation reserve as at 1 January 2018.

All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

Impairment

In general, the Directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group. However, the Directors of the Company expects the effect would not be significant.

2 APPLICATION OF REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND POSSIBLE IMPACT OF NEW AND REVISED HKFRSs ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 *(Continued)*

HKFRS 15 "Revenue from Contracts with Customers"

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

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

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

The Directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, they do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

2 APPLICATION OF REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND POSSIBLE IMPACT OF NEW AND REVISED HKFRSs ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 *(Continued)*

HKFRS 16 "Leases"

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for Group's operating leases. As at the end of the reporting period, the Group has non-cancellable operating lease commitments of approximately HK$42,488,000 (Note 33). The Group estimates those related to payments for short-term and low value lease which will be recognised on straight-line basis as an expense in profit or loss are insignificant.

The Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

The adoption of this standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

Save as discussed above, all other new standards, amendments to standards and interpretations issued but not yet effective are not likely to have significant impact on the consolidated financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with the HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Hong Kong Companies Ordinance (the "CO").

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

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

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

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

The principal accounting policies are set out below.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of consolidation *(Continued)*

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

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

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

Changes in the Group's ownership interests in existing subsidiaries

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits" respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based Payment" at the acquisition date (see the accounting policy below); and

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Business combinations *(Continued)*

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Goodwill

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

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

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

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

(e) Intangible assets

Intellectual property rights

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

Trademarks and licenses

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Intangible assets *(Continued)*

Concession rights and operation rights

Concession rights and operation rights acquired in a business combination are recognised separately from goodwill and initially recognised at fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, concession rights and operation rights are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Amortisation for the concession rights and operation rights with finite useful lives is provided on straight-line basis over their estimated useful lives. Both period and method of amortisation are reviewed annually.

Research and development expenditure

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Intangible assets *(Continued)*

Research and development expenditure *(Continued)*

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

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

(f) Service concession arrangements

The Group has entered into certain service concession arrangements with governmental authority (the "Grantor") in the PRC, on a build-operate-transfer ("BOT") basis under its provision of environmental protection services segment. The service concession arrangements generally involve the Group as an operator (i) constructing kitchen wastes recycling treatment plant and municipal sewage sludge treatment plant (the "Plants") for those arrangements on a BOT basis; and (ii) operating and maintaining the Plants at a specified level of serviceability on behalf of the relevant governmental authority for a period of 30 years (the "Service Concession Periods"), and the Group will be paid for its services over the relevant Service Concession Periods at prices stipulated through a pricing mechanism. At the end of the Service Concession Periods, the Group needs to transfer the Plants to the Grantor at nil consideration.

Consideration received or receivable by the Group for the construction services

Consideration received or receivable by the Group for the construction services rendered under service concession arrangement are recognised at their fair value as a financial asset or an intangible asset.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Service concession arrangements *(Continued)*

Consideration received or receivable by the Group for the construction services *(Continued)*

A financial asset (loan and receivable) is recognised to the extent that (a) the Group has an unconditional right to receive cash or another financial asset from or at the direction of the Grantor for the construction services rendered; and (b) the Grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law.

An intangible asset (concession rights) is recognised to the extent that the Group receives a right to charge customers of the services, which is not an unconditional right to receive cash because the amounts are contingent on the extent that the customers use the services. The intangible asset (concession rights) is accounted for in accordance with the policy set out in Note 3(e).

Construction or upgrade services

Revenue and costs relating to construction or upgrade services are accounted for in accordance with the policy set out in Note 3(g).

Operating services

Revenue relating to operating services are accounted for in accordance with the policy set out in Note 3(g).

Contractual obligations to restore the infrastructure to a specified level of serviceability

The Group has contractual obligations which it must fulfill as a condition of its licenses, that is (a) to maintain the Plants that it operates to a specified level of serviceability and/or (b) to restore the Plants to a specified condition before they are handed over to the Grantor at the end of the service concession arrangements. These contractual obligations to maintain or restore the Plants are recognised and measured in accordance with the policy set out in Note 3(t).

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Revenue recognition

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

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

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

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

Revenue relating to construction services under a service concession arrangement is recognised based on the stage of completion of the work performed.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Revenue recognition *(Continued)*

Operation or service revenue is recognised in the period in which the services are provided by the Group. When the Group provides more than one service in a service concession arrangement, the consideration received is allocated by reference to the relative fair values of the services delivered.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

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

(h) Property, plant and equipment

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

(i) Prepaid lease payments

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

(j) Impairment losses on tangible and intangible assets

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

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

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(k) Leasing

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Leasing *(Continued)*

The Group as lessee

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

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

Leasehold land and building

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Foreign currencies

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Borrowing costs

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

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

(n) Government grants

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

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

As explained in Note 25, certain government grants obtained are treated as deferred revenue in the consolidated statement of financial position and credited to profit or loss in accordance with conditions set by the government body.

(o) Taxation

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Taxation *(Continued)*

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for business combination.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Inventories

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

(q) Retirement benefits costs

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Equity-settled share-based payment transactions

Share options granted to consultants

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

(s) Financial instruments

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

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

Financial assets

The Group's financial assets are classified into available-for-sale financial assets ("AFS financial assets") and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Financial instruments *(Continued)*

Financial assets *(Continued)*

Effective interest method

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

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

AFS financial assets

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Financial instruments *(Continued)*

Financial assets *(Continued)*

AFS financial assets (Continued)

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

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

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

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

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered and the definitions of a financial liability and an equity instrument. The Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities.

Equity instruments

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

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

Other financial liabilities

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Financial instruments *(Continued)*

Financial liabilities and equity instruments *(Continued)*

Effective interest method

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

Interest expense is recognised on an effective interest basis other than financial liabilities classified as at FVTPL, of which the interest expense is included in net gains or losses.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

(u) Related parties

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

(i) has control or joint control of the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

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

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Related parties *(Continued)*

(b) *(Continued)*

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

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

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

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

4 KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Income taxes

As at 31 December 2017, a deferred tax asset of approximately HK$2,084,000 (2016: approximately HK$4,428,000) in relation to unused tax losses of approximately HK$12,632,000 (2016: approximately HK$22,366,000) has been recognised in the Group's consolidated statement of financial position. No deferred tax asset has been recognised on the tax losses of approximately HK$699,772,000 (2016: approximately HK$601,207,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are more or less than expected, a material recognition or reversal of deferred tax asset may arise, which would be recognised in profit or loss for the period in which such a recognition or reversal takes places.

4 KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Useful lives and impairment of property, plant and equipment

The Group's management determines the estimated useful lives of its property, plant and equipment based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated. The impairment loss for property, plant and equipment is recognised for the amount by which the carrying amount exceeds its recoverable amount. The carrying amount of property, plant and equipment at 31 December 2017 is approximately HK$956,735,000 (2016: approximately HK$660,497,000). More details are given in Note 12.

Impairment of goodwill and other intangible assets

Determining whether goodwill and other intangible assets are impaired requires an estimation of future cash flows expected to arise from the products developed and services provided and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. The carrying amounts of goodwill and other intangible assets at 31 December 2017 are approximately HK$538,050,000 (2016: approximately HK$533,515,000) and approximately HK$261,590,000 (2016: approximately HK$101,651,000) respectively with no impairment loss recognised.

Allowances for inventories

The management reviews the condition of the inventories of the Group and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sale and use in production. The management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of each reporting period as well as ageing analysis of the inventory and makes allowance for obsolete items. If the market conditions were deteriorating and more obsolete and slow-moving inventory items being identified, additional allowances may be required. As at 31 December 2017, the carrying amount of inventories is approximately HK$750,830,000 (2016: approximately HK$572,992,000). More details are given in Note 19.

Estimated impairment of trade receivables

The policy for impairment of trade receivables of the Group is based on the evaluation of the collectability and aged analysis of trade receivables and on the judgement of management. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of the customers. Management reassesses the estimation at each of the end of the reporting period. As at 31 December 2017, the carrying amount of trade receivables is approximately HK$351,025,000 (2016: approximately HK$255,779,000), net of allowance for doubtful debts of approximately HK$8,719,000 (2016: approximately HK$8,708,000). More details are given in Note 20.

4 KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Provision for warranties

The policy for provision of warranties of the Group is based on the management's best estimate of the Group's liabilities under a 12-month warranty period granted on the sale of dyeing and finishing machines based on past experience. The actual settlement may differ from the estimation made by the management. If the amounts are settled for an amount greater than management's estimation, a future charge to profit or loss will result. Likewise, if the amounts are settled for an amount that is less than estimation, a future credit to profit or loss will result. As at 31 December 2017, the carrying amount of warranty provision is approximately HK$15,963,000 (2016: approximately HK$16,287,000). The movement of the warranty provision for the year is set out in Note 23.

Fair value of identifiable assets and liabilities acquired through business combination

The Group applies acquisition method to account for business combination, which requires the Group to record assets acquired and liabilities assumed at their fair values on the date of acquisition. Significant judgement is used to estimate the fair values of the assets and liabilities acquired.

5 REVENUE AND SEGMENT INFORMATION

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

1. Manufacture and sale of dyeing and finishing machines

2. Trading of stainless steel supplies

3. Manufacture and sale of stainless steel casting products

4. Provision of environmental protection services

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment revenues and results

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

For the year ended 31 December 2017

	Manufacture and sale of dyeing and finishing machines HK$'000	Trading of stainless steel supplies HK$'000	Manufacture and sale of stainless steel casting products HK$'000	Provision of environmental protection services HK$'000	Total HK$'000
REVENUE					
External sales	2,669,616	305,023	425,737	3,446	3,403,822
Inter-segment sales	145	228,785	35,541	–	264,471
Segment revenue	2,669,761	533,808	461,278	3,446	3,668,293
Elimination					(264,471)
Group revenue					3,403,822
Segment profit	299,678	13,731	56,457	4,623	374,489
Interest income					13,581
Finance costs					(37,274)
Share of results of an associate					(4)
Profit before tax					350,792

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment revenues and results *(Continued)*

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

For the year ended 31 December 2016

	Manufacture and sale of dyeing and finishing machines HK$'000	Trading of stainless steel supplies HK$'000	Manufacture and sale of stainless steel casting products HK$'000	Provision of environmental protection services HK$'000	Total HK$'000
REVENUE					
External sales	2,431,684	290,443	403,560	–	3,125,687
Inter-segment sales	1,893	153,817	29,903	–	185,613
Segment revenue	2,433,577	444,260	433,463	–	3,311,300
Elimination					(185,613)
Group revenue					3,125,687
Segment profit	149,151	6,536	29,919	–	185,606
Interest income					2,206
Finance costs					(36,699)
Profit before tax					151,113

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

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

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities

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

As at 31 December 2017

	Manufacture and sale of dyeing and finishing machines HK$'000	Trading of stainless steel supplies HK$'000	Manufacture and sale of stainless steel casting products HK$'000	Provision of environmental protection services HK$'000	Total HK$'000
ASSETS					
Segment assets	2,587,531	160,797	482,083	227,679	3,458,090
Unallocated corporate assets					813,020
Consolidated total assets					4,271,110
LIABILITIES					
Segment liabilities	1,155,090	41,962	80,329	94,673	1,372,054
Unallocated corporate liabilities					1,247,465
Consolidated total liabilities					2,619,519

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

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

As at 31 December 2016

	Manufacture and sale of dyeing and finishing machines HK$'000	Trading of stainless steel supplies HK$'000	Manufacture and sale of stainless steel casting products HK$'000	Provision of environmental protection services HK$'000	Total HK$'000
ASSETS					
Segment assets	2,015,663	152,240	378,817	–	2,546,720
Unallocated corporate assets					975,702
Consolidated total assets					3,522,422
LIABILITIES					
Segment liabilities	927,675	36,021	86,091	–	1,049,787
Unallocated corporate liabilities					1,138,541
Consolidated total liabilities					2,188,328

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

- all assets are allocated to operating segments other than available-for-sale financial assets, investment in an associate, deferred tax assets, tax recoverable as well as cash and cash equivalents; and
- all liabilities are allocated to operating segments other than tax liabilities, deferred tax liabilities and borrowings.

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

Other segment information

For the year ended 31 December 2017

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

	Manufacture and sale of dyeing and finishing machines HK$'000	Trading of stainless steel supplies HK$'000	Manufacture and sale of stainless steel casting products HK$'000	Provision of environmental protection services HK$'000	Total HK$'000
Additions to non-current assets excluding investment in an associate, deferred tax assets and available-for-sale financial assets	**245,209**	**2,377**	**35,194**	**30,565**	**313,345**
Depreciation and amortisation	**44,575**	**1,293**	**15,700**	**1,454**	**63,022**
Gain on disposal of property, plant and equipment	**(62)**	**(317)**	**–**	**–**	**(379)**
Allowance (reversal of allowance) for inventories, net	**990**	**–**	**(1,618)**	**–**	**(628)**
Allowance (reversal of allowance) for doubtful debts, net	**272**	**(973)**	**287**	**–**	**(414)**

For the year ended 31 December 2016

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

	Manufacture and sale of dyeing and finishing machines HK$'000	Trading of stainless steel supplies HK$'000	Manufacture and sale of stainless steel casting products HK$'000	Provision of environmental protection services HK$'000	Total HK$'000
Additions to non-current assets excluding deferred tax assets and available-for-sale financial assets	172,026	1,423	61,738	–	235,187
Depreciation and amortisation	57,419	1,559	16,909	–	75,887
(Gain) loss on disposal of property, plant and equipment	(704)	437	–	–	(267)
(Reversal of allowance) allowance for inventories, net	(10,940)	–	5,991	–	(4,949)
(Reversal of allowance) allowance for doubtful debts, net	(196)	706	–	–	510

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

Other segment information *(Continued)*

Reconciliation for earnings before interest, tax, depreciation and amortisation and share of results of an associate to profit before tax is as follows:

	2017 HK$'000	2016 HK$'000
Earnings before interest, tax, depreciation and amortisation and share of results of an associate of business segments	**437,511**	261,493
Depreciation of property, plant and equipment	**(53,774)**	(68,038)
Amortisation of prepaid lease payments	**(5,239)**	(5,344)
Amortisation of intangible assets	**(4,009)**	(2,505)
Operating profit	**374,489**	185,606
Interest income	**13,581**	2,206
Finance costs	**(37,274)**	(36,699)
Share of results of an associate	**(4)**	–
Profit before tax	**350,792**	151,113

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

Other segment information *(Continued)*

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

Segment assets are summarised as below:

	2017 HK$'000	2016 HK$'000
Segment assets as allocated by business segments	**3,458,090**	2,546,720
Unallocated assets:		
Available-for-sale financial assets	**186,332**	174,640
Investment in an associate	**29,718**	–
Deferred tax assets	**20,482**	10,665
Tax recoverable	**3,290**	138
Cash and cash equivalents	**573,198**	790,259
Total assets as per consolidated statement of financial position	**4,271,110**	3,522,422

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

Segment liabilities are summarised as below:

	2017 HK$'000	2016 HK$'000
Segment liabilities as allocated by business segments	**1,372,054**	1,049,787
Unallocated liabilities:		
Tax liabilities	**31,758**	25,202
Deferred tax liabilities	**54,820**	23,701
Borrowings	**1,160,887**	1,089,638
Total liabilities as per consolidated statement of financial position	**2,619,519**	2,188,328

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

Geographical information

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

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

	Revenue from external customers		Non-current assets	
	2017 HK$'000	2016 HK$'000	**2017 HK$'000**	2016 HK$'000
The PRC	**1,420,080**	1,162,061	**1,855,852**	1,346,909
Hong Kong	**301,812**	347,705	**6,414**	7,859
Asia Pacific (other than the PRC and Hong Kong)	**921,184**	926,459	**96**	117
Europe	**437,694**	384,108	**175,300**	171,604
North and South America	**210,160**	201,840	**–**	4
Others	**112,892**	103,514	**–**	–
	3,403,822	3,125,687	**2,037,662**	1,526,493

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

No revenue generated from any single customer amounted to 10% or more of the Group's revenue for the years ended 31 December 2017 and 2016.

6 FINANCE COSTS

	2017 HK$'000	2016 HK$'000
Interest on borrowings	**34,724**	31,759
Less: Interest capitalised	**(5,589)**	(5,905)
	29,135	25,854
Bank charges	**8,139**	10,845
	37,274	36,699

Finance costs on funds borrowed generally are capitalised at a rate ranging from 2.25% to 4.25% (2016: 2.78% to 4.25%) per annum.

7 INCOME TAX EXPENSE

	2017 HK$'000	2016 HK$'000
Hong Kong Profits Tax:		
Current year	**9,865**	9,837
(Over) under-provision in prior years	**(270)**	23
PRC Corporate Income tax:		
Current year	**49,104**	36,848
Over-provision in prior years	**(5,825)**	(113)
Overseas income tax:		
Current year	**1,180**	2,128
Under-provision in prior years	**1,036**	2,630
	55,090	51,353
Deferred tax (Note 18):		
Current year	**12,614**	8,471
	67,704	59,824

7 INCOME TAX EXPENSE *(Continued)*

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

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

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

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

	2017 **HK$'000**	2016 HK$'000
Profit before tax	**350,792**	151,113
Tax at the Hong Kong Profits Tax rate of 16.5%	**57,881**	24,934
Tax effect of:		
– expenses that are not deductible for tax purpose	**12,957**	17,500
– income that are not taxable for tax purpose	**(26,110)**	(8,016)
– tax losses not recognised	**15,750**	17,794
– different tax rates of subsidiaries operating in other jurisdictions	**(2,440)**	(2,526)
– utilisation of tax losses previously not recognised	**(3,055)**	(3)
– other deferred tax temporary differences previously not recognised	**(3,436)**	–
(Over) under-provision in prior years, net	**(5,059)**	2,540
Withholding tax on distributed/undistributed earnings	**19,400**	6,693
Write-down of deferred tax assets	**1,279**	1,541
Others	**537**	(633)
Income tax expense for the year	**67,704**	59,824

8 PROFIT FOR THE YEAR

	2017 HK$'000	2016 HK$'000
Profit for the year has been arrived at after (crediting) charging:		
Other income:		
Claims and compensation received	**–**	(6)
Income from scraps sale	**(4,318)**	(4,164)
Government grants	**(7,372)**	(6,912)
Write off of other payables	**(17,852)**	(6,322)
Others	**(3,090)**	(2,199)
Total other income	**(32,632)**	(19,603)
Other (gains) losses:		
Gain on disposal of property, plant and equipment	**(379)**	(267)
Foreign exchange (gain) loss, net	**(15,576)**	8,298
Gain on deregistration of a subsidiary	**(6,991)**	–
Total other (gains) losses	**(22,946)**	8,031
Amortisation of intangible assets	**4,009**	2,505
Amortisation of prepaid lease payments	**5,239**	5,344
Depreciation of property, plant and equipment	**53,774**	68,038
Total depreciation and amortisation	**63,022**	75,887
Reversal of allowance for inventories (included in cost of sales)	**(628)**	(4,949)
(Reversal of allowance) allowance for doubtful debts, net	**(414)**	510
Auditor's remuneration	**3,329**	3,882
Cost of inventories recognised as an expense	**1,515,635**	1,413,253
Research and development costs	**45,638**	63,552
Staff costs, including directors' emoluments		
Salaries, wages and other benefits	**689,647**	676,442
Retirement benefits scheme contributions	**54,881**	52,138
Total staff costs	**744,528**	728,580

9 DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

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

2017	Note	Fees HK$'000	Salaries and other benefits HK$'000	Retirement benefits scheme contributions HK$'000	Total emoluments HK$'000
Executive Directors					
Ye Maoxin		–	–	–	–
Ji Xin		–	4,940	18	4,958
Du Qianyi	(iii)	–	2,234	18	2,252
Non-executive Director					
Fong Kwok Leung, Kevin	(i)	180	1,200	–	1,380
Independent Non-executive Directors					
Li Jianxin		200	–	–	200
Ying Wei		200	–	–	200
Yuen Ming Fai		180	–	–	180
Total		760	8,374	36	9,170

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

(a) Directors' emoluments *(Continued)*

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

2016	Note	Fees HK$'000	Salaries and other benefits HK$'000	Retirement benefits scheme contributions HK$'000	Total emoluments HK$'000
Executive Directors					
Ye Maoxin		–	–	–	–
Ji Xin		–	4,940	18	4,958
Wan Wai Yung	(ii)	–	2,000	72	2,072
Fong Kwok Leung, Kevin	(i)	–	1,676	126	1,802
Du Qianyi	(iii)	–	1,602	13	1,615
Non-executive Director					
Fong Kwok Leung, Kevin	(i)	45	300	–	345
Independent Non-executive Directors					
Li Jianxin		200	–	–	200
Ying Wei		200	–	–	200
Yuen Ming Fai		180	–	–	180
Total		625	10,518	229	11,372

Notes:

(i) Re-designated as Non-executive Director on 1 October 2016
(ii) Resigned on 12 April 2016
(iii) Appointed on 18 April 2016

For the years ended 31 December 2017 and 2016, no Director waived any emoluments and no incentive was paid to any Directors as an induction to join the Company.

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

(b) Employees' emoluments

The five individuals whose emoluments were the highest in the Group for the year include two (2016: three) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2016: two) individuals during the year are as follows:

	2017	2016
	HK$'000	HK$'000
Salaries and other benefits	**7,130**	4,766
Retirement benefits scheme contribution	**321**	200
	7,451	4,966

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

Emolument bands	**Number of individual**	
	2017	2016
HK$		
2,000,001 – 2,500,000	**2**	1
2,500,001 – 3,000,000	**1**	1

(c) Senior management's emoluments

The emoluments paid or payable to the senior management fell within the following bands:

Emolument bands	**Number of individual**	
	2017	2016
HK$		
Below 1,000,000	**1**	1
1,000,001 – 1,500,000	**–**	–
1,500,001 – 2,000,000	**2**	4
2,000,001 – 2,500,000	**3**	1
2,500,001 – 3,000,000	**1**	1

10 DIVIDENDS

	2017 HK$'000	2016 HK$'000
Proposed final dividend:		
8 HK cents (2016: 3.5 HK cents) per share	**88,017**	38,508
Interim dividend:		
3 HK cents (2016: Nil) per share	**33,006**	–
	121,023	38,508

The final dividend in respect of the year ended 31 December 2017 of 8 HK cents (2016: 3.5 HK cents) per share has been proposed by the Directors and is subject to the approval at the forthcoming annual general meeting of the Company.

The interim dividend in respect of the year ended 31 December 2017 of 3 HK cents (2016: Nil) per share has been paid during the year.

11 EARNINGS PER SHARE

(a) Basic earnings per share

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

	2017 HK$'000	2016 HK$'000
Profit for the year attributable to owners of the Company for the purpose of calculation of basic earnings per share	**281,263**	91,289
	'000	'000
Weighted average number of ordinary shares:		
Issued ordinary shares at 1 January	**1,102,892**	1,102,892
Effect of repurchase of shares	**(2,293)**	–
Weighted average number of ordinary shares at 31 December	**1,100,599**	1,102,892

11 EARNINGS PER SHARE *(Continued)*

(b) Diluted earnings per share

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

	2017	2016
	HK$'000	HK$'000
Profit for the year attributable to owners of the Company for the purpose of calculation of diluted earnings per share	**281,263**	91,289
	'000	'000
Weighted average number of ordinary shares in issue for the purpose of calculation of basic earnings per share	**1,100,599**	1,102,892
Effect of diluted potential ordinary shares as a result of the share options granted (Note)	**1,716**	–
Weighted average number of ordinary shares in issue for the purpose of calculation of diluted earnings per share	**1,102,315**	1,102,892

Note:

No adjustment has been made to the basic earnings per share as the outstanding share options had anti-dilutive effect on the basic earnings per share for the year ended 31 December 2016. The computation of diluted earnings per share for the year ended 31 December 2016 does not assume the exercise of the Company's outstanding share options as the exercise prices were higher than the average market price of the Company's ordinary shares and also the performance conditions for the exercise of the share options were not met.

12 PROPERTY, PLANT AND EQUIPMENT

	Freehold land HK$'000	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture and equipment HK$'000	Motor vehicles HK$'000	Moulds and tools HK$'000	Construction in progress HK$'000	Total HK$'000
COST									
At 1 January 2016	7,952	469,509	17,208	433,939	150,314	35,786	77,659	89,956	1,282,323
Currency realignment	(334)	(30,537)	(2,166)	(27,676)	(8,559)	(1,469)	(5,153)	(6,059)	(81,953)
Reclassification	–	–	–	1,393	–	–	–	(1,393)	–
Additions	–	–	561	21,508	9,956	239	4,146	190,126	226,536
Disposals/write off	–	(196)	(434)	(20,220)	(4,510)	(316)	(681)	–	(26,357)
At 31 December 2016 and 1 January 2017	7,618	438,776	15,169	408,944	147,201	34,240	75,971	272,630	1,400,549
Currency realignment	1,101	29,456	827	25,901	13,106	1,435	4,896	18,062	94,784
Reclassification	–	–	–	5,408	(759)	–	–	(4,649)	–
Additions	–	–	72	10,185	8,331	3,384	3,385	259,059	284,416
Acquisition of subsidiaries (Note 27)	–	–	–	–	3,960	1,064	–	23,905	28,929
Disposals/write off	–	–	(247)	(6,636)	(3,505)	(2,234)	(427)	–	(13,049)
At 31 December 2017	8,719	468,232	15,821	443,802	168,334	37,889	83,825	569,007	1,795,629
ACCUMULATED DEPRECIATION									
At 1 January 2016	–	256,424	14,313	294,558	107,957	27,284	49,200	–	749,736
Currency realignment	–	(17,577)	(2,100)	(22,421)	(7,210)	(1,214)	(3,679)	–	(54,201)
Provided for the year	–	13,997	1,316	27,804	11,780	3,492	9,649	–	68,038
Eliminated on disposals/write off	–	(186)	(88)	(17,993)	(4,344)	(294)	(616)	–	(23,521)
At 31 December 2016 and 1 January 2017	–	252,658	13,441	281,948	108,183	29,268	54,554	–	740,052
Currency realignment	–	17,691	812	23,020	10,240	1,258	3,709	–	56,730
Provided for the year	–	9,953	779	22,506	10,193	2,563	7,780	–	53,774
Eliminated on disposals/write off	–	–	(235)	(5,918)	(2,915)	(2,194)	(400)	–	(11,662)
At 31 December 2017	–	280,302	14,797	321,556	125,701	30,895	65,643	–	838,894
CARRYING VALUE									
At 31 December 2017	8,719	187,930	1,024	122,246	42,633	6,994	18,182	569,007	956,735
At 31 December 2016	7,618	186,118	1,728	126,996	39,018	4,972	21,417	272,630	660,497

12 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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

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

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

	2017 **HK$'000**	2016 HK$'000
Buildings on land under long-term leases located in the PRC	**632**	643
Buildings on land under medium-term leases located in the PRC	**180,275**	179,035
Freehold land and buildings in Europe	**15,742**	14,058
	196,649	193,736

None of the property, plant and equipment is pledged as at 31 December 2017 and 2016.

13 PREPAID LEASE PAYMENTS

	2017	2016
	HK$'000	HK$'000
The Group's prepaid lease payments comprise:		
Leasehold land in the PRC:		
Long-term leases	**1,471**	1,403
Medium-term leases	**230,103**	221,952
	231,574	223,355
Analysed for reporting purposes as:		
Current asset	**5,473**	5,159
Non-current asset	**226,101**	218,196
	231,574	223,355

Movement in prepaid lease payments

	2017	2016
	HK$'000	HK$'000
At beginning of the year	**223,355**	243,467
Currency realignment	**13,458**	(14,774)
Additions	**–**	6
Amortisation of prepaid lease payments	**(5,239)**	(5,344)
At end of the year	**231,574**	223,355

None of the prepaid lease payments is pledged as at 31 December 2017 and 2016.

14 GOODWILL

	2017 HK$'000	2016 HK$'000
At beginning of the year	**533,515**	533,515
Additions arising from business combination (Note 27)	**4,535**	–
At end of the year	**538,050**	533,515

Goodwill acquired through business combination has been allocated to the cash-generating units ("CGUs") that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill had been allocated as follow:

	HK$'000
Dyeing and finishing machines	533,515
Environmental protection services	4,535
	538,050

The recoverable amount of the CGU related to dyeing and finishing machine is determined from value-in-use calculations. The key assumptions for the value-in-use calculations of the CGU are those regarding the discount rate and growth rate. The Group prepares cash flow forecasts derived from the most recent financial budgets of 5 years and extrapolates cash flows for the following five years with growth rate of 3% (2016: 5%) assuming the existing level of sales and production remaining the same and a discount rate of 10.73% (2016: 10.73%) per annum. Cash flows beyond the 5-year period are extrapolated using estimated growth rates which are consistent with prior year and the forecasts in same industry. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

15 INTANGIBLE ASSETS

	Intellectual property rights HK$'000	Trademarks and licenses HK$'000	Concession rights HK$'000	Operation rights HK$'000	Total HK$'000
COST					
At 1 January 2016	36,435	90,727	–	–	127,162
Currency realignment	(362)	–	–	–	(362)
Additions	8,645	–	–	–	8,645
At 31 December 2016 and 1 January 2017	44,718	90,727	–	–	135,445
Currency realignment	1,197	–	–	–	1,197
Acquisition of subsidiaries (Note 27)	–	–	107,207	55,784	162,991
At 31 December 2017	45,915	90,727	107,207	55,784	299,633
ACCUMULATED AMORTISATION					
At 1 January 2016	31,384	–	–	–	31,384
Currency realignment	(95)	–	–	–	(95)
Provided for the year	2,505	–	–	–	2,505
At 31 December 2016 and 1 January 2017	33,794	–	–	–	33,794
Currency realignment	240	–	–	–	240
Provided for the year	2,645	–	1,096	268	4,009
At 31 December 2017	36,679	–	1,096	268	38,043
CARRYING VALUE					
At 31 December 2017	9,236	90,727	106,111	55,516	261,590
At 31 December 2016	10,924	90,727	–	–	101,651

Amortisation of approximately HK$4,009,000 (2016: approximately HK$2,505,000) is included in "administrative and other expenses" in profit or loss.

Intellectual property rights above have finite useful lives, over which the assets are amortised. The amortisation rates of intellectual property rights range from 6% to 20% per annum.

15 INTANGIBLE ASSETS *(Continued)*

Concession rights represent rights to operate kitchen wastes recycling treatment plant and municipal sewage sludge treatment plant under service concession arrangements for a period of 30 years. Those concession rights are amortised on a straight-line basis according to the remaining beneficial periods of such facilities of approximately 26 years.

Operation rights with finite useful lives represent governmental permits or contractual arrangements which grant the operator to construct and operate animal carcass processing facilities for a period of 30 years. Those operation rights are amortised on straight-line basis according to the remaining beneficial periods of such facilities of approximately 29 years.

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

16 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2017 **HK$'000**	2016 HK$'000
Unlisted equity investment, at cost	**186,332**	174,640

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

17 INVESTMENT IN AN ASSOCIATE

	2017 **HK$'000**	2016 HK$'000
At beginning of the year	**–**	–
Cost of unlisted investment in an associate	**29,722**	–
Post-acquisition loss and reserves for the year	**(4)**	–
At end of the year	**29,718**	–

17 INVESTMENT IN AN ASSOCIATE *(Continued)*

Particulars of the Group's associate at the end of the reporting period are as follows:

Name of Company	Form of business structure	Place of incorporation/ operation	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by a subsidiary	Principal activities
Yantai Yelin Textile Technology Co., Ltd. 煙臺業林紡織科技有限公司 ("Yantai Yelin") (Note (a))	Incorporated	The PRC	25% (2016: N/A)	25% (2016: N/A)	Printing, dyeing and finishing of high-end fabrics business

Note:

(a) Yantai Yelin was newly incorporated on 2 May 2017 and principally engages in the business of printing, dyeing and finishing of high-end fabrics.

The Group's associate is accounted for using the equity method in these consolidated financial statements.

The summarised financial information in respect of the associate, Yantai Yelin, is set out below:

	2017 HK$'000
Gross amounts of the associate:	
Current assets	118,935
Non-current assets	32
Current liabilities	(93)
Total equity	118,874

17 INVESTMENT IN AN ASSOCIATE *(Continued)*

	2017 HK$'000
Revenue	267
Profit for the year	(16)
Reconciled to the Group's interest in the associate:	
Gross amounts of net assets of the associate	118,874
Group's effective interest	25%
Group's share of net assets of the associate	29,718
Carrying amount of the Group's interest in the associate	29,718

18 DEFERRED TAXATION

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

	2017 HK$'000	2016 HK$'000
Deferred tax assets	20,482	10,665
Deferred tax liabilities	(54,820)	(23,701)
	(34,338)	(13,036)

18 DEFERRED TAXATION *(Continued)*

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

	Accelerated tax depreciation HK$'000	Provisions HK$'000	Allowance for doubtful debts HK$'000	Tax losses HK$'000	Unrealised profit for inventories HK$'000	Distributable profit of PRC subsidiaries HK$'000	Defined benefit obligation HK$'000	Total HK$'000
At 1 January 2016	6,324	–	(5,198)	(9,783)	191	13,848	(241)	5,141
(Credit) charge to profit or loss	(590)	–	–	5,133	–	3,928	–	8,471
Credit to other comprehensive income	–	–	–	–	–	–	(819)	(819)
Currency realignment	–	–	–	222	–	–	21	243
At 31 December 2016 and 1 January 2017	5,734	–	(5,198)	(4,428)	191	17,776	(1,039)	13,036
(Credit) charge to profit or loss	(161)	(5,778)	474	2,344	(191)	17,552	(1,626)	12,614
Charge to other comprehensive income	–	–	–	–	–	–	258	258
Acquisition of subsidiaries (Note 27)	8,816	–	–	–	–	–	–	8,816
Currency realignment	–	–	–	–	–	–	(386)	(386)
At 31 December 2017	14,389	(5,778)	(4,724)	(2,084)	–	35,328	(2,793)	34,338

At the end of the reporting period, the Group had unused tax losses of approximately HK$712,404,000 (2016: approximately HK$623,573,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK$12,632,000 (2016: approximately HK$22,366,000) of such losses. No deferred tax asset has been recognised in respect of the remaining approximately HK$699,772,000 (2016: approximately HK$601,207,000) due to unpredictability of future profit streams.

The Group has tax losses arising in Switzerland of approximately HK$35,289,000 (2016: approximately HK$46,371,000) that will expire in one to seven years for offsetting against future taxable profits. The Group also has tax losses arising in the PRC of approximately HK$125,884,000 (2016: approximately HK$106,698,000) that will expire in one to five years for offsetting against future taxable profits. Other losses may be carried forward indefinitely.

Under the Corporate Income Tax Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. A deferred tax liability of approximately HK$35,328,000 (2016: approximately HK$17,776,000) has been provided for in the consolidated financial statements in respect of such temporary differences.

19 INVENTORIES

	2017 HK$'000	2016 HK$'000
Raw materials	**461,853**	352,173
Work in progress	**196,861**	139,561
Finished goods	**92,116**	81,258
	750,830	572,992

The cost of inventories recognised as expenses and included in 'cost of sales' amounted to approximately HK$1,515,635,000 (2016: approximately HK$1,413,253,000) (see Note 8). Reversal of allowance for inventories recognised during the year, as included in 'cost of sales', amounted to approximately HK$628,000 (2016: approximately HK$4,949,000) (see Note 8).

20 TRADE AND OTHER RECEIVABLES

	2017 HK$'000	2016 HK$'000
Trade receivables	**359,744**	264,487
Less: Allowance for doubtful debts	**(8,719)**	(8,708)
	351,025	255,779
Bills receivable	**144,991**	83,086
	496,016	338,865
Other receivables	**168,109**	103,211
Total trade and other receivables	**664,125**	442,076

The Group allows an average credit period of 60 days (2016: 60 days) to its trade customers.

At the end of the reporting period, the carrying amount of outstanding bills receivable of approximately HK$Nil (2016: approximately HK$139,000) has been discounted to banks. If the bills receivable are not paid at maturity, the banks have the rights to request the Group to pay the unsettled balance. As the Group has not transferred the significant risks and rewards relating to these bills receivable, it continues to recognise the full amount of the bills receivable and has recognised the cash received on the transfer as unsecured borrowings (see Note 24). The Group continues to present the discounted bills receivable until maturity.

20 TRADE AND OTHER RECEIVABLES *(Continued)*

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

	2017	2016
	HK$'000	HK$'000
0 – 60 days	**275,731**	199,516
61 – 90 days	**51,720**	40,711
Over 90 days	**23,574**	15,552
	351,025	255,779

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

Included in the Group's trade receivable balances are debtors with aggregate carrying amount of approximately HK$87,276,000 (2016: approximately HK$56,263,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. For those past due but not impaired receivables, although no collateral is held, the Group has assessed the creditworthiness, past payment history and substantial settlement after the end of the reporting period, and considered that the credit quality is satisfactory. Accordingly, no impairment has been provided.

20 TRADE AND OTHER RECEIVABLES *(Continued)*

Ageing of trade receivables which are past due but not impaired

	2017 **HK$'000**	2016 HK$'000
Overdue by:		
1 – 30 days	**60,877**	40,711
31 – 60 days	**14,091**	7,750
Over 60 days	**12,308**	7,802
	87,276	56,263

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

Movement in the allowance for doubtful debts

	2017 **HK$'000**	2016 HK$'000
At beginning of the year	**8,708**	8,665
Impairment losses recognised on receivables	**731**	938
Amounts written off as uncollectible	**–**	(467)
Amounts recovered during the year	**(1,145)**	(428)
Currency realignment	**425**	–
At end of the year	**8,719**	8,708

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of approximately HK$8,719,000 (2016: approximately HK$8,708,000) which have either been placed under liquidation or in severe financial difficulties. The Group does not hold any collateral over these balances.

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

20 TRADE AND OTHER RECEIVABLES *(Continued)*

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

	2017	2016
	HK$'000	HK$'000
HKD	**40,171**	49,813
USD	**141,173**	110,900
EUR	**156,640**	108,189
RMB	**157,859**	69,826
Others	**173**	137
	496,016	338,865

21 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents

Bank balances, with original maturity less than 3 months, carry interest at market rates which range from 0.01% to 3.4% (2016: 0.01% to 3.5%) per annum.

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

	2017	2016
	HK$'000	HK$'000
HKD	**88,244**	148,475
USD	**56,790**	189,290
EUR	**60,763**	52,028
RMB	**357,798**	392,784
INR	**3,825**	3,180
Others	**5,778**	4,502
	573,198	790,259

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

21 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION *(Continued)*

(b) Reconciliation of liabilities arising from financing activities

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

	Interest payable included in other payables HK$'000	**Borrowings** HK$'000	**Total** HK$'000
At 1 January 2017	736	1,089,638	1,090,374
Changes from financing cash flows:			
New borrowings raised	–	1,594,422	1,594,422
Repayment of borrowings	–	(1,558,840)	(1,558,840)
Acquisition of subsidiary	–	35,667	35,667
Interest paid	(35,235)	–	(35,235)
Total changes from financing cash flows	(35,235)	71,249	36,014
Other changes:			
Interest expenses	29,135	–	29,135
Interest capitalised	5,589	–	5,589
Total other changes	34,724	–	34,724
At 31 December 2017	225	1,160,887	1,161,112

Note: Borrowings consist of bank loans, trust receipts loans and discounted bills with recourse as disclosed in Note 24.

22 TRADE AND OTHER PAYABLES

	2017 HK$'000	2016 HK$'000
Trade payables	**255,915**	142,057
Receipts in advance	**279,034**	234,171
Amount due to ultimate holding company (Note i)	**4,518**	2,451
Other payables and accrued charges	**776,509**	629,064
	1,315,976	1,007,743
Amount due after one year included under non-current liabilities (Note ii)	**(356,004)**	(222,236)
	959,972	785,507

Notes:

(i) The amount due is unsecured, interest-free and repayable on demand.

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

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

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

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

On 22 December 2014, FNES received the first installment payment of RMB100 million.

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

22 TRADE AND OTHER PAYABLES *(Continued)*

Notes: *(Continued)*

(ii) *(Continued)*

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

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

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

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

In 2016, the Project Company had requested FNES to agree to a further deferral of the third installment payment of the cash compensation on or before 30 September 2017.

On 13 April 2016, it was conditionally agreed in writing ("Second Supplemental Agreement") to defer the third installment payment subject to the approval of the shareholders of the Company. The Second Supplemental Agreement was approved by the shareholders at the special general meeting of the Company held on 25 May 2016.

Details on the further variation of the terms of the Urban Renewal Project were disclosed in the Company's circular dated 6 May 2016.

On 30 September 2016 and 29 September 2017, FNES received the second and third installment payments of RMB100 million each respectively.

The Directors considered the installments received will only be realised more than one year with the completion of the Urban Renewal Project, and therefore classified it as non-current liabilities at the end of the reporting period.

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

	2017 **HK$'000**	2016 HK$'000
0 – 90 days	**213,368**	110,406
91 – 120 days	**15,617**	24,621
Over 120 days	**26,930**	7,030
	255,915	142,057

22 TRADE AND OTHER PAYABLES *(Continued)*

The average credit period on purchase of goods is 90 days (2016: 90 days). The Group has financial risk management policies in place to ensure that all payables are within the credit time frame.

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

	2017 **HK$'000**	2016 HK$'000
HKD	**15,582**	12,665
USD	**23,090**	18,421
EUR	**68,116**	37,091
RMB	**147,538**	73,110
CHF	**249**	330
Others	**1,340**	440
	255,915	142,057

23 WARRANTY PROVISION

	2017 **HK$'000**	2016 HK$'000
At beginning of the year	**16,287**	16,099
Provision for the year	**21,609**	24,875
Utilisation of provision	**(22,691)**	(24,337)
Currency realignment	**758**	(350)
At end of the year	**15,963**	16,287

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

24 BORROWINGS

	2017 HK$'000	2016 HK$'000
Unsecured bank borrowings comprise the following:		
– Bank loans	**1,085,676**	1,027,266
– Trust receipts loans	**75,211**	62,233
– Discounted bills with recourse	**–**	139
	1,160,887	1,089,638
Analysed for reporting purpose:		
– Non-current	**100,000**	80,000
– Current	**1,060,887**	1,009,638
	1,160,887	1,089,638

The contractual maturity dates of the borrowings are as follows:

	2017 HK$'000	2016 HK$'000
Carrying amounts repayable*:		
Within one year	**125,211**	112,371
More than one year, but not exceeding two years	**30,000**	50,000
More than two years, but not exceeding five years	**70,000**	30,000
	225,211	192,371
Carrying amounts of bank borrowings contain a repayment on demand clause that are repayable (shown under current liabilities)*:		
Within one year	**373,330**	587,590
More than one year, but not exceeding two years	**379,703**	112,803
More than two years, but not exceeding five years	**182,643**	196,874
	935,676	897,267
	1,160,887	1,089,638
Less: Amounts due within one year shown under current liabilities	**(1,060,887)**	(1,009,638)
Amounts shown under non-current liabilities	**100,000**	80,000

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

24 BORROWINGS *(Continued)*

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

	2017 %	2016 %
Unsecured bank loans and trust receipts loans	**2.80**	2.54
Discounted bills with recourse	**–**	1.94

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

	2017 HK$'000	2016 HK$'000
HKD	**1,085,676**	858,859
USD	**75,211**	230,209
EUR	**–**	570
	1,160,887	1,089,638

25 DEFERRED REVENUE

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

	2017 HK$'000	2016 HK$'000
At beginning of the year	**25,757**	5,281
Received during the year	**3,732**	23,685
Recognised as other income during the year	**(3,506)**	(2,784)
Acquisition of subsidiaries (Note 27)	**12,441**	–
Currency realignment	**1,691**	(425)
At end of the year	**40,115**	25,757

26 SHARE CAPITAL AND RESERVES

a. Movements in components of equity

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

b. Share capital of the Company

	2017 Number of shares	2017 HK$'000	2016 Number of shares	2016 HK$'000
Authorised:				
Ordinary shares of HK$0.05 each	**2,000,000,000**	**100,000**	2,000,000,000	100,000
Issued and fully paid:				
At 1 January	**1,102,892,570**	**55,145**	1,102,892,570	55,145
Repurchase and cancellation of shares (Note)	**(2,676,000)**	**(134)**	–	–
At 31 December	**1,100,216,570**	**55,011**	1,102,892,570	55,145

Note:

Pursuant to the general mandate given to the Directors, the Company repurchased 436,000 and 2,240,000 of its own shares through the Stock Exchange on 13 February 2017 and 24 February 2017 respectively at a total consideration of approximately HK$5,273,000. The repurchased shares were cancelled on 15 March 2017. Details of the ordinary shares repurchased on the Stock Exchange during the year are as follows:

Month of repurchase	Number of ordinary shares repurchased	Highest purchase price per ordinary share (HK$)	Lowest purchase price per ordinary share (HK$)
February 2017	2,676,000	1.99	1.88

27 BUSINESS COMBINATION

On 27 October 2017, the Group completed the acquisition of 51% equity interest in Beijing CSCE Environmental Engineering Technology Co., Ltd. and its subsidiaries (collectively known as the "CSCE Group") at a consideration of RMB20,655,000 (equivalent to approximately HK$24,556,000). The CSCE Group is principally engaged in providing full spectrum of services (such as contracting, advisory and operation management services) on municipal wastewater and solid waste treatment projects (including kitchen wastes recycling treatment plant and innocuous animal carcass processing facilities and municipal sewage sludge treatment plant etc.).

27 BUSINESS COMBINATION *(Continued)*

The fair values of the identifiable assets and liabilities of the CSCE Group acquired as at the date of acquisition was as follows:

	HK$'000
Property, plant and equipment (Note 12)	28,929
Intangible assets (Note 15)	162,991
Deferred tax assets (Note 18)	4,223
Inventories	281
Trade and other receivables	32,470
Cash and cash equivalents	326
Trade and other payables	(128,815)
Bank borrowings	(35,667)
Deferred revenue (Note 25)	(12,441)
Deferred tax liabilities (Note 18)	(13,039)
	39,258
Non-controlling interests	(19,237)
Net assets acquired	20,021
Consideration transferred:	
Satisfied by cash consideration	19,742
Consideration payable included in other payables and accruals	4,814
Consideration transferred	24,556
Goodwill arising on acquisition:	
Consideration for acquisition	24,556
Less: Fair value of identifiable net assets acquired	(20,021)
Goodwill arising on acquisition	4,535
Net cash outflow arising on acquisition:	
Cash consideration paid	19,742
Less: Cash and cash equivalents acquired	(326)
Net cash outflow arising on acquisition	19,416

27 BUSINESS COMBINATION *(Continued)*

Acquisition-related costs are considered immaterial.

The goodwill of approximately HK$4,535,000 arises from a number of factors. Most significant amongst these is the premium attributable to a pre-existing, well positioned business operating in a competitive market. Other important elements included expected synergies through combining a highly skilled workforce and obtaining economies of scale. None of the goodwill is deductible for income tax purpose.

The newly acquired business contributed a revenue of approximately HK$3,446,000 to the Group and contributed a profit of approximately HK$3,725,000 to the Group for the period between the date of acquisition and the end of reporting period.

Had the acquisition been completed on 1 January 2017, the Group's revenue for the year would have been approximately HK$3,428,738,000, and the profit for the year would have been approximately HK$277,158,000. The proforma financial information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been completed on 1 January 2017 nor is intended to be a projection of future results.

28 SERVICE CONCESSION ARRANGEMENTS

During the year, the Group completed the acquisition of 51% equity interest in the CSCE Group at a consideration of RMB20,655,000 (equivalent to approximately HK$24,556,000). The CSCE Group entered into several service concession arrangements with local governments (the "Grantor") to construct and operate the kitchen wastes recycling treatment plant and municipal sewage sludge treatment plant during the concession period, which is normally for 30 years of operation. The Group is responsible for construction and maintenance of the plants during the concession period. At the end of the concession period, the Group needs to transfer the plants to the Grantor at nil consideration. Service concession construction revenue recorded during the year represents the revenue recognised during the construction stage of the service concession period. The same amount of cost is recorded since substantially all construction activities are sub-contracted. During the year ended 31 December 2017, there is no additional construction work incurred for service concession arrangements, and correspondingly no revenue and cost of service concession has been recognised in profit or loss.

The Group has recognised intangible assets (Note 15) related to the service concession arrangements representing the rights the Group receives to charge a fee for provision of services. The Group has not recognised service concession receivables as the Grantor will not provide the Group any guaranteed minimum payment for the operating period of the plants.

The Group recognises the intangible assets at the fair value of the concession construction service and amortises the intangible assets over the remaining operating period of the service concession projects.

29 CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of net debt, which includes borrowings disclosed in Note 24 less cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and retained earnings.

Certain bank borrowings of the Group include covenants that require the maintenance of certain financial ratios. As at 31 December 2017, no financial ratio covenant was breached.

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

30 FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2017	2016
	HK$'000	HK$'000
Financial assets:		
Loans and receivables (including cash and cash equivalents)	**1,145,811**	1,150,354
Available-for-sale financial assets	**186,332**	174,640
	1,332,143	1,324,994
Financial liabilities:		
Amortised cost	**1,841,825**	1,626,854

30 FINANCIAL INSTRUMENTS *(Continued)*

b. Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale financial assets, trade and other receivables, bank balances, trade and other payables and borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk (currency risk)

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

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

	Liabilities		**Assets**	
	2017 HK$'000	2016 HK$'000	**2017 HK$'000**	2016 HK$'000
USD	**107,208**	248,630	**198,158**	299,534
HKD	**–**	–	**15,705**	32,176
EUR	**31,676**	9,651	**30,648**	30,875
RMB	**35**	–	**6,826**	10,175

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

30 FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk (currency risk) *(Continued)*

The following table details the Group's sensitivity to a 5% increase and decrease in the relevant functional currencies against the foreign currencies. 5% is the sensitivity rate which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive (negative) number below indicates an increase (decrease) in post-tax profit (2016: an increase in post-tax profit) where respective functional currencies weakening 5% against the relevant foreign currencies. For a 5% strengthen of respective functional currencies against the relevant foreign currencies, there would be an equal and opposite impact on the post-tax profit (2016: profit).

	USD		HKD		EUR		RMB	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Increase (decrease) in profit for the year*	**2,175**	8,887	**656**	1,343	**(50)**	886	**284**	425

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

Market risk (interest rate risk)

The Group's cash flow interest rate risk relates to the bank balances and borrowings with floating interest rates. The Group is exposed to interest rate risk through the impact of rate changes on interest-bearing bank balances and borrowings. The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings. The Group currently does not use derivatives to hedge against the interest rate risk. However, the Group will monitor interest rate exposure and consider hedging significant interest rate exposure should the need arise.

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

30 FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk (interest rate risk) *(Continued)*

Sensitivity analysis

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

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2017 would decrease/increase by approximately HK$2,463,000 (2016: approximately HK$1,667,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank balances and borrowings.

Credit risk

As at 31 December 2017, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to a failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors of the Company consider that the Group's credit risk is significantly reduced.

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

Liquidity risk

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

30 FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk *(Continued)*

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

Liquidity tables

	Weighted average interest rate	On demand or within 1 year	1 – 2 years	2 – 5 years	Total undiscounted cash flows	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2017						
Non-derivative financial liabilities						
Trade and other payables	–	680,938	–	–	680,938	680,938
Borrowings						
– variable rate	2.80	1,061,766	33,425	70,088	1,165,279	1,160,887
		1,742,704	33,425	70,088	1,846,217	1,841,825
2016						
Non-derivative financial liabilities						
Trade and other payables	–	537,216	–	–	537,216	537,216
Borrowings						
– variable rate	2.56	1,012,814	51,900	30,181	1,094,895	1,089,638
		1,550,030	51,900	30,181	1,632,111	1,626,854

30 FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk *(Continued)*

Liquidity tables (Continued)

Bank loans with a repayment on demand clause are included in the "on demand or within 1 year" time band in the above maturity analysis. As at 31 December 2017 and 2016, the aggregate undiscounted principal amounts of these bank loans amounted to approximately HK$935,676,000 and approximately HK$897,267,000 respectively. Taking into account the Group's financial position, the Directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The Directors believe that such bank loans will be repaid within 3 years after the reporting date in accordance with the scheduled repayment dates set out in the loan agreements as set out in this table below:

	Weighted average interest rate	On demand or within 1 year	1 – 2 years	2 – 5 years	Total undiscounted cash flows	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2017						
Bank borrowings						
– variable rate	2.78	394,376	393,703	193,231	981,310	935,676
2016						
Bank borrowings						
– variable rate	2.56	598,502	118,324	199,541	916,367	897,267

At that time, the aggregate principal and interest cash outflows will amount to approximately HK$981,310,000 (2016: approximately HK$916,367,000).

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

30 FINANCIAL INSTRUMENTS *(Continued)*

c. Fair value

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

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

31 SHARE OPTION SCHEME

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

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

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

31 SHARE OPTION SCHEME *(Continued)*

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

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

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

A summary of the movements of the share options, which were granted under the Scheme during the years ended 31 December 2016 and 2017, were as follows:

	Number of share options								
	As at 1 January 2016	Granted	Exercised	Adjustment for the share subdivision	As at 31 December 2016	% of issued share capital	Date of grant	Exercise price (Note ii) HK$	Note
Grantee (Note i):									
Qi Yuan Investment (Hong Kong) Limited	27,500,000	–	–	–	27,500,000	2.49	22 April 2015	1.95	(iii)
Qi Yuan Investment (Hong Kong) Limited	27,500,000	–	–	–	27,500,000	2.49	22 April 2015	2.50	(iii)
Total	55,000,000	–	–	–	55,000,000	4.98			

	Number of share options								
	As at 1 January 2017	Granted	Exercised	Adjustment for the share subdivision	As at 31 December 2017	% of issued share capital	Date of grant	Exercise price (Note ii) HK$	Note
Grantee (Note i):									
Qi Yuan Investment (Hong Kong) Limited	27,500,000	–	–	–	27,500,000	2.50	22 April 2015	1.95	(iii)
Qi Yuan Investment (Hong Kong) Limited	27,500,000	–	–	–	27,500,000	2.50	22 April 2015	2.50	(iii)
Total	55,000,000	–	–	–	55,000,000	5.00			

31 SHARE OPTION SCHEME *(Continued)*

Notes:

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

(ii) As a result of the share subdivision becoming effective on 22 May 2015, the exercise prices of the share options were adjusted from HK$3.90 to HK$1.95 and from HK$5.00 to HK$2.50 respectively.

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

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

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

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

In total, approximately HK$7,412,000 of share option expense has been recognised in profit or loss for the year ended 31 December 2017 (2016: approximately HK$5,699,000) and the corresponding amount of which has been credited to share option reserve.

32 CAPITAL COMMITMENTS

	2017 HK$'000	2016 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of the acquisition of:		
Property, plant and equipment	**54,549**	19,534
Leasehold land	**113,223**	106,119
	167,772	125,653

33 OPERATING LEASES

Minimum lease payments paid under operating leases for rented premises during the year amounted to approximately HK$18,667,000 (2016: approximately HK$16,565,000).

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

	2017 HK$'000	2016 HK$'000
Within one year	**17,607**	16,724
In the second to fifth year inclusive	**24,881**	37,869
	42,488	54,593

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

34 RETIREMENT BENEFITS SCHEME

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

Schemes in Hong Kong

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

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

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

The aggregate employers' contributions which have been dealt with in profit or loss of the Group amounted to approximately HK$3,934,000 (2016: approximately HK$4,255,000).

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

34 RETIREMENT BENEFITS SCHEME *(Continued)*

Scheme in the PRC

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

The total cost charged to profit or loss for the scheme in the PRC amounted to approximately HK$38,639,000 (2016: approximately HK$36,557,000).

Scheme in Germany

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

The total cost charged to profit or loss for the scheme in Germany amounted to approximately HK$9,113,000 (2016: approximately HK$8,783,000).

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

For the year ended 31 December 2017, the defined benefit plan is valued using the projected unit credit method in accordance with HKAS 19, which was prepared by a qualified actuary, the fair value of the defined benefit obligation is approximately HK$33,252,000 (2016: approximately HK$27,583,000). During the year, the service costs and interest expenses of approximately HK$472,000 (2016: approximately HK$448,000) and approximately HK$352,000 (2016: approximately HK$488,000) respectively were recognised in profit or loss, the remeasurement gain of approximately HK$1,350,000 (2016: loss of approximately HK$3,773,000) was recognised in other comprehensive income.

34 RETIREMENT BENEFITS SCHEME *(Continued)*

Scheme in Switzerland

In Switzerland, the Group is obliged to contribute to a basic pension plan on a monthly basis at 5.125% of the employee's gross income plus administrative charges.

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

The total cost charged to profit or loss for the Plan in Switzerland amounted to approximately HK$99,000 (2016: approximately HK$97,000).

Scheme in Austria

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

The total cost charged to profit or loss for the scheme in Austria amounted to approximately HK$2,987,000 (2016: approximately HK$2,344,000).

35 RELATED PARTY DISCLOSURES

The Company is a subsidiary of CHTC, a State-owned enterprise under the direct supervision and administration of, and is beneficially owned by, the SASAC. Accordingly, the Company and the Group are ultimately controlled by the PRC government.

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

	2017 HK$'000	2016 HK$'000
Related parties in which a Director of the Company has control (Note a)		
Other income	–	2
Related parties in which a close member of a Director of the Company has control		
Rental paid	12,120	10,032
Related parties in which a Director of the Company has significant influence		
Purchase of materials	17,967	2,378
Fellow subsidiaries		
Sales of goods	18,627	18,625
Interest income received (Note b)	9,366	–
Commission paid	–	116
Research and development costs	1,259	–
Purchase of materials	571	38
Ultimate holding company		
Other income received	79	228

Notes:

(a) The Director resigned on 12 April 2016.

(b) On 23 January 2017, Fong's National Engineering (Shenzhen) Company, Limited (立信染整機械(深圳)有限公司) ("FNES"), an indirect wholly-owned subsidiary of the Company, entered into an entrusted loan agreement with a lending bank and Hengtian Real Estate Company Limited (恒天地產有限公司) ("Hengtian Real Estate"), a related party of the Company's parent company. According to the agreement, the bank agreed to provide a loan of RMB80,000,000 (equivalent to approximately HK$90,944,000) to Hengtian Real Estate on behalf of FNES. The interest rate of the loan was 11% per annum and the accrued interest was paid on a quarterly basis on 21 March, 21 June, 21 September and 29 December respectively during the term. The loan was guaranteed by two subsidiary companies of Hengtian Real Estate. Hengtian Real Estate repaid the loan in one lump sum on 29 December 2017.

35 RELATED PARTY DISCLOSURES *(Continued)*

At the end of the reporting period, CHTC undertakes that it will be at all times maintain an aggregate beneficial ownership (directly or indirectly) of not less than 51% in the issued share capital of the Company throughout the terms of certain banking facilities granted to the Group.

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

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

	2017 **HK$'000**	2016 HK$'000
Within one year	**11,520**	11,520
In the second to fifth year inclusive	**11,520**	23,040
	23,040	34,560

35 RELATED PARTY DISCLOSURES *(Continued)*

Compensation of key management personnel

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

	2017 HK$'000	2016 HK$'000
Short-term benefits	**39,788**	43,500
Post-employment benefits	**1,171**	1,340
	40,959	44,840

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

Government-related entities operated in the PRC

The Group has entered into various transactions, including deposits placements, borrowings and other general banking facilities, with certain banks and financial institutions which are state-controlled entities in its ordinary course of business. About 34% (2016: 30%) of its bank deposits and borrowings are with government-related entities. In view of the nature of those banking transactions, the Directors of the Company are of the opinion that separate disclosure would not be meaningful.

36 PARTICULARS OF PRINCIPAL SUBSIDIARIES

Name of Company	Place of incorporation or registration/ operations	Nominal value of issued capital/ registered capital	Equity interest attributable to the Company Direct 2017	Direct 2016	Indirect 2017	Indirect 2016	Principal activities
Fong's Manufacturers Company Limited	British Virgin Islands	US$10,000	**100%**	100%	**–**	–	Investment holding
Falmer Investments Ltd.	British Virgin Islands/ Hong Kong	US$1	**–**	–	**100%**	100%	Research and development
Fong's Engineering Services Company Limited	Hong Kong	HK$10,000	**–**	–	**100%**	100%	Trading of stainless steel products and provision of management services to group companies
Fong's National Engineering Company, Limited	Hong Kong	Ordinary – HK$100 Deferred – HK$8,000,000 (Note i)	**–**	–	**100%**	100%	Trading of dyeing and finishing machines
Fong's National Engineering (Shenzhen) Co., Ltd.* 立信染整機械（深圳）有限公司	The PRC	US$22,500,000	**–**	–	**100%**	100%	Manufacture and trading of dyeing and finishing machines
Fong's Steels Supplies Company Limited	Hong Kong	HK$10,000	**–**	–	**100%**	100%	Trading of stainless steel supplies
Leefull Metal (Shenzhen) Co., Ltd.* 立豐行金屬材料（深圳）有限公司	The PRC	RMB2,500,000	**–**	–	**100%**	100%	Trading of stainless steel supplies
Goller (HK) Limited	Hong Kong	HK$1	**–**	–	**100%**	100%	Trading of textile machinery
Tycon Alloy Industries (Hong Kong) Co., Ltd.	Hong Kong	HK$10,000	**–**	–	**100%**	100%	Trading of stainless steels casting products
Tycon Alloy Industries (Shenzhen) Co., Ltd.* 泰鋼合金（深圳）有限公司	The PRC	US$16,550,000	**–**	–	**100%**	100%	Manufacture and trading of stainless steels casting products
Fong's Europe GmbH	Germany	EUR1,900,000	**–**	–	**100%**	100%	Manufacture and trading of textile machinery and technical parts

36 PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of Company	Place of incorporation or registration/ operations	Nominal value of issued capital/ registered capital	Equity interest attributable to the Company Direct 2017	Direct 2016	Indirect 2017	Indirect 2016	Principal activities
Xorella AG	Switzerland	CHF350,000	**–**	–	**100%**	100%	Manufacture and trading of textile machinery and technical parts
CHTC International Environment Investment Limited (former known as "Fong's Water Technology Company Limited") (Note ii)	Hong Kong	HK$1,000,000	**–**	–	**100%**	100%	Providing services on recycling of wastewater
Fong's Water Technology & Conservation Equipment (Shenzhen) Co., Ltd.* 立信水務環保設備(深圳)有限公司	The PRC	US$2,000,000	**–**	–	**100%**	100%	Sale of water recycling system and providing services on recycling of wastewater
Fong's National Dyeing and Finishing Machinery (Macao Commercial Offshore) Co., Ltd.	Macau	MOP100,000	**–**	–	**100%**	100%	Trading of textile machinery
Fong's National Engineering (Guangdong) Co., Ltd.* 立信染整機械(廣東)有限公司	The PRC	US$35,500,000	**–**	–	**100%**	100%	Not yet commenced business
Fong's Steels (Zhongshan) Co., Ltd* 立信鋼材(中山)有限公司	The PRC	US$100,000	**–**	–	**100%**	100%	Not yet commenced business
Tycon Alloy Industries (Zhongshan) Co., Ltd.* 泰鋼合金(中山)有限公司	The PRC	US$25,000,000	**–**	–	**100%**	100%	Not yet commenced business
Monforts Fong's Textile Machinery Co., Limited	Hong Kong	HK$18,400,000	**–**	–	**100%**	100%	Manufacture and trading of textile machinery
Fong's Projects Holding Limited	British Virgin Islands	US$1,000	**–**	–	**100%**	100%	Investment holding
Monforts Fong's Textile Machinery (Macao Commercial Offshore) Co., Ltd.	Macau	MOP100,000	**–**	–	**100%**	100%	Manufacture and trading of textile machinery

36 PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of Company	Place of incorporation or registration/ operations	Nominal value of issued capital/ registered capital	Equity interest attributable to the Company Direct 2017	Direct 2016	Indirect 2017	Indirect 2016	Principal activities
Monforts Fong's Textile Machinery (Zhongshan) Co., Ltd.* 立信門富士紡織機械（中山）有限公司	The PRC	US$26,500,000	**–**	–	**100%**	100%	Manufacture and trading of textile machinery
A. Monforts Textilmaschinen GmbH & Co KG**	Germany	N/A	**–**	–	**N/A**	N/A	Manufacture and trading of textile machinery
Beijing CSCE Environmental Engineering Technology Co., Ltd. 北京中科潔能環境工程技術有限公司 (Note iii)	The PRC	RMB30,000,000	**–**	–	**51%**	–	Investment holding and consultancy service
Taian China Science Environmental Engineering Co., Ltd. 泰安中科環保工程有限公司 (Note iii)	The PRC	RMB60,000,000	**–**	–	**51%**	–	Providing services on municipal wastewater and solid waste treatment projects
Taian CSCE Environmental Engineering Technology Co., Ltd. 泰安中科潔能環境工程技術有限公司 (Note iii)	The PRC	RMB10,000,000	**–**	–	**51%**	–	Providing services on processing animal carcass and producing the related byproducts
Fujian Dachanghe Environmental Technology Co., Ltd. 福建大昌禾環保科技有限公司 (Note iii)	The PRC	RMB9,300,000	**–**	–	**45.9%**	–	Not yet commenced business

* A wholly foreign-owned enterprise in the PRC.

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

36 PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Notes:

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

(ii) The Certificate of Change of Name was issued by the Registrar of Companies of Hong Kong on 18 April 2017. Accordingly, the name of the company has been changed from “Fong’s Water Technology Company Limited” to “CHTC International Environment Investment Limited”.

(iii) On 27 October 2017, the Company acquired 51% equity interest in Beijing CSCE Environmental Engineering Technology Co., Ltd. and its subsidiaries. Please refer to Note 27 for details.

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

36 PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

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

Principal activities	Principal place of business	Number of subsidiaries 2017	2016
Manufacture and sale of dyeing and finishing machines	British Virgin Islands	**7**	8
	Chile	**1**	1
	Germany	**2**	2
	Hong Kong	**15**	16
	India	**1**	1
	Luxembourg	**1**	1
	The PRC	**3**	4
		30	33
Trading of stainless steel supplies	Hong Kong	**1**	1
		1	1
Manufacture and sale of stainless steel casting products	Hong Kong	**2**	2
	The United States of America	**1**	0
		3	2
Provision of environmental protection services	The PRC	**2**	0
		2	0

36 PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

The following table lists out the information relating to the subsidiaries of the Group which have non-controlling interests as at 31 December 2017. As at 31 December 2016, no subsidiary of the Group had non-controlling interests. The summarised financial information presented below represents the amounts before any inter-company elimination.

CSCE Group

	As at 31 December 2017 HK$'000
Non-controlling interests percentage	49%
Current assets	41,686
Non-current assets	196,531
Current liabilities	(169,835)
Non-current liabilities	(25,399)
Net assets	42,983
Carrying amount of non-controlling interests	21,062

	For the period from 27 October 2017 to 31 December 2017 HK$'000
Revenue	3,446
Profit for the year	3,725
Profit allocated to non-controlling interests	1,825
Cash flows generated from operating activities	4,684
Cash flows used in investing activities	(1,463)
Cash flows generated from financing activities	7,097

37 INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2017 **HK$'000**	2016 HK$'000
Unlisted investments in subsidiaries	**36,585**	36,585
Cash and cash equivalents	**1,143**	2,275
Amounts due from subsidiaries	**360,678**	390,514
Other receivables	**1,245**	1,318
Total assets	**399,651**	430,692
Current liabilities	**(1,392)**	(3,193)
Net assets	**398,259**	427,499
Share capital (Note 26(b))	**55,011**	55,145
Reserves	**343,248**	372,354
Total equity (Note a)	**398,259**	427,499

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

Note:

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

	Share capital HK$'000	**Share premium** HK$'000	**Capital redemption reserve** HK$'000	**Retained profits** HK$'000	**Contributed surplus** HK$'000	**Share option reserve** HK$'000	**Total** HK$'000
At 1 January 2016	55,145	157,261	2,370	199,522	23,033	3,503	440,834
Profit and total comprehensive income for the year	–	–	–	14,053	–	–	14,053
Effects of share options	–	–	–	–	–	5,699	5,699
Final dividend for 2015 paid	–	–	–	(33,087)	–	–	(33,087)
At 31 December 2016 and 1 January 2017	55,145	157,261	2,370	180,488	23,033	9,202	427,499
Profit and total comprehensive income for the year	–	–	–	40,135	–	–	40,135
Effects of share options (Note 31)	–	–	–	–	–	7,412	7,412
Repurchase and cancellation of shares (Note 26)	(134)	(5,139)	134	(134)	–	–	(5,273)
Final dividend for 2016 paid (Note 10)	–	–	–	(38,508)	–	–	(38,508)
Interim dividend for 2017 paid (Note 10)	–	–	–	(33,006)	–	–	(33,006)
At 31 December 2017	55,011	152,122	2,504	148,975	23,033	16,614	398,259

FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2013 HK$'000	2014 HK$'000	2015 HK$'000	2016 HK$'000	**2017** **HK$'000**
Revenue	3,757,496	3,415,269	3,223,012	3,125,687	**3,403,822**
Profit before tax	122,740	151,275	211,334	151,113	**350,792**
Income tax expense	(42,385)	(33,753)	(45,488)	(59,824)	**(67,704)**
Profit for the year	80,355	117,522	165,846	91,289	**283,088**
Profit (loss) attributable to:					
Owners of the Company	80,365	117,901	166,029	91,289	**281,263**
Non-controlling interests	(10)	(379)	(183)	–	**1,825**
	80,355	117,522	165,846	91,289	**283,088**

ASSETS AND LIABILITIES

	As at 31 December				
	2013 HK$'000	2014 HK$'000	2015 HK$'000	2016 HK$'000	**2017** **HK$'000**
Total assets	3,396,263	3,323,473	3,238,879	3,522,422	**4,271,110**
Total liabilities	(2,148,780)	(2,033,061)	(1,866,449)	(2,188,328)	**(2,619,519)**
	1,247,483	1,290,412	1,372,430	1,334,094	**1,651,591**
Equity attributable to owners of the Company	1,246,758	1,290,076	1,372,430	1,334,094	**1,630,529**
Non-controlling interests	725	336	–	–	**21,062**
	1,247,483	1,290,412	1,372,430	1,334,094	**1,651,591**