



**ATNT**

亞洲聯網科技  
有限公司

**Asia Tele-Net and Technology Corporation Limited**  
(Incorporated in Bermuda with limited liability)  
(Stock Code : 0679)

# ANNUAL REPORT 2017



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# Corporate Information

## BOARD OF DIRECTORS

LAM Kwok Hing, *M.H., J.P.*

*(Chairman & Managing Director)*

NAM Kwok Lun *(Deputy Chairman)*

KWAN Wang Wai Alan

*(Independent Non-executive Director)*

NG Chi Kin David

*(Independent Non-executive Director)*

CHEUNG Kin Wai

*(Independent Non-executive Director)*

## AUDIT COMMITTEE

NG Chi Kin David *(Committee Chairman)*

KWAN Wang Wai Alan

CHEUNG Kin Wai

## REMUNERATION COMMITTEE

NG Chi Kin David *(Committee Chairman)*

NAM Kwok Lun

KWAN Wang Wai Alan

## NOMINATION COMMITTEE

LAM Kwok Hing, *M.H., J.P. (Committee Chairman)*

NG Chi Kin David

CHEUNG Kin Wai

## COMPANY SECRETARY

YUNG Wai Ching

## AUTHORISED REPRESENTATIVES

LAM Kwok Hing, *M.H., J.P.*

NAM Kwok Lun

## AUDITOR

Deloitte Touche Tohmatsu

## LEGAL ADVISOR

Sidley Austin

## PRINCIPAL BANKERS

The Hongkong and Shanghai Banking  
Corporation Limited

DBS Bank (Hong Kong) Limited

## REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

11 Dai Hei Street

Tai Po Industrial Estate

Tai Po, New Territories

Hong Kong

Tel: (852) 2666 2288

Fax: (852) 2664 0717

## SHARE REGISTRARS AND TRANSFER OFFICES

### 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

## CORPORATE WEBSITE

[www.atnt.biz](http://www.atnt.biz)

## LISTING INFORMATION

Listing on the Hong Kong Stock Exchange  
(Main Board)

Stock Short Name: Asia Tele-Net

Stock Code: 679

Board Lot Size: 10,000 shares

# Chairman's Statement and Management Discussion and Analysis

## FINANCIAL RESULTS

During the year ended 31 December 2017 ("the Period Under Review"), the Group recorded profit attributable to owners of the Company of approximately HK\$209,483,000 compared to the profit attributable to owners of the Company of approximately HK\$761,996,000 for the year ended 31 December 2016 ("the Previous Period"), representing approximately 73% decrease. The significant drop in Group's profit attributable to owners of the Company during the Period Under Review was primarily due to (i) net gain on disposal of subsidiaries of nil (the Previous Period: HK\$62,803,000); (ii) reduced profit margin from 20% to 13% and (iii) net gain arising from change in fair value of the arrangement in relation to a site located at Longhua of approximately HK\$247,491,000 (the Previous Period: approximately HK\$733,016,000), representing gain on change in fair value of other asset of approximately HK\$194,704,000, gain on imputed interest of approximately HK\$113,786,000 less additional provision for deferred tax charge of approximately HK\$60,999,000. (please refer to "Property Re-development Plan in Longhua" below).

The basic earnings per share for the Period Under Review was HK\$0.49 compared to the basic earnings per share of HK\$1.79 for the Previous Period.

## FINANCIAL REVIEW

### Revenue

The revenue for the Period Under Review was approximately HK\$800,966,000 or 33% more than the Previous Period. Higher revenue reported during the Period Under Review was mainly due to increased sales in high-end communication device and automobile.

In terms of business segment, approximately 83.7% of the revenue was generated from PCB sector (the Previous Period: approximately 55.6%), approximately 16.3% came from surface finishing sector (the Previous Period: approximately 44.0%) and nil derived from solar cell sector (the Previous Period: 0.4%).

In terms of the machines geographical installation base, the revenue composition during the Period Under Review was 47% machine values were installed in PRC (the Previous Period: 57%), 30% in Taiwan (the Previous Period: 18%), 8% in Korea (the Previous Period: 2%), 6% in Thailand (the Previous Period: 1%), 3% in the India (the Previous Period: 0.3%), and 6% in rest of the world.

### Gross Profit

During the Period Under Review, the Group has introduced a new electroplating equipment named SCP line to meet the new plating process. While the introduction of new equipment helped to boost the revenue, we have also invested a substantial amount of cost and manpower in debugging various technical issues. Another factors contributing the drop in gross profit ratio are the bulk purchase discount we offered to our customers and the fact that the cost of labour and associated staff benefits are still on the rise trend. The average gross profit margin recorded a reduction from 20% from Previous Period to 13% for the Period Under Review.

# Chairman's Statement and Management Discussion and Analysis

## **Gain on change in fair value of Other Asset of approximately HK\$194,704,000**

References are made to (i) page 4 of 2016 annual report with respect to a gain on recognition of other asset of approximately HK\$999,560,000 for the rights to receive titles of 41,000 sq.m. marketable residential and commercial properties pursuant to agreements signed in October 2011 and (ii) the announcement of the Company dated 4 January 2017 in relation to the entering of the supplemental agreements ("Supplemental Agreements"). Following the announcement, a circular was issued on 15 February 2017 ("Circular") and an extraordinary general meeting was held on 2 March 2017 to approve the Supplemental Agreements. Under the terms of the Supplemental Agreements, instead of receiving titles of 41,000 sq.m. marketable residential and commercial properties, the Group will receive the guaranteed cash consideration of RMB1.23 billion and rights to receive the Additional Consideration (as defined in the Circular) if the average selling price is higher than RMB30,000 (net of value-added taxes) or RMB33,710 (inclusive of value-added taxes). As the terms of the Supplemental Agreements are materially different from the terms of the transactions previously approved by the Shareholders of the Company on 13 October 2011 for which the gain of HK\$999,560,000 was calculated, the Company has appointed an independent valuation company to determine the fair value for the rights entitled by the Group under the Supplemental Agreements.

Based on the valuation report, the fair value for the rights entitled under the Supplemental Agreements as at 31 December 2017 was more than the carrying value of the other asset as at 31 December 2016 by approximately HK\$194,704,000, hence a gain was recorded in the statement of the profit and loss during the year ended 31 December 2017. As GCC is carried at amortised cost, imputed interest of approximately HK\$113,786,000 is recognised as other income in the profit or loss during the year ended 31 December 2017.

As at 31 December 2017, the carrying amount of the Other Asset is approximately HK\$1,348,931,000 (including GCC of approximately HK\$1,083,245,000 and ACC of approximately HK\$265,686,000).

## **Gain on disposal of subsidiaries of approximately HK\$77,490,000 in year 2016**

Reference is made to the Company's announcement issued on 5 July 2016 and circular dated 14 October 2016, Happy Win Resources Limited ("Happy Win"), a direct wholly-owned subsidiary of the Company, entered into a disposal agreement with Fortune Able Investment Holdings Limited (the "Purchaser") and Shenzhen Feng Hua Construction Group Limited (the "Purchaser's Guarantor"), pursuant to which the Purchaser has agreed to acquire, and Happy Win has agreed to sell, the entire issued share capital of the PAL Properties Investment Limited and its subsidiaries together with all outstanding shareholder's loan standing as at completion, at a consideration of HK\$181,950,000.

The disposal was completed on 27 September 2016 and the Group recorded a net gain of approximately HK\$62,803,000 which represented gain on disposal of approximately HK\$77,490,000 after netting off the associated taxes of approximately HK\$14,687,000 in year 2016.

# Chairman's Statement and Management Discussion and Analysis

## Other gains and losses of approximately HK\$10,884,000

This represented (a) Net change in unrealized fair value gain of held-for-trading investments of approximately HK\$754,000 (the Previous Period: loss of HK\$11,308,000) (b) net exchange loss of approximately HK\$8,986,000 (the Previous Period: gain of HK\$5,733,000) (c) adjustment on non-current portion of the provision of performance bonus to the executive directors of the Company of approximately HK\$2,335,000 (the Previous Period: nil) and (d) loss on recognition of prepaid lease payments of nil (the Previous Period: HK\$7,036,000).

- (a) Net change in unrealized fair value gain of held-for-trading investments was approximately HK\$754,000 (the Previous Period: loss of HK\$11,308,000)

All held-for-trading investments were recorded at fair value as at 31 December 2017 and represented listed securities in Hong Kong. The unrealized fair value gain was not very significant. During the Period Under Review, Hang Seng Index increased from 22,000 as at 31 December 2016 to 29,919 as at 31 December 2017. Nevertheless, the increase in Hang Seng Index was highly concentrated on a few blue-chip listed securities such as Tencent.

Below are information of the Group's held-for-trading investments as at 31 December 2017:

Company Name/Stock Code	% of shareholding as at 31 December 2017	Fair value change HK\$'000	Fair value as at 31 December 2017 HK\$'000	% of Total Assets of the Group as at 31 December 2017	Fair value as at 31 December 2016 HK\$'000	% of Total Assets of the Group as at 31 December 2016
Shanghai Industrial Urban Development Group Ltd. (563)	0.13%	(260)	11,407	0.56%	9,734	0.60%
South China Financial Holdings Ltd. (619)	0.91%	(3,718)	5,921	0.29%	9,639	0.59%
South China Holdings Company Ltd (413)	0.20%	(162)	8,359	0.41%	8,521	0.52%
Orient Victory Travel Group Company Ltd. (265)	0.38%	6,790	13,822	0.68%	7,032	0.43%
South China Assets Holdings Ltd. (8155)	0.45%	(757)	2,824	0.14%	3,581	0.22%
Others		(1,139)	2,820	0.15%	3,835	0.23%
<b>Total</b>		754	45,153	2.23%	42,342	2.59%

# Chairman's Statement and Management Discussion and Analysis

- (b) Net exchange loss was approximately HK\$8,986,000 (the Previous Period: gain of HK\$5,733,000)

The net exchange loss was mainly due to (i) the exchange loss of approximately HK\$12,590,000 arising from intercompany transactions, (ii) exchange gain of approximately HK\$1,371,000 arising from revaluation of Euro-based receivable and bank balances and (iii) exchange gain of approximately HK\$2,133,000 from revaluation of RMB-based assets.

The production arm of the Group is based in China and normally bills the sales arm of the Group in Hong Kong Dollars. During the Period Under Review, RMB was appreciated by approximately 7.0% and hence the production arm of the Group recorded an exchange loss arising from the receivable which was denominated in Hong Kong dollars. At the same time, however, the Group recorded an exchange gain for its RMB-based assets.

During the Period Under Review, Euro was appreciated by approximately 14.4%. The Group recorded an exchange gain for its Euro-based receivable and bank balances.

- (c) Adjustment on non-current portion of the provision of performance bonus to the executive directors of the Company of approximately HK\$2,335,000

As at 31 December 2017, the non-current payable portion of provision of approximately HK\$44,647,000 (31 December 2016: HK\$29,854,000) represents the provision of performance bonus to the executive directors of the Company which is determined by the board of directors of the Company with reference to the net gain from the Other Asset. With the Supplemental Agreements became effective, the estimated timing of payment of the non-current portion of provision was revised and as such an adjustment of provision of approximately HK\$2,335,000 (the Previous Period: nil) was charged to profit or loss during the current period.

- (d) Loss on derecognition of prepaid lease payments of approximately HK\$7,036,000 in year 2016

Since the Group has returned the land titles of the Longhua Land to the local government in August 2016, the Group has written off the remaining prepaid lease payment in relation to the Longhua Land at approximately HK\$7,036,000 in year 2016.

No such transaction was recorded in year 2017.

# Chairman's Statement and Management Discussion and Analysis

## Other income of approximately HK\$119,151,000

This represented (a) interest and fees arising from a loan facility agreement of approximately HK\$2,572,000 (the Previous Period: nil) (b) interest received from bank deposits of approximately HK\$1,686,000 (the Previous Period: HK\$905,000) (c) imputed interest income of approximately HK\$113,786,000 (the Previous Period: nil).

### (a) Interest and fees arising from a loan facility agreement

Reference is made to the announcement of the Company dated 31 October 2016 and the circular dated 20 December 2016 in relation to the provision of revolving loan (the "Revolving Loan"). On 31 October 2016 (after trading hours), PAL Finance Limited, an indirect wholly owned subsidiary of the Company (the "Lender"), entered into a loan facility agreement with Karl Thomson Financial Group Limited (the "Borrower"), pursuant to which the Lender has agreed to provide a revolving loan facility of HK\$130,000,000 bearing interest at Prime Rate for a term from 6 January 2017 to 30 October 2019 (the "Loan Facility Agreement").

Pursuant to the Loan Facility Agreement, the Group has received interest income and handling fee income of approximately HK\$2,182,000 and HK\$390,000 respectively (the Previous Period: nil) received from the borrower.

### (b) Interest received from bank deposits

Interest income from bank deposits was approximately HK\$1,686,000 (the Previous Period: HK\$905,000).

### (c) Imputed interest income

Please refer to note 16 of the consolidated financial statements for more detailed explanation on the imputed interest income of approximately HK\$113,786,000 (the Previous Period: nil).

## Selling and Distribution Costs of approximately HK\$19,954,000

The selling and distribution costs represented exhibition and marketing expenses, product and public liability insurance cost and the respective personnel cost on the sales team. Cost in 2017 was 10% lower than in 2016. It was mainly due to decrease in personnel related cost.

## Administrative expenses of approximately HK\$103,553,000

The administrative expenses for the Period Under Review was 12% lower than the Previous Period. It was mainly due to the net effect of (a) decrease in provision for performance related incentive payments payable to executive directors of the Company, (b) increase in rental expenses and (c) increase in general expenses.



# Chairman's Statement and Management Discussion and Analysis

## (a) Provision for performance related incentive payments

Provision for performance related incentive payments is calculated by applying the pre-agreed percentage on (i) the net gain on recognition of Other Asset but after netting off associated taxes ("Net Gain on Other Asset") and discounted to present value and (ii) overall financial performance of the Group for a financial year but excluding Net Gain on Other Asset.

For the Period Under Review, provision for performance related incentive payments in relation to Net Gain on Other Asset was approximately HK\$11,269,000 (the Previous Period: HK\$29,854,000). Such provision was based on the assumptions that the Company shall receive the guaranteed cash consideration of RMB1.23 billion and Additional Consideration in accordance with the agreed timetable and terms under the Supplemental Agreements. No provision was made for performance related incentive payments in relation to overall financial performance of the Group but excluding Net Gain on Other Asset (the Previous Period: HK\$3,096,000).

## (b) Rental expenses

As disclosed in the 2015 interim report, in exchange for the Group agreeing to move out earlier from Longhua, the Counter Party will compensate the Group on dollar-to-dollar basis for cost incurred for such relocation (including but not limited to rent and management fees for the new factory). Therefore, the Group was not required to take up any rental expenses in 2015 and up to mid-August 2016. The Group has to pay for the rental expenses for the Period under Review. The rental expenses recorded in the Period Under Review was approximately HK\$10,050,000 (the Previous Period: HK\$3,775,000).

## (c) Increase in general expenses

After taking out the provision for performance related incentive payments and the increase in rental expenses as disclosed above, the remaining administrative expenses was approximately HK\$82,234,000 which was 1.4% higher than the Previous Period (the Previous Period: HK\$81,111,000).

Given the price pressure imposed by our customers, we exerted enormous effort in controlling our operating costs in order to drive an improved net profit after taxation. As a benchmark, the average inflation rates in China and Hong Kong for 2017 were 1.6%<sup>1</sup> and 1.7%<sup>2</sup> respectively.

## Finance cost of approximately HK\$1,202,000

This represented mainly the imputed interest expenses regarding the provision of performance related incentive payments of approximately HK\$1,189,000 (the Previous Period: nil).

Since the provision for performance related incentive payments in relation to Net Gain on Other Asset is discounted to present value, when the expected payment timetable comes closer, the present value of such incentive payments will be revised upwards. An imputed interest expense will arise accordingly.

<sup>1</sup> Inflation rate in China is reported by the National Bureau of Statistics of China.

<sup>2</sup> Inflation rate in Hong Kong is reported by Census and Statistics Department of Hong Kong.

# Chairman's Statement and Management Discussion and Analysis

## Taxation

Taxation of approximately HK\$70,504,000 (the Previous Period: HK\$287,428,000) represented mainly taxes paid by our wholly-owned subsidiaries in China and Taiwan.

As the Group recorded a gain on recognition of Other Asset of approximately HK\$194,704,000 (the Previous Period: HK\$999,560,000), the Group recorded a corresponding estimated taxes of approximately HK\$60,999,000 (the Previous Period: HK\$266,544,000).

## Exchange difference arising on translation of foreign operation of approximately HK\$75,613,000

This represented mainly the exchange difference arising on translation of operations in the PRC due to the appreciation in RMB (of approximately HK\$14,063,000) and revaluation of Other Asset (of approximately HK\$61,512,000). The currency translation reserve was increased at the same amount.

## Other Asset

Please refer to note 16 of the consolidated financial statements for more detailed explanation.

## Loans receivable under non-current assets

On 31 October 2016, the Group entered into a loan facility agreement with Karl Thomson Financial Group Limited ("KTFG"), which is a wholly owned subsidiary of Hoifu Energy Group Limited ("Hoifu"). Mr. Lam Kwok Hing, an executive director and a substantial shareholder of the Company, and Mr. Nam Kwok Lun, an executive director of the Company who has an indirect interest in the Company, are the directors of Hoifu. The Group provides an unsecured revolving loan facility of HK\$130,000,000 bearing interest at prime rate as announced from time to time by The Hongkong and Shanghai Banking Corporation Limited for lending Hong Kong Dollars for a term of three years commencing from the loan effective date and ending on 30 October 2019. As at 31 December 2017, a loan of HK\$60,000,000 (31 December 2016: nil) was drawn by KTFG according to the terms of the loan facility agreement. The average effective interest rate, which is equal to contractual interest rate, is 5% per annum.

## Held-for-trading investments under current assets

As at 31 December 2017, the Company had held-for-trading investment in listed securities in Hong Kong with a market value of approximately HK\$45,153,000, representing an investment portfolio of thirteen listed equities in Hong Kong. The Board acknowledges that the performance of the equities may be affected by the degree of volatility in the Hong Kong stock market and susceptible to other external factors that may affect their values. Accordingly, in order to mitigate possible financial risks related to the equities, the Board will continue to maintain a diversified investment portfolio across various segments of the market and also closely monitor the performance progress of its investment portfolio from time to time going forward.

Please also refer to above section named "Other gains and losses".

# Chairman's Statement and Management Discussion and Analysis

## **Creditor, bills payable and accrued charges under current liability**

The amount payable to creditors and payable for bills and accrued charges as at 31 December 2017 was HK\$282,930,000 which was 7% higher than the Previous Period. The increase was purely due to the increase in 2017 revenue and the material ordered for 2018 orders on hands.

## **Accrued charges of approximately HK\$44,647,000 under non-current liability**

Please refer to note (a) of administrative expenses stated in above. It was related to provision for performance related incentive payments payable and was calculated by applying the pre-agreed percentage on the net gain on recognition of Other Asset but after netting off associated taxes and discounted to present value.

## **Deferred taxation of approximately HK\$341,548,000 under non-current liability**

The Group has recorded a deferred taxation of approximately HK\$337,233,000 as estimated taxation expenses in relation to the expected gain arising from the arrangement in relation to a site located at Longhua.

The balance of approximately HK\$4,315,000 represented deferred tax liabilities recognized for accelerated tax depreciation of approximately HK\$1,239,000 and revaluation of properties of approximately HK\$3,076,000.

## **BUSINESS REVIEW ON ELECTROPLATING EQUIPMENT (UNDER THE TRADE NAME OF "PAL")**

### **Electroplating Equipment-Printed Circuit Boards ("PCB") Sector**

This sector is traded through our subsidiary Process Automation International Ltd ("PAL").

During the Period Under Review, the revenue in this business area increased from HK\$294,197,000 in Previous Period to HK\$585,982,000, representing 99% increase. Out of this total revenue, from the perspective of installation location, nearly 44% were shipments made to PRC (52% in Previous Period) and 35% were shipments made to Taiwan (35% in Previous Period).

The boost in revenue was mainly contributed by the launch of new smartphone models in Quarter 3 of 2017. During the Period Under Review, the Group has introduced a new electroplating equipment named SCP line to meet the new plating process "MSAP". MSAP is all about manufacturing 10-layer main build-up multilayer boards (alias HDI microvia boards) with filled vias and 30um line width. The MSAP boards are used in high-end smartphones such as Apple and Samsung with the advantage of reducing the overall size of the phone. Based on the available information on hands, there are seven PCB makers manufacturing these MSAP boards. They are Compeq, Unimicron and Kinsus from Taiwan, Ibiden from Japan, Zeng Ding Technology from China, TTM Technologies from USA and AT&S from Europe. The Group is supplying electroplating equipment to four PCB makers out of these seven. For the year 2016 and 2017, the Group has shipped 35 equipment in support the MSAP production.

# Chairman's Statement and Management Discussion and Analysis

In April 2017, Gartner has published a research showing the spending by device type.

Table 1. Worldwide End-User Spending by Device Type, 2016-2019 (in US\$ million)

Device Type	2016	2017	2018	2019
Traditional PCs (Desk-Based, Ultramobile Premium and Notebook)	163,906	<b>163,351</b>	166,259	169,192
Mobile Phones	382,859	<b>399,497</b>	408,170	423,558
Ultramobiles (Basic and Utility)	40,436	<b>36,286</b>	35,171	34,411
Total Device Market	587,201	<b>599,134</b>	609,600	627,161

Source: Gartner (April 2017)

The spending on mobile phones is expected to grow by 6% from 2017 to 2019 while spending on PCs is only 3%. This trend and the result of actual spending as stated above will explain why PCB makers are chasing after business from smartphone sector. It was estimated that Samsung and Apple may have used 18% 2017 PCB output and at an estimated value of US\$11 billion.<sup>3</sup>

We reported the estimated 2017 worldwide PCB output in March 2016. The estimated figures were revised by Dr. Nakahara in November 2017 as follows:-

Table 2: World PCB Output 2013-2017 (in US\$ million)

Major Regions	2013	2014	2015	2016	2017 (F)*
Americas	3,100	3,078	2,928	3,000	<b>3,135</b>
Germany	1,090	1,097	900	930	<b>980</b>
Other Europe	1,720	1,640	1,468	1,500	<b>1,510</b>
China**	26,551	28,200	28,605	28,030	<b>30,600</b>
Japan	6,300	5,930	5,092	5,240	<b>5,200</b>
Taiwan	8,155	7,850	7,810	7,500	<b>7,850</b>
S.Korea	8,870	7,597	6,700	6,890	<b>7,235</b>
Thailand	1,747	2,209	2,470	2,320	<b>2,680</b>
Other Asia	2,247	2,622	2,582	2,710	<b>2,945</b>
World Total	59,780	60,223	58,555	58,120	<b>62,135</b>

Source of information: New Technology Information Ltd, a consulting company specialized in PCB industry

\* Both 2016 & 2017 (F) were calculated using 2017 exchange rates for comparison purpose

\*\* The output recorded under the category "China" included output from Taiwanese PCB makers who set up production plants in China.

<sup>3</sup> Figures are quoted from research report issued by Dr. Nakahara in January 2018.

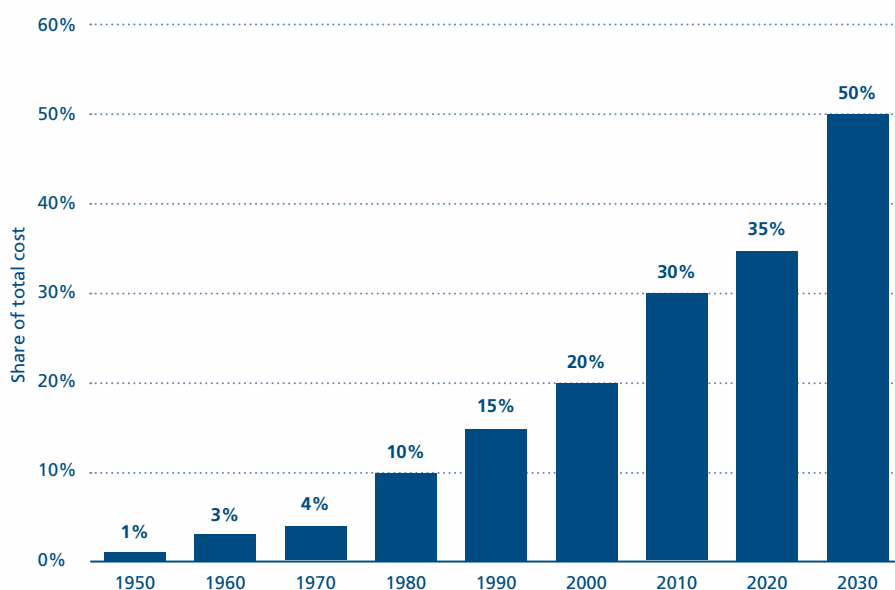
# Chairman's Statement and Management Discussion and Analysis

As far as 2017 figures are concerned, the report collides with our shipment geographical spread as China and Taiwan have long been the key markets for PAL. Without considering the effect of percentage of completion in accordance with the HKFRS and if one looks at the order value from the perspective of the origins of the customers' headquarters, nearly 51% were orders from Taiwanese PCB makers (Previous Period: 46%) while nearly 30% were orders from Western PCB makers (Previous Period: 19%). The latter installed their equipment mainly in China. The end products to be built from our electroplating equipment are mainly mobile phones PCBs and automotive PCBs.

While the Group delivered a record high result in term of revenue, the gross profit margin this year has dropped significantly due to the substantial cost involved in debugging various technical issues and assisted our customer in improving their yield ratio (良率). Another factor contributing the drop in gross profit ratio are the bulk purchase discount we offered to our customers.

The other driver for the sales of our PCB electroplating equipment is automotive electronics. Based on estimates by NXP/Freescale and Statista the electronic content of a car on a cost basis is approaching 35% now and will reach 50% by 2030.

Chart 3: Automotive electronics cost as a percentage of total car cost worldwide from 1950 to 2030



Source: [www.statista.com](http://www.statista.com)

The higher the percentage will bring in a higher PCB usage and hence the better prospect as far as our business is concern.

# Chairman's Statement and Management Discussion and Analysis

## Electroplating Equipment-Surface Finishing ("SF") Sector

This sector is traded through our subsidiary PAL Surface Treatment Systems Ltd ("PSTS").

The revenue of the SF sector has decreased by 51% from approximately HK\$233,013,000 in the Previous Period to approximately HK\$113,713,000 for the Period Under Review. Out of this total revenue, from the perspective of installation location, nearly 65% were shipments made to PRC (63% in Previous Period) and 19% were shipments made to India (nil in Previous Period).

Customers who bought our electroplating equipment for the Period Under Review are mainly plating companies who plate automobile parts and their headquarters are based in USA or Europe.

After nearly 15 years of remarkable growth, China's auto industry began to transition in 2017 from its high-growth phase to a maturity phase of development where growth is likely to be steady – but much slower in percentage terms. From 2002 to 2016, annual sales of trucks, buses and passenger cars in China grew at double-digit annual growth rates in most of the 14 years from approximately 2 million units to over 28 million units. In 2017, the industry grew at a much slower pace of 3%. The stagnant growth corresponds to the drop in the number of transplants from western countries to China.

Foreign direct investment (FDI) in China rose 7.9 percent to reach RMB878 billion in 2017, an all-time high. According to the Ministry of Commerce, 35,652 foreign-funded companies were set up in China in 2017, increased by 27.8 percent comparing to 2016. Nonetheless, the investment focus has gradually shifted from general manufacturing to high-tech and service industries.

The stagnant growth in automobile sector and shift of FDI away from traditional manufacturing sector have all added up and explained the retreat of revenue in surface finishing sector.

## Electroplating Equipment – Photo Voltaic ("PV" or "Solar") Sector

This sector is traded through our subsidiary Process Automation International Ltd ("PAL").

Sales to PV sector in the Period Under Review has decreased from approximately HK\$2,319,000 in the Previous Period to nil for the Period Under Review.

The solar market is undergoing consolidation. On the one hand, a lot of solar companies have declared bankruptcy in year 2017. Companies declaring bankruptcy protection in year 2017 includes Sungevity (Auckland-based), Suniva (Atlanta-based) and Solar World (Germany-based). According to corporate credit research company Teikoku Databank, which surveys companies across various industries and has produced its third report on solar PV company bankruptcies, 50 companies in Japan's solar sector have already gone out of business in the first six months of 2017. SunPower Corp. (one of the high efficiency producer) reported its sixth consecutive quarter of losses and laid off 25 percent of its workforce. On the other hand, there are companies that are doing well. First Solar (US based) just reported strong earnings while Vivint Solar (a US based residential solar provider) announced its expansion into Rhode Island. Both companies are very strong in terms of balance sheet and low in debt ratio. Jinko Solar 晶科能源, a Chinese company specializes in low-cost production and supply of solar panels with operations spanning across Europe, North America, and Asia, has recently announced a 47.8% year-over-year increase in solar module shipments. It's the third-largest solar module producer in the world. The company has a vertically integrated solar product value chain and has the full backing of the Chinese government.

# Chairman's Statement and Management Discussion and Analysis

Current solar market is mainly dominated by traditional silicon based panel which do not require electroplating process. Our equipment supports back contact solar panel (a high efficiency solar panel). This is the key reason why PAL did not get any major revenue from this sector in last few years. As such, the Group will stop reporting this sector starting from year 2018 until we see any drastic change in the technical direction in the future.

## Outlook

Looking back, main drivers of our equipment sales in PCB sector in 2016 and 2017 have been mobile phones and automotive electronics. 2018 looks to be repetitive. However, when interest rate is expected to rise in most of the countries, capital investment will be discouraged to some extent. The trade war currently unveiled by President Trump does not help the global economy at all as it will further create doubt and fears in the markets.

In March, USA has announced to impose tariffs on at least \$60 billion in Chinese imports, on top of the controversial steel and aluminum tariffs. The moves already have manufacturers in almost every state in USA bracing for blowback. Big manufacturers in USA could have to pay more for the steel they use to make plane engines, automobile parts and building materials. As a retaliation, China announced a \$3 billion reciprocal tariffs on 128 U.S. products. There is a general belief that the intention of this announcement is to deliver a warning to the US government. While we would not know how far this trade war may go, the stock markets have certainly re-acted unfavorably. Soon after President Trump announced this news, the Dow plummeted 724 points, or 2.9% and it was the fifth-largest point decline in history. The S&P 500 dropped 2.5% and the Nasdaq 2.4%. The Hang Seng Index slid 1.48%, or 460.80 points, to 30,563.45, meaning a weekly loss of 2.2%. The mainland's Shanghai Composite Index shed 0.59% to 3,254.53. Benchmarks in Japan and South Korea slid 1% and 2.50% respectively.

"A global trade war, whether it's real or perceived, is what's weighing on the market," said Ian Winer, head of equities at Wedbush Securities. "There's this huge uncertainty now. If China decides to get tough on agriculture or anything else, that will really spook people."

While macro-economies do not look very promising now, we do believe we could navigate the difficult situation through our internal strengths. The proven success of MSAP process in our equipment shall mean we will remain as a strong player in next round of new smartphone. In addition, given our track records, PAL and PSTS are always seen as a reliable partner in the eyes of our long-term customers. We believe our team would seize every possible opportunity when facing a downward business cycle as is expecting now in year 2018.

# Chairman's Statement and Management Discussion and Analysis

## PROPERTY DEVELOPMENT

### Property Re-development Plan in Longhua

Reference is made to the Company's announcements issued (i) on 22 August 2011 with respect to the agreement ("Agreement") entered into by a wholly-owned subsidiary of the Company with an independent third party ("Counter Party") in relation to a re-development plan ("Re-development") of two parcels of industrial land located in Bao An District, Shenzhen, the PRC, of the Group ("Longhua Land") from industrial land into residential properties for resale; (ii) on 25 October 2013 with respect to the supplemental agreement signed, (iii) on 16 October 2014 with respect to the preliminary approval granted, (iv) on 26 October 2015 with respect to the second supplemental agreement signed, (v) on 30 November 2015 with respect to the final approval obtained for the construction plan and (vi) on 4 January 2017 with respect to the supplemental agreements ("Supplemental Agreements") which outlined the way to receive the expected consideration.

Progress made on the Re-development Plan in chronological order is updated below:–

- (1) The project company was established by the Counter Party in August 2011 ("Project Company").
- (2) The Group has entered into a re-development contract ("Re-development Contract") and relocation compensation agreement ("Relocation Compensation Agreement") with the Project Company in September 2011.
- (3) The Project Company has applied for re-development of the Longhua Land in September 2011. In view of the fact that the application was not completed within the agreed timeframe due to force majeure for the reason of the policy changes more particularly described in the Company's announcement dated 25 October 2013, the Group has entered into a supplemental agreement with the Counter Party on 25 October 2013 to extend the completion of tasks associated with the Agreement for another 12 months.
- (4) On 16 October 2014, a notice was published by Urban Planning Land and Resources Commission of Shenzhen Municipality to confirm the re-development of the Longhua Land having been listed under "2014 Lot 4 Town re-development formulated plan of Shenzhen – Draft Plan".
- (5) In view of the launch of the new requirements over calculation of land premium and that the fact that construction time is expected to take longer than it was originally contemplated in 2011, the Group and the Counter Party entered into second supplemental agreement on 26 October 2015 to extend the deadlines for various outstanding tasks.
- (6) In order to speed up the rest of the approval procedure and on the basis that all terms of the Agreement remain unchanged, the Counter Party has requested the Group to rent a factory and then vacate earlier from the Lung Hua Land. In exchange for such request, the Counter Party will compensate the Group on dollar-to-dollar basis for cost incurred for such relocation (including but not limited to rent and management fees for the new factory). The relocation was completed in 2015. The Group has passed the risk and management of the bare land to the Counter Party in late August 2015. As at 31 December 2015, the Group received in full the agreed relocation compensation of RMB50 million (approximately HK\$59,960,000) and has recorded it as other income in year 2015.



# Chairman's Statement and Management Discussion and Analysis

- (7) On 27 November 2015, the Project Company received an approval letter dated 25 November 2015 confirming that the Construction and Environment Review Committee had approved the planning proposal submitted by the Project Company. Based on the approved planning, the Land shall be re-developed into a comprehensive development site which can build up to a maximum floor area of 196,800 square metres, out of which the Group will receive titles and benefits of 41,000 square meters upon completion.
- (8) The Project Company has received an investment registration certificate dated 1 February 2016 and a letter regarding the energy saving assessment dated 10 March 2016 from Shenzhen Long Hua New District Development and Finance Bureau.
- (9) The Project Company has received a letter dated 9 May 2016 regarding environmental assessment from Shenzhen Bao'an District Environmental Protection and Water Bureau.
- (10) The Project Company has received a land planning permit dated 10 August 2016 from the Urban Planning Land and Resources Commission of Shenzhen Municipality confirming that the Land shall be re-developed into a comprehensive development site comprising an office building, shops, public facilities required by local government and four to six blocks of residential buildings. Maximum floor area to be built is 196,800 sq.m. under which 172,627 sq.m. are marketable residential or commercial properties and 24,173 sq.m. are public facilities and subsidised residential units built on behalf of the local government.
- (11) The Group returned the Longhua Land to the local government in August 2016 by entering an agreement with the local government and the Project Company.
- (12) On 4 January 2017, the Group has entered the Supplemental Agreements with the Counter Party and the Project Company. Pursuant to the terms of the Supplemental Agreements, amongst others, the Group will receive a guaranteed consideration of RMB1,230,000,000 (net of value-added taxes) and the possibility to receive additional consideration if actual average selling price exceeds RMB30,000 sq.m. (net of value-added taxes) at the time of pre-sales.
- (13) In March 2017, the Project Company has signed a sales of land use rights contract dated 21 March 2017 with the local government.
- (14) In second half of 2017, the Project Company has obtained all required permits and construction was started.

As of the date of this annual report, all foundation works were completed and construction has reached two floors from the ground already. Land premium together with other government levies were all paid up. The total amount paid was approximately RMB1,700 million. Pursuant to the Supplemental Agreements, the Project Company should obtain the pre-sales certificate around June 2019.

## MATERIAL ACQUISITION AND DISPOSAL

Apart from the entering of Supplemental Agreements as elaborated above, the Group has not entered any material transaction during the Period Under Review.

# Chairman's Statement and Management Discussion and Analysis

## BUSINESS STRATEGIES

Asia Tele-Net and Technology Corporation Limited, as our name tells, is an investment holding company based in Asia. As an investment holding company, we hold investments in various disciplines with particular strength in electroplating technologies. Through our brand "PAL", it is our mission to apply electroplating technologies in different applications or business segments so that the Group would grow segment by segment. This strategy would also help us to smooth out any, if not all, cyclical effect in one particular segment or particular market and hence to produce a more stable turnover and profitability level for the benefits of shareholders.

As an investment holding company, the Company from time to time will identify and evaluate business opportunities come along. The "Outline of the 12th Five-Year Plan for the National Economic and Social Development of the People's Republic of China" promulgated in March 2011 emphasizes the Central Government's support for Hong Kong's development into an offshore renminbi business centre and an international asset management centre. Together with the launch of "One-Road-One-Belt strategy", Hong Kong could bank on playing a "super-connector" role in the "Belt and Road" region that covers two-fifths of the world's land mass and is host to some 60 per cent of the world's population. Due to this unique positioning of Hong Kong, the Company believes that there will be many opportunities ahead especially in the financial industry. In addition, the record low price in commodities including crude oil price and other natural resources may present attractive acquisition opportunities.

In the normal course of identifying business opportunities, the Company from time to time engages in discussions with other independent third parties for possible business co-operations. At present, the Board confirms that there are no negotiations or agreements relating to any intended acquisitions or realizations which are discloseable under Rule 13.23 of the Listing Rules, neither is the Board aware of any matter discloseable under the general obligation imposed by Rule 13.09 of the Listing Rules, which is or may be of a price-sensitive nature.

# Chairman's Statement and Management Discussion and Analysis

## FINANCIAL REVIEW

### Capital Structure, Liquidity and Financial Resources

As at 31 December 2017, the Group had equity attributable to owners of the Company of approximately HK\$1,304,191,000 (31 December 2016: HK\$1,018,699,000). The gearing ratio was nil (31 December 2016: nil). The gearing ratio is calculated by dividing the aggregate amount of bank borrowings and other interest-bearing loans over the amount of equity attributable to the equity holders of the Company.

As at 31 December 2017, the Group had approximately HK\$169,116,000 of cash on hand (31 December 2016: HK\$307,697,000).

As at 31 December 2017, the Group pledged deposits of HK\$3,236,000 (31 December 2016: HK\$30,516,000) to banks to secure the issuance of bank guarantee of the same amount. Total banking facilities available to the Group is HK\$132,300,000 (31 December 2016: HK\$132,300,000). Out of the facilities available, the Group has utilized (i) approximately HK\$3,236,000 for the issuance of bank's guarantee under which customers retain right to claim refund of purchase deposits received by the Group as at 31 December 2017 (31 December 2016: HK\$30,516,000), and (ii) approximately HK\$2,471,000 for the issuance of import letters of credit to suppliers (31 December 2016: HK\$12,023,000).

Most of the bank borrowing is charged at inter-bank offer rate plus a spread in the countries where the Company's subsidiaries are operating in.

### Foreign Currency Risk

Most of the assets and liabilities in the Group were mainly denominated in US dollars, HK dollars, Euro and Renminbi.

### Contingent Liabilities

As at 31 December 2017, the Company had guarantees of approximately HK\$137,500,000 (31 December 2016: HK\$137,500,000) to banks in respect of banking facilities granted to subsidiaries of the Company. The amount utilized by the subsidiaries was approximately HK\$5,707,000 (31 December 2016: HK\$42,539,000).

### Pledge of Assets

As at 31 December 2017, apart from the cash of HK\$3,236,000 (31 December 2016: HK\$30,516,000) pledged to the banks for the issuance of bank guarantees as disclosed above, the Group did not pledge any other asset to any third party (31 December 2016: nil).

### Capital Commitment

As at 31 December 2017, the Group did not have any significant capital commitment (31 December 2016: nil).

# Chairman's Statement and Management Discussion and Analysis

## Employee and Remuneration Policies

As at 31 December 2017, the Group employs a total of 673 employees (31 December 2016: 667), including 39 employees hired by our associated company (31 December 2016: 39). Total staff cost including payments to directors for the Period Under Review was approximately HK\$134,153,000 (the Previous Period: approximately HK\$152,932,000). Employees and Directors are remunerated based on performance, experience and industry practice. Performance related bonuses are granted on discretionary basis. The Group maintains a mandatory provident fund schemes for its employees in Hong Kong and participates in the state-managed retirement benefit schemes for its employees in PRC. The Group also maintained appropriate insurances and medical cover for its employees.

The Company has adopted a share option scheme. No option was granted during the Period Under Review (the Previous Period: nil).

## FINAL DIVIDEND

As the Company is still in the process of searching for a suitable production site for the long term development and benefits of PAL and the excellent financial performance for the Group for the year ended 31 December 2017 was mainly due to the gain on recognition of Other Asset which is an unrealized gain by nature, after due and careful consideration, the Board does not recommend payment of any final dividend for the year ended 31 December 2017 (2016: Nil)

## APPRECIATION

On behalf of the Board, I would like to thank all of our customers, shareholders, business associates and bankers for their trust and support to the Group. To all of our employees, I appreciate your hard work, dedication and commitment over the year.

By Order of the Board

**Lam Kwok Hing, M.H., J.P.**

*Chairman and Managing Director*

Hong Kong, 28 March 2018

# Directors & Senior Management Profile

## EXECUTIVE DIRECTORS

**Mr. LAM Kwok Hing**, *M.H., J.P., Honorary Consul*, aged 53, is the Chairman and Managing Director of Asia Tele-Net and Technology Corporation Limited (“ATNT”) and joined the Group in 1995. Mr. Lam is the younger brother of Mr. Nam Kwok Lun, the Deputy Chairman and Executive Director of the Company.

Mr. Lam has over 30 years’ experience in securities trading and over 20 years’ experience in industrial corporate management. He also has experience in energy exploration business. He set up Karl-Thomson Securities Company Limited and Karl-Thomson Commodities Company Limited in 1991. Mr. Lam was a registered dealer of The Securities and Futures Commission. In 2000, Karl Thomson Holdings Limited (“Karl Thomson”) (Hong Kong listed code 0007, which was subsequently renamed as Hoifu Energy Group Limited (“Hoifu”)) was listed in the The Stock Exchange of Hong Kong Limited. Mr. Lam was the Chairman of Karl Thomson from 2000 to 2012. He is currently an executive director of Hoifu. In addition, Mr. Lam was the Chairman of Intech Machines Company Limited (a company which was previously listed under Taiwan Stock Exchange Corporation with listed code of 5492) from 2001 to 2008.

Mr. Lam was awarded the Medal of Honor by the Hong Kong Special Administrative Region (the “HKSAR”) in 2009. On 30 June 2017, Mr. Lam was appointed as Justice of the Peace by the Chief Executive of the HKSAR. In July 2017, he was appointed as honorary consul of the Republic of Senegal in Hong Kong. In 2013, he was appointed as a committee member of the Shaanxi Provincial Committee of the Chinese People’s Political Consultative Conference and was further appointed as a standing committee member in 2018.

As far as community affairs are concerned, Mr. Lam hosts a number of posts in various charitable organizations and schools. He is a permanent advisor of the Board of Pok Oi Hospital; he was further appointed as the Chairman of Permanent Advisory Committee of the Board of Pok Oi Hospital in 2017. In addition, Mr. Lam is Vice President of Scout Association of Hong Kong for New Territories East. He was the chairman of the board of Pok Oi Hospital for the year 2008/2009, the Chairman of the Corporate Governance Committee of Pok Oi Hospital for the year 2008/2009, the Vice Chairman of the board of Pok Oi Hospital from 2004 to 2008, a member of Tai Po Fight Crime Committee from 2005 to 2007, chief school managers of various primary and secondary schools in Hong Kong.

In 2014, Mr. Lam allied with other charity leaders and formed a new charitable organization called Hong Kong Shine Tak Foundation. The aims of this organization are to motivate elites in community to engage in various charitable projects and to build a society of peace and harmony. In 2015, he was elected as the Indigenous Inhabitant Representative of Pai Tau Village and Executive Committee Member of Shatin Rural Committee.

**Mr. NAM Kwok Lun**, aged 58, is the Deputy Chairman of ATNT. He joined the Group in 2005. He is responsible for overall strategic planning, day to day operations, execution and further development. Mr. Nam is the elder brother of Mr. Lam Kwok Hing.

Mr. Nam is also the Executive Director of Hoifu and is in charge of the stockbroking, futures and options broking and securities margin financing businesses. Mr. Nam has over 40 years’ experience in the securities trading, fund management and financial advisory services. He is a member of the Hong Kong Securities Institute, a honorary president of Hong Kong Immigration Assistant Union and a honorary consultant of Hong Kong Securities and Futures Professionals Association.

# Directors & Senior Management Profile

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. KWAN Wang Wai Alan**, aged 54, joined the Group in 1996 as Non-executive Director of ATNT. He was re-designated as Independent Non-executive Director of ATNT in April 2005. He holds a Bachelor degree in Engineering Science and a Master of Arts degree from the University of Oxford and has extensive experience in the consumer electronics and LED field. Mr. Kwan is also an Independent Non-executive Director of Hoifu.

**Mr. NG Chi Kin David**, aged 56, is an Independent Non-executive Director of ATNT and joined the Group in 1995. He is a professional accountant, fellow member of the Hong Kong Institute of Certified Public Accountants and member of CPA Australia. Mr. Ng is also an Independent Non-executive Director of Hoifu. Mr. Ng is a certified public accountant and a Director of CNG Partners CPA Limited.

**Mr. CHEUNG Kin Wai**, aged 62, is an Independent Non-executive Director of ATNT and joined the Group in 1998. He holds a Bachelor of Social Science degree from the Chinese University of Hong Kong and a MBA degree from the University of California, Riverside. Mr. Cheung has worked for over 25 years with various international banking and brokerage firms. He has extensive securities and financial investment experience and now owns his own investment and assets management company.

## SENIOR MANAGEMENT

**Ms. YUNG Wai Ching, Ada**, aged 52, is the Deputy General Manager of ATNT and joined the Group in 1998. She is responsible for the day to day operations, financial management, taxation planning, legal advisory, IT and human resources management for ATNT Group. She holds a Bachelor degree in Accountancy from the City University of Hong Kong and is a member of Association of Chartered Certified Accountants, Hong Kong Institute of Certified Public Accountants and Hong Kong Institution of Chartered Secretaries. Before joining ATNT Group, she had extensive experience in various industries including telecommunication, trading, manufacturing and system integration.

**Mr. WONG Kwok Wai, Ronnie**, aged 53, is the Managing Director of Process Automation International Ltd ("PAL") and has worked for the Group since 1985. He is responsible for the day to day operations, strategic planning and business development of our electroplating equipment business. He holds a degree in Chemical Technology from Hong Kong Polytechnic University and has extensive experience in marketing and business development. He is the major contributor in building a strong presence for PAL in Asia, Taiwan in particular.

**Mr. WONG Chi Wing**, aged 60, is the Director of PAL and joined the Group since 1980. He is responsible for engineering design and product improvements for PAL. He holds a degree in Mechanical Engineering from National Taiwan University.

## Directors & Senior Management Profile

**Mr. CHAN Chi Wai**, aged 61, is the Director of PAL and joined the Group in 1981. He is responsible for manufacturing arm in China for PAL. He has extensive experience in the electroplating industry.

**Mr. LAU Kam Chan, Kelvin**, aged 51, is the Director of PAL and has joined the Group since 1990. He graduated from the Glasgow University (Scotland) with a Bachelor degree in Electronics and Electrical Engineering. He has extensive experience in marketing and is the major contributor in building a strong presence for PAL in China.

### COMPANY SECRETARY

**Ms. YUNG Wai Ching, Ada**

(as disclosed above)

# Directors' Report

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

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries and associates are set out in notes 35 and 18 respectively to the consolidated financial statements.

## BUSINESS REVIEW

A business review as required under the Companies Ordinance (Chapter 622 of the laws of Hong Kong) is set out in the "Chairman's Statement and Management Discussion and Analysis" on pages 10 to 14.

## SEGMENTAL INFORMATION

An analysis of the Group's revenue and results by segments for the year ended 31 December 2017 is set out in note 6 to the consolidated financial statements.

## PRINCIPAL RISKS AND UNCERTAINTIES

The following are the principal risks and uncertainties faced by the Company as required to be disclosed pursuant to the Companies Ordinance (Chapter 622 of the laws of Hong Kong) and are in addition to the matters referred to in the Chairman's Statement and Management Discussion and Analysis.

### 1. Economic climate and individual market performance

The economic conditions in each geographical area will have a general impact on consumer confidence in that particular geographical area which would in turn affect sales and results of the Group. While the Group has quite a wide footprint in its geographical coverage, we have focused markets in Taiwan, US and European countries. Any decline in the general economic conditions of these countries may bring negative effect to the financial results of the Group.

### 2. Customers' credit risk

Customers' credit risk is the risk of loss due to a customer's non-repayment for products or services the Group sold to them. In order to minimise the credit risk, management of the Group will review the financial strength and credit history of each customer and set up individualized credit limits in order to limit the exposure to each individual customer. Weekly meeting is held to review any milestone payments which are fall due. Staff will contact customers and follow up payments which are fall due. In addition, the Group reviews the recoverable amount outstanding at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.



# Directors' Report

## 3. Contract fulfillment risk

The principal business of our key subsidiaries are sales of tailor-made electroplating equipment. Based on our past experience, staff will discuss and agree technical specifications required by the customers. There are chances that equipment sold may not meet all agreed specifications. In such cases, we will provide alternate designs to the customers and, depending on the circumstances, the incremental cost may or may not be borne by us. If such cases do arise, the profit margin of the Group will normally be reduced as the Group will incur additional cost and may face the risk of paying penalty to the customers due to late completion (depending if any penalty term is agreed).

## 4. Liquidity risk

In managing the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents which is adequate for the Group's operations.

## 5. Foreign Currency risk

Most of the assets and liabilities in the Group were mainly denominated in US dollars, HK dollars, Euro and Renminbi. Hence, the Group is exposed to foreign currency risk.

Due to strengthening of US dollars, the Group may face possible price pressure from local competitors in Japan, Taiwan and Europe.

## RESULTS AND APPORTIONS

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 55 to 56. There was no significant change in the nature of the Group's principal activities during the year.

The Directors do not recommend the payment of a dividend.

## SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 128.

## SHARE CAPITAL

Details of the share capital of the Company are set out in note 27 to the consolidated financial statements.

# Directors' Report

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

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## RESERVES

Under The Companies Act 1981 of Bermuda, the Company's contributed surplus account is available for distribution. However, the Company cannot declare or pay a dividend, or make a 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 account.

In the opinion of the Directors, the Company's reserves available for distribution to its shareholders as at 31 December 2017 are approximately HK\$35,441,000, being the contributed surplus of approximately HK\$78,447,000 and accumulated losses of approximately HK\$43,006,000.

## MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers of the Group together accounted for approximately 58.0% of the Group's turnover, with the largest customer accounted for approximately 15.3%. The aggregate purchases attributable to the Group's five largest suppliers were less than 33.9% of the Group's purchases.

At no time during the year did a Director, an associate of a Director or a shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest customers or suppliers.

## PROPERTY, PLANT & EQUIPMENT

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

Attention is drawn to the section named "Property Development" in the Chairman's Statement and Management Discussion and Analysis.

# Directors' Report

## DIRECTORS

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

### Executive directors:

Mr. LAM Kwok Hing, *M.H., J.P. (Chairman and Managing Director)*

Mr. NAM Kwok Lun (*Deputy Chairman*)

### Independent Non-executive directors:

Mr. NG Chi Kin David

Mr. CHEUNG Kin Wai

Mr. KWAN Wang Wai Alan

In accordance with Clause 87(2) of the Company's Bye-laws, one-third of the Directors for the time being shall retire from office by rotation at each annual general meeting. In accordance with the code provision 4.2 of Appendix 14 Corporate Governance Code, every director should be subject to retirement by rotation at least once every three years. Therefore, Mr. NG Chi Kin David should retire and subject to re-election at the forthcoming annual general meeting ("AGM").

The Director being proposed for re-election at the forthcoming AGM does not have 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).

The Company has received from each of the Independent Non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Based on the confirmation received, the Board considers all of the Independent Non-executive Directors are independent.

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 20 to 22 of the annual report.

## DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors had a service contract with the Company. These service contracts continued unless and until terminated by either the Company or the Directors giving to the other party 6 months' notice in writing.

# Directors' Report

Each of the Independent Non-executive Directors has signed a letter of appointment for a term of three years until terminated by not less than three months' notice in writing served by the Independent Non-executive Director to the Company or in accordance with the terms set out in the respective letters of appointment. Each of the Independent Non-executive Directors is entitled to a director's fee.

## DIRECTORS' REMUNERATION

The remuneration committee of the Board considers and recommends to the Board the remuneration and other benefits paid by the Company to the Directors. The remuneration of all Directors is subject to regular monitoring by the remuneration committee to ensure that the levels of their remuneration and compensation are appropriate. Details of the Directors' remuneration are set out in note 11 to the financial statements.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATION

At 31 December 2017, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

### Long position

Ordinary shares of HK\$0.01 each of the Company

Name of director	Number of issued ordinary shares held		Total	Percentage of the issued share capital of the Company
	Personal interest	Corporate interest		
Mr. Lam Kwok Hing	3,474,667	267,556,500 (Note)	271,031,167	63.55%

Note: The amount composed of 48,520,666, 201,995,834 and 17,040,000 shares of the Company that were held by Medusa Group Limited ("Medusa"), Karfun Investments Limited ("Karfun") and J & A Investment Limited ("J & A") respectively. Medusa is a company wholly-owned by Mr. Lam Kwok Hing. Karfun is owned by J & A for approximately 89.65%. Mr. Lam Kwok Hing who is the Chairman and Managing Director of the Company owns 80% shareholding in J & A.

# Directors' Report

Save as disclosed above, except for nominee shares in certain subsidiaries held in trust for the Company by certain Directors, none of the Directors, the chief executives or their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executives were deemed or taken to have under provisions of the SFO), or which were required to be and are recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code as at 31 December 2017.

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Other than as disclosed under the heading "connected transactions" and "continuing connected transactions" below, there was no other transaction which needs to be disclosed as a connected transaction or a continuing connected transaction in accordance with the requirements of the Listing Rules and no contract of significance to which the Company, its ultimate holding company or any subsidiaries of its ultimate holding company was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### Connected Transactions

During the year, the Group has paid approximately HK\$5,000 as brokerage commission to Karl-Thomson Securities Company Limited, which is a wholly owned subsidiary of Hoifu in which Mr. Lam Kwok Hing and Mr. Nam Kwok Lun are the executive directors.

During the year, the Group has received rental income of approximately HK\$163,000 and management fees of approximately HK\$275,000 from BioEm Air Sanitizing Technology Company Limited, a company which Mr. Lam Kwok Hing has indirectly held 40% shareholding interests. The Group has also purchased products from this company for approximately HK\$22,000.

For the above connected transactions, the applicable percentage ratios calculated pursuant to rule 14.07 of the Listing Rule were less than 5%, therefore, they both fell below the de minimis threshold under rule 14A.76 of the Listing Rules and were not subject to any reporting, independent shareholder's approval, annual review and all disclosure requirements.

### Continuing Connected Transactions

Reference is made to the announcement of the Company dated 31 October 2016 and the circular dated 20 December 2016 in relation to the provision of revolving loan (the "Revolving Loan").

On 31 October 2016 (after trading hours), PAL Finance Limited, an indirect wholly owned subsidiary of the Company (the "Lender"), entered into a loan facility agreement with Karl Thomson Financial Group Limited (the "Borrower"), pursuant to which the Lender has agreed to provide a revolving loan facility of HK\$130,000,000 bearing interest at Prime Rate for a term from 6 January 2017 to 30 October 2019 (the "Loan Facility Agreement").

## Directors' Report

As the Borrower is a connected person of the Company within the meaning of the Listing Rules. Accordingly, the provision of the Revolving Loan by the Lender to the Borrower under the Loan Facility Agreement constitutes continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As certain applicable percentage ratios stipulated under Rule 14.07 of the Listing Rules in respect of the provision of the Revolving Loan exceed 25% but less than 100%, the entering into of the Loan Facility Agreement and the provision of the Revolving Loan constitute a major and continuing connected transaction of the Company under Chapter 14 and 14A of the Listing Rules and are subject to the reporting, announcement and the independent shareholders' approval requirement under the Listing Rules. An extraordinary general meeting was convened on 6 January 2017 and the Loan Facility Agreement was approved by the independent shareholders of the Company in the said meeting.

As at 31 December 2017, a sum of HK\$60,000,000 was borrowed by the Borrower and the interest received by the Lender during the year was approximately HK\$2,182,000 ("Disclosed Continuing Connected Transactions").

Pursuant to Rule 14A.55 of the Listing Rules, the Loan Facility Agreement has been reviewed by the Independent Non-executive Directors who have confirmed that the Revolving Loan was carried out:

- (a) in the ordinary and usual course of business of the Company;
- (b) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable to the Company than terms available to or from (as appropriate) independent third parties; and
- (c) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The Company's auditors (the "Independent Auditors") were engaged to report on the Group's continuing connected transaction 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 "HKICPA"). The Independent Auditors had issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules. A copy of the Independent Auditors' letter has been provided by the Company to The Stock Exchange of Hong Kong Limited.

Pursuant to Rule 14A.56 of the Listing Rules, the Independent Auditors confirmed that the Loan Facility Agreement:

- (i) nothing has come to their attention that causes them to believe that the Loan Facility Agreement has not been approved by the Company's board of directors.
- (ii) for transactions involving the provision of Revolving Loan by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company.
- (iii) nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

# Directors' Report

- (iv) with respect to the Disclosed Continuing Connected Transactions, nothing has come to their attention that causes them to believe that the Disclosed Continuing Connected Transactions have exceeded the cap as set by the Company.

Detailed related party transactions entered into by the Group for the year are disclosed in note 36 to the consolidated financial statements.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2017, none of the Directors or their respective associates had any business or interests in business, apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed above, at no time during the year was the Company or any of its subsidiaries, a party to any arrangement to enable the Directors of the Company or their respective spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

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

As at 31 December 2017, the following persons (other than the Directors of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Long positions in the ordinary shares of HK\$0.01 each of the Company

<u>Name of shareholders</u>	<u>Capacity</u>	<u>Number of shares held</u>	<u>Percentage of Company's issued share capital</u>
Medusa	Beneficial owner	48,520,666	11.38%
Karfun	Beneficial owner	201,995,834	47.37%
J & A	Beneficial owner	17,040,000	3.99%

Please refer to the note under the section heading "Directors' and Chief Executives' Interests and Short Positions in Shares and Underlying Shares of the Company and its Associated Corporation" above.

# Directors' Report

Save as disclosed above, as at 31 December 2017, no person (other than the Director of the Company whose interests are set out under the heading "Directors' and Chief Executives' Interests and Short Positions in Shares and Underlying Shares of the Company and its Associated Corporation" above) had an interest or a short position in the shares and underlying shares of the Company that was required to be recorded under Section 336 of SFO.

## CONTROLLING SHAREHOLDER'S INTERESTS IN CONTRACTS OF SIGNIFICANCE

As Mr. Lam Kwok Hing, the Chairman and Managing Director of the Company, is also the controlling shareholder, please refer to the section "Directors' interests in contracts of significance" above.

## SHARE OPTIONS

A summary of the Share Option Scheme (the "Scheme") which came into effect from 12 June 2015, disclosed in accordance with the Listing Rules is as follows:

### (1) Purpose of the Scheme

The purpose of the Scheme is to enable the Company to grant option to the eligible participants as incentives and rewards for their contributions to the Company or such subsidiaries.

### (2) Participants of the Scheme

The Board may, at its discretion, to grant options to any employees (whether full time or part time), executives or officers of the Company or any of the subsidiaries (including executive and non-executive Directors) and any business consultants, agents, financial or legal advisers who will contribute or have contributed to the Company or any of the subsidiaries.

### (3) Total number of shares available for issue under the Scheme and % of issued share capital at 31 December 2017

The number of shares available for issue under the Scheme was 42,646,340 shares representing 10% of the issued share capital at 31 December 2017.

### (4) Maximum entitlement of each participant under the Scheme

The maximum number of shares issuable under the Scheme to each participant in any 12-month period up to the date of grant shall not exceed 1% of the shares unless it is approved by shareholders in a general meeting of the Company. Any share options granted 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\$5,000,000, in any 12-month period, are subject to shareholders' approval in general meeting of the Company.



# Directors' Report

## **(5) The period within which the shares must be taken up under an option**

The period during which an option may be exercised will be determined by the Board at its absolute discretion, save that no option may be exercised more than 10 years after it has been granted.

## **(6) The minimum period for which an option must be held before it can be exercised**

There is no general requirement that an option must be held for any minimum period before it can be exercised but the Board is empowered to impose as its discretion any such minimum period at the time of grant of any particular option.

## **(7) The amount payable upon acceptance of option**

HK\$1.00 is payable by each eligible participant to the Company on acceptance of the option on or before the 30th day after the option is offered.

## **(8) The basis of determining the exercise price**

The exercise price must be at least the higher of:

- (i) the closing price of the share as stated in the Stock Exchange's daily quotations sheet on the date of grant which must be a business day;
- (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of grant; and
- (iii) the nominal value of a share.

## **(9) The remaining life of the Scheme**

The Scheme will expire at the close of business of 12 June 2025.

# Directors' Report

## RETIREMENT SCHEME

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, each of the employer and employee are required to make contributions of 5% of the employees' relevant income to the scheme, subject to a cap of monthly relevant income of HK\$30,000. Contributions made to the scheme are vested immediately.

## PRE-EMPTIVE RIGHTS

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

## CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices. Information on the corporate governance practices of the Company is set out in the "Corporate Governance Report" on pages 35 to 48.

## ENVIRONMENTAL POLICY

The Group is committed to minimise the impact of its activities on the environment. The key points of its strategy to achieve this are:

- Minimise waste by evaluating operations and ensuring they are as efficient as possible.
- Implement a training program for its staff to raise awareness of environmental issues and enlist their support in improving the Company's performance.
- Meet or exceed all the environmental legislation that relates to the Company and its subsidiaries.
- Measure its impact on the environment and set targets for ongoing improvement.
- Will encourage the adoption of similar principles by its key suppliers.

# Directors' Report

## SUFFICIENCY OF PUBLIC FLOAT

At the latest practicable date prior to the issue of this report, based on the information that is publicly available to the Company and within the knowledge of its Directors, the Company has maintained sufficient public floats as required under the Listing Rules throughout the year ended 31 December 2017.

## AUDITOR

A resolution will be submitted to the AGM of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

## CLOSURE OF SHARE REGISTER OF MEMBERS

The AGM is expected to be held on Wednesday, 27 June 2018. In order to determine the shareholders who will be qualified for attending and voting at the AGM, the register of members of the Company will be closed from Thursday, 21 June 2018 to Wednesday, 27 June 2018, both days inclusive. All completed transfer documents together with the relevant share certificate(s) must be lodged with the Company's Hong Kong share registrar, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Wednesday, 20 June 2018 for registration.

On behalf of the Board

**Lam Kwok Hing, M.H., J.P.**

*Chairman and Managing Director*

Hong Kong, 28 March 2018

# Corporate Governance Report

The Company recognizes that good corporate governance is vital to the success of the Group and sustains development of the Group. The Company is committed to maintaining good corporate governance standard and practices with an emphasis on integrity, transparency and independence. The board of directors (the "Board") believes that good corporate governance is essential to the success of the Company and the enhancement of shareholders' value.

## CORPORATE GOVERNANCE PRACTICES

The Company's corporate governance practices are based on the principles and code provisions ("Code Provisions") set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") ("Listing Rules").

During the financial year of 2017, the Company has complied with most of the CG Code, save for the following:

1. Under code provision A.4.2, every director should be subject to retirement by rotation at least once every three years. The Chairman of the Board of the Company is not subject to retirement by rotation pursuant to Bye-law 87(2) of the Company's Bye-laws; and
2. Under code provision A.2.1, the role of the Chairman and the chief executive should be separate and should not be performed by the same individual. The Company does not at present have any officer with the title of "Chief Executive Officer" ("CEO") but instead the duties of a CEO are performed by the Managing Director ("MD"). The positions of both Chairman and MD are currently held by Mr. Lam Kwok Hing. The Board believes that vesting the roles of both Chairman and MD in the same person provides the Group with strong and consistent leadership and allows for more effective planning and execution of long-term business strategies. The balance of power and authorities is ensured by the operation of the senior management and the Board, which comprises experienced and high calibre individuals. In addition, through the supervision of the Board which comprised of three independent non-executive directors, representing more than half of the Board, the interests of the shareholders are adequately and fairly represented.

The Company periodically reviews its corporate governance practices to ensure they continue to meet the requirements of the CG Code during the year of 2017. The key corporate governance principles and practices of the Company are summarised in this report.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transaction.

Having made specific enquiry by the Company, all Directors have confirmed that they had complied with the Model Code throughout the year ended 31 December 2017.

# Corporate Governance Report

## THE BOARD

### Responsibilities

The Board comprises of two Executive Directors, being Mr. Lam Kwok Hing (Chairman and Managing Director) and Mr. Nam Kwok Lun (Deputy Chairman); three Independent Non-executive Directors, being Mr. Cheung Kin Wai, Mr. Kwan Wang Wai Alan and Mr. Ng Chi Kin David. Biographical details, which include relationships among members of the Board, are provided in the “Directors & Senior Management Profile” section of the Annual Report. The composition of the Board is well balanced with the Directors having sound industry knowledge, extensive corporate and strategic planning experience and/or expertise relevant to the business of the Group. The Executive Directors and Independent Non-executive Directors bring a variety of experience and expertise to the Company.

There is a clear division of responsibilities between the Board and the management. The Board is responsible for providing high-level guidance and effective oversight of management while day-to-day management of the Group is delegated to the management team of each respective subsidiary. Generally speaking the Board is responsible for:

- Formulating the Group’s long term strategy and monitoring the implementation thereof
- Approval of interim and year-end dividend
- Reviewing and approving the annual and interim reports
- Ensuring good corporate governance and compliance
- Monitoring the performance of the management
- Reviewing and approving any material acquisition and assets disposal
- Developing and reviewing the Group’s policies and practices on corporate governance
- Evaluating and determining the Company’s Environmental, Social and Governance (“ESG”)-related risks, and ensuring that appropriate and effective ESG risk management and internal control systems are in place

The Board delegates the authority and responsibility for implementing day-to-day operations, business strategies and management of the Group’s businesses to the Executive Directors, senior management and certain specific responsibilities to the Board committees. The Board is committed to making decisions in the best interests of both the Company and its shareholders.

The Board acknowledges its responsibility for preparing the financial statements of the Company and the Group which give a true and fair view of the Group’s affairs in accordance with statutory requirements and applicable accounting standards. The statement by the auditor of the Company about its reporting responsibilities for the financial statements of the Company is set out on pages 52 to 54 in the Independent Auditor’s Report.

All Directors have full and timely access to all relevant information as well as the advice and service of the Company Secretary to ensure Board procedures and all applicable rules and regulations are followed.

# Corporate Governance Report

## Composition

The Board has in its composition a balance of skills and experience necessary for independent decision making and fulfilling its business needs.

As at 31 December 2017, the Board comprised five members, including two Executive Directors and three Independent Non-executive Directors, as follows:

### **Executive Directors**

Mr. LAM Kwok Hing, *M.H., J.P. (Chairman and Managing Director)*

Mr. NAM Kwok Lun (*Deputy Chairman*)

### **Independent Non-executive Directors**

Mr. CHEUNG Kin Wai

Mr. KWAN Wang Wai Alan

Mr. NG Chi Kin David

Biographical details of the Directors are set out on pages 20 to 21.

During the year ended 31 December 2017, the Board complied with the Rules 3.10(1) and (2) of the Listing Rules relating to the appointment of at least three independent non-executive directors and one of the independent non-executive directors has appropriate professional qualifications or accounting or related financial management expertise. The Board also complied with the Rule 3.10A of the Listing Rules so that independent non-executive directors representing at least one-third of the Board. All three Independent Non-Executive Directors are appointed for a specific term of three years. They are subject to retirement by rotation and re-election provisions of the Bye-laws.

The Company has received written annual confirmation from each Independent Non-executive Director of his independence pursuant to the requirements of the Listing Rules. The Company considers all Independent Non-executive Directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

The Bye-laws of the Company requires that one-third (if the number is not a multiple of three, the number nearest to but not more than one-third) of the Directors (including executive and non-executive directors) shall retire by rotation each year. The Directors to retire by rotation shall include any Director who wishes to retire and not to offer himself for re-election and those of the other Directors who have been longest in office since their election or re-election. A retiring Director is eligible for re-election. Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office until the next following annual general meeting and be eligible for re-election. Any Director appointed pursuant to the aforesaid Bye-law shall not be taken into account in determining which particular Directors or the number of Directors who are to retire by rotation.

# Corporate Governance Report

## Board Meetings and General Meetings

During the year ended 31 December 2017, four board meetings, the annual general meeting ("AGM") for the year 2017 and two extraordinary general meetings ("EGM") were held with details of the Directors' attendance set out below:

Directors	Attendance/Number of Meetings		
	Board Meetings	AGM	EGM
<i>Executive Directors</i>			
Mr. LAM Kwok Hing, <i>M.H., J.P.</i> ( <i>Chairman and Managing Director</i> )	4/4	1/1	2/2
Mr. NAM Kwok Lun ( <i>Deputy Chairman</i> )	4/4	1/1	2/2
<i>Independent Non-executive Directors</i>			
Mr. CHEUNG Kin Wai*	4/4	1/1	1/2
Mr. KWAN Wang Wai Alan**	4/4	1/1	1/2
Mr. NG Chi Kin David***	3/4	0/1	2/2

\* Mr. CHEUNG did not attend the EGM held on 2 March 2017 as he had a prior business engagement.

\*\* Mr. KWAN did not attend the EGM held on 6 January 2017 as he had an overseas trip and a prior business engagement.

\*\*\* Mr. NG did not attend a board meeting and the AGM both held on 27 June 2017 as he was sick.

## Board Practices and Conduct of Meetings

The Board meets regularly, at least four times, throughout the year to formulate overall strategy of the Group, monitor its financial performance and maintain effective oversight over the management. Directors may participate either in person or through electronic means of communication. Notice of regular board meetings is sent to all directors at least 14 days prior to the meeting. For other board and committee meetings, reasonable notice is generally given.

Draft agenda of each board meeting is usually sent to all directors together with the notice of meeting in order to give them an opportunity to include any other matters in the agenda for discussion in the meeting. Board papers together with all appropriate, complete and reliable information are sent to directors at least 3 days before each board meeting to keep the directors apprised of the latest developments and financial position of the Group and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

The Chairman and other relevant senior management normally attend regular board and committee meetings, and where necessary, other board and committee meetings to advise business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Group. Draft minutes are normally circulated to directors for comment in due course after each meeting and the final copy, which is kept by the company secretary, is open for directors' inspection.

# Corporate Governance Report

Any material transaction, which involves a conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened board meeting. Except for those circumstances permitted by the Bye-laws, a director who has a material interest in any contract, transaction, arrangement or any other kind of proposal put forward to the Board for consideration abstains from voting on the relevant resolution and such director is not counted for quorum determination purpose.

## Directors' Training

The Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company would provide a comprehensive induction package covering the summary of the responsibilities and liabilities of a director of a Hong Kong listed company, the Company's constitutional documents and the Guides on Directors' Duties issued by the Companies Registry to each newly appointed Director to ensure that he/she is sufficiently aware of his/her responsibilities and obligations under the Listing Rules and other regulatory requirements.

The Company Secretary reports from time to time the latest changes and development of the Listing Rules, corporate governance practices and other regulatory regime to the Directors with written materials, as well as organizes seminars on the professional knowledge and latest development of regulatory requirements related to director's duties and responsibilities.

During the year of 2017, all directors of the Company have participated in continuous professional development program in order to refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. They also read newspaper and relevant materials on the topics related to roles and responsibilities of directors and corporate governance and regulations.

## DELEGATION BY THE BOARD

The Directors are aware of their collective and individual responsibilities to the shareholders for the wellbeing and success of the Company.

To enhance the effectiveness of the management of the Company, the Board has established three committees, namely, the Audit Committee, the Nomination Committee and the Remuneration Committee to oversee corresponding aspects of the Company's affairs. All Board committees of the Company have defined written terms of reference.

## BOARD COMMITTEES

### Audit Committee

The Audit Committee was established in 1999 and comprises three Board members, all of whom are Independent Non-executive Directors. The Audit Committee has adopted the same term of reference, which describes the authority and duties of the Committee, as quoted under code provision C.3.3 of the CG Code. The written terms of reference which describe the authority and duties of the Audit Committee were adopted in 1999 and revised on March 2012 to conform to the provisions of the Code, a copy of which is posted on the Company's website and the Stock Exchange.



# Corporate Governance Report

The Audit Committee is primarily responsible for the following duties:

- to make recommendation to the Board on the appointment, reappointment and removal of the external auditor, and to approve the audit fees and the terms of engagement of the external auditor, and any questions of their resignation or dismissal.
- to monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, and to discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences.
- to monitor integrity of the Company's financial statements, annual report, accounts and the half-year report, and to review significant financial reporting judgments contained in them.
- to oversee the Company's financial reporting system and internal control procedures.
- to review compliance with regulatory and legal requirements by the Company.

The Audit Committee will meet at least twice each year. In 2017, the Audit Committee met twice considering the annual results of the Group for the financial year ended 31 December 2016 and the interim results of the Group for the 6 months ended 30 June 2017, assessing any changes in accounting policies and practices, major judgmental areas and compliance with applicable legal and accounting requirements and standards, discussing with the auditor of the Company on internal control and the re-appointment of the external auditor. The Audit Committee also provides an important link between the Board and the Company's auditors in matters coming within the scope of its terms of reference and keeps under review the independence and objectivity of the auditors.

There were two meetings held during the Period Under Review, details of attendance are set out below:

<b>Audit Committee Members</b>	<b>Attendance/ Number of Meetings</b>
<i>Independent Non-executive Directors</i>	
Mr. NG Chi Kin David ( <i>Chairman</i> )	2/2
Mr. KWAN Wang Wai Alan	2/2
Mr. CHEUNG Kin Wai	2/2

The interim results for the six-months ended 30 June 2017 and the annual results for the financial year ended 31 December 2016 were reviewed by the Audit Committee before publication.

# Corporate Governance Report

## Nomination Committee

The Nomination Committee of the Company (the "Nomination Committee") is established on 27 March 2012 and is composed of two independent non-executive directors and one executive director, namely Mr. Lam Kwok Hing (Chairman of the Nomination Committee), Mr. Cheung Kin Wai and Mr. Ng Chi Kin David.

In order to comply with the Revised CG Code, the Board adopted terms of reference of the Nomination Committee on 27 March 2012 and the terms of reference of the Nomination Committee are available on the websites of the Company and the Stock Exchange.

The primary duties of the Nomination Committee are to review the structure, size and composition (including the skills, knowledge and experience) of the Board and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy; to identify and nominate qualified individuals for appointment as additional directors or to fill Board vacancies as and when they arise, and to make recommendations to the Board on matters relating to the appointment or re-appointment of directors and succession plan for directors, in particular the Chairman and the Chief Executive Officer.

The Nomination Committee shall meet at least once per year according to its terms of reference. A Nomination Committee meeting was held during the Period Under Review, details of attendance are set out below:

<b>Nomination Committee Members</b>	<b>Attendance/ Number of Meetings</b>
Mr. LAM Kwok Hing, <i>M.H., J.P. (Chairman)</i>	1/1
Mr. NG Chi Kin David	1/1
Mr. CHEUNG Kin Wai	1/1

During the Period Under Review, the Nomination Committee had reviewed the structure, size and composition of the Board of Directors of the Company and the retirement and re-appointment arrangement of the Directors in the Company's forthcoming annual general meeting.

## Remuneration Committee

The Company established the Remuneration Committee in February 2005 with terms of reference substantially the same as those contained in paragraph B.1.3 of the CG Code. The written terms of reference which describe the authority and duties of the Remuneration Committee were adopted in 2005 and revised on March 2012 to conform to the provisions of the Code, a copy of which is posted on the Company's website and the Stock Exchange. A majority of the members of the Remuneration Committee is Independent Non-executive Directors and members of the Committee are listed as below.

In determining the emolument payable to directors, the Remuneration Committee takes into consideration factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the Group and the desirability of performance-based remuneration.

# Corporate Governance Report

The Remuneration Committee is primarily responsible for the following duties:

- to determine the policy for the remuneration of executive directors, assessing performance of executive directors and approving the terms of executive directors' service contracts;
- to make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration and to place recommendations before the Board concerning the total remuneration and/or benefits granted to the Directors from time to time;
- to review and approve the senior management's remuneration proposals with reference to the corporate goals and objectives resolved by the Board from time to time;
- to perform an advisory role to the Board and to make recommendations to the Board on the remuneration packages of individual executive directors and senior management, with the Board retaining the final authority to approve executive directors' and senior management's remuneration;
- to make recommendations to the Board on the remuneration of independent non-executive directors;
- to review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive; and
- to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate.

The overriding objective of the remuneration policy is to ensure that the Company is able to attract, retain, and motivate a high-calibre team which is essential to the success of the Company.

The Remuneration Committee will meet at least once each year. Two Remuneration Committee meetings were held during the Period Under Review, details of attendance are set out below:

<b>Remuneration Committee Members</b>	<b>Attendance/ Number of Meetings</b>
Mr. NG Chi Kin David ( <i>Chairman</i> )	2/2
Mr. KWAN Wang Wai Alan	2/2
Mr. NAM Kwok Lun	2/2

During the Period Under Review, the Remuneration Committee reviewed the existing remuneration policies of the Company and considered and approved the performance bonus of the two executive directors and senior management.

# Corporate Governance Report

## CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for determining the policy for the corporate governance of the Company and performing the corporate governance duties as below:

- (i) To develop and review the Group's policies and practices on corporate governance and make recommendations;
- (ii) To review and monitor the training and continuous professional development of directors and senior management;
- (iii) To review and monitor the Group's policies and practices on compliance with all legal and regulatory requirements (where applicable);
- (iv) To develop, review and monitor the code of conduct and compliance manual (if any) applicable to the employees and directors of the Group; and
- (v) To review the Group's compliance with the code of corporate governance and disclosure requirements in the Corporate Governance Report.

During the Period Under Review, the Board reviewed the terms of reference of the Audit Committee, the Nomination Committee and the Remuneration Committee, the shareholders' communication policy, shareholder enquiry procedures and special request procedures.

## AUDITOR'S REMUNERATION

During the year, the auditor of the Company, Messrs. Deloitte Touche Tohmatsu received HK\$1,150,000 for statutory audit services. Payments made by the Company for non-audit services to the auditor was made during the year were:

- HK\$250,000 for review of the unaudited financial statements for the six months ended 30 June 2017; and
- HK\$100,000 for review of the statements of sufficiency of working capital.

## COMPANY SECRETARY

Ms. YUNG Wai Ching, the company secretary of the Company whose biography details are set out in the section headed "Directors & Senior Management Profile" in this annual report, confirmed that she had attained no less than 15 hours of relevant professional training during the year ended 31 December 2017.

# Corporate Governance Report

## LIABILITY INSURANCE OF DIRECTORS AND SENIOR MANAGEMENT

The Company has appropriate “Directors and Officers Liability Insurance” in place for its Directors and senior management, in order to safeguard them from any legal and compensation liabilities arising in the course of discharging their duties.

## DIRECTORS’ RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Board acknowledges that it is their responsibilities for:

- (i) overseeing the preparation of the financial statements of the Group with a view to ensuring such financial statements give a true and fair view of the state of affairs of the Group, and
- (ii) selecting suitable accounting policies and applying the selected accounting policies consistently with the support of reasonable and prudent judgement and estimates.

A statement by the auditor about his reporting responsibilities is set out on pages 49 to 51 of this Annual Report.

## RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for maintaining a sound and effective risk management and internal control system, in order to protect the interest of the Group and its shareholders. The risk management and internal control systems are designed to manage rather than eliminate the risks of failure to achieve the Group’s business objectives, and can only provide reasonable, but not absolute assurance against material misstatements or losses.

The Group has established an Enterprise Risk Management Framework (the “ERM Framework”) in order to implement risk management effectively. Our ERM Framework comprises two key elements: risk management structure and risk management process.

### RISK MANAGEMENT STRUCTURE

**The Board of Directors:** The Board has a duty to ensure the effectiveness of the risk management and internal control systems of the Group (the “ERM system”). The Board oversees the ERM system, assess and evaluate the Group’s business strategies and risk tolerance. The Board with assistance from the Audit Committee, reviews at least annually the effectiveness of the ERM system, the Board also monitors the ERM system in an on-going manner.

**Audit Committee:** The Audit Committee has the second highest responsibility for the ERM system after the Board. Audit Committee assists the Board in overseeing the Group’s ERM system by providing support and advice, including on-going monitoring of the execution of risk management processes, reviewing the Group’s risk register, reviewing and approving the internal control review plan and results.

# Corporate Governance Report

Management: We select key management members across the Group who are involved in each of the business process as interviewees to identify the risks to form our risk universe. Each risk is assessed in terms of likelihood of occurrence and the significance of impact, taken into account the current internal controls in place to mitigate these risks. Assessment result was reported to the Audit Committee and the Board for the confirmation of our risk response strategies, based on their preferences towards risk, our available resources for risk mitigation and the current controls in place.

## RISK MANAGEMENT PROCESS

The ERM Framework defined the procedures for identifying, assessing, responding and monitoring risks and their changes.

- Define risk universe
- Identify risks
- Assess risks identified in terms of likelihood of occurrence and degree of impact
- Define action plans to mitigate risks (if any)
- Monitoring and report changes

In order to identify and prioritize material risks throughout the Group, Management communicates with each operating functions, collect significant risk factors that affect the Group from bottom to top, including strategic, operational, financial, reporting and compliance risks. Having identified all relevant risks, Management assesses the potential impact and possibilities of the risks and prioritize the risks. Appropriate internal control measures are then developed to mitigate the risks identified and the changes of risks in an on-going manner.

Through regular discussion with each operating functions, risk awareness are created amongst the employees. Employees are encouraged to report risks they identified, from their prospective, to the Management. Through this repeated exercise, our ERM System is further enhanced.

## MAIN FEATURES OF OUR RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

On operational level, the management is responsible for maintaining an effective internal control system by

- Establishing clear internal control policies and procedures and to clearly define the responsibilities, authorities and accountabilities of each key positions;
- Establishing code of conduct by explaining the Group's requirements on integrity and ethical value to all staffs;
- Establishing whistle blowing mechanism in order to encourage employees to report incidents of misconduct or fraud;

# Corporate Governance Report

- Establishing appropriate level of information technology access rights in order to avoid leakage of price sensitive information; and
- Establishing insider information disclosure policy to define a clear path of reporting channel and to assign a responsible person for disclosure purpose.

On risk-management level, the management communicates with each operating functions and consolidates significant risk factors that might affect the Group. A risk register was maintained to record the risks identified, with assessment of the potential impact and possibilities of occurrence for each risks identified. Based on the assessment, the management will develop appropriate internal control measures to mitigate the risks identified.

During the Period Under Review, the internal auditor has submitted review reports to the Audit Committee. The management has confirmed to the Board the effectiveness of the ERM Framework and ERM System. The Board has reviewed the reports and has considered the adequacy of resources, staff qualifications and experience, training programs and budget of the accounting, internal audit and financial reporting functions and was satisfied with their adequacy.

## SHAREHOLDERS' COMMUNICATION POLICY

The Board is responsible for ensuring shareholders' communications are adequate and appropriate and based on transparency and sound corporate governance principles. The Company adopted a Shareholders' Communication Policy on 1 March 2012 which aims to present a clear, balanced and comprehensive assessment of our financial position and operational status by providing shareholders and other stakeholders with information in a timely and transparent manner. The Company will communicate to shareholders through written information and electronic communication as follows:

- Annual and interim reports
- Disclosures made to the Hong Kong Stock Exchange
- Notice and circular of general meetings
- Annual general meeting, where the external auditor is available to answer questions about the audit
- Corporate website: [www.atnt.biz](http://www.atnt.biz)
- Direct enquiry sent to the Company

# Corporate Governance Report

## SHAREHOLDERS' RIGHTS

### Convening a Special General Meeting by Shareholders

Pursuant to the Bye-law 58, a special general meeting may be convened by the Board upon requisition by any shareholder holding not less than one-tenth of the issued share capital of the Company and the securities being held carrying the right of voting at any general meetings of the Company. The shareholder shall make a written requisition to the Board or the Company Secretary of the Company at the business address of the Company, specifying the shareholding information of the shareholder, his/her contact details and the proposal regarding any specified transaction/business and its supporting documents.

The Board shall arrange to hold such general meeting within two (2) months after the receipt of such written requisition. Pursuant to the Bye-law 59, the Company shall serve requisite notice of the general meeting, including the time, place of meeting and particulars of resolutions to be considered at the meeting and the general nature of the business.

If within twenty-one (21) days of the receipt of such written requisition, the Board fails to proceed to convene such special general meeting, the shareholder shall do so pursuant to the provisions of Section 74(3) of the Companies Act of Bermuda.

### Putting Forward Proposals at General Meetings

A shareholder shall make a written requisition to the Board or the Company Secretary of the Company at the business address of the Company, specifying the shareholding information of the shareholder, his/her contact details and the proposal he/she intends to put forward at general meeting regarding any specified transaction/business and its supporting documents.

### Procedure for Shareholder to propose a candidate for election as a director

Shareholders can refer to the procedure published at the Company's website [www.atnt.biz](http://www.atnt.biz).



# Corporate Governance Report

## Making Enquiry to the Board

Shareholders should direct their questions about their shareholdings to the Company's Registrar, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

Shareholders and the investment community may at any time make a request for the Company's information to the extent such information is publicly available.

Shareholders may send written enquiries, either by post, by facsimiles or by email, together with his/her contact details, such as postal address, email or fax, addressing to the head office of the Company at the following address or facsimile number or via email:

By email to: info@atnt.biz

By letter to the Company's business address: 11 Dai Hei Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong

By fax to: (852) 2664 0717

All enquiries shall be collected by the Company Secretary who shall report to the Executive Directors periodically on the enquiries collected. The Executive Directors shall review the enquiries and assign different kinds of enquiries to appropriate division head/manager for answering. After receiving the answers of all enquiries from the relevant division head/manager, the Company Secretary will collect the answers for the Executive Directors' review and approval. The Company Secretary shall then be authorized by the Executive Directors to reply all enquiries in writing.

## INVESTOR RELATIONS

There has been no significant change in the Company's constitutional documents during the year ended 31 December 2017.

# Independent Auditor's Report



## TO THE SHAREHOLDERS OF ASIA TELE-NET AND TECHNOLOGY CORPORATION LIMITED

*(incorporated in Bermuda with limited liability)*

### OPINION

We have audited the consolidated financial statements of Asia Tele-Net And Technology Corporation Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 55 to 127, 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, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

### BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### KEY AUDIT MATTERS

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

# Independent Auditor's Report

## KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
<i>Valuation of Other Asset arising from the re-development of the land</i>	
<p>We identified valuation of Other Asset (as defined on note 16 to the consolidated financial statements) arising from the re-development of the land as a key audit matter due to the significance to the consolidated financial statements as a whole, as well as significant judgments are required by management in determining the fair value.</p> <p>As disclosed in note 16 to the consolidated financial statements, during the year, the Group has recognised a gain on change in fair value of HK\$194,704,000. The fair value has been arrived at on the basis of the independent external valuation carried out by an independent professional valuer (the "Valuer"). The valuation is dependent on certain significant inputs that involve judgments, including timing of receipt of the consideration, average unit rate and discount rate. The carrying amount of Other Asset is HK\$1,348,931,000 as at 31 December 2017.</p>	<p>Our procedures in relation to the appropriateness of valuation of the Other Asset arising from the re-development of the land included:</p> <ul style="list-style-type: none"> <li>• Verifying the details of Other Asset with the relevant agreements governing the Group's interest on it;</li> <li>• Evaluating the competency, capabilities and objectivity of the Valuer and understanding their scope of work;</li> <li>• Engaging our internal valuation expert to assess the appropriateness of the valuation methodology adopted by the Valuer, and the key inputs, such as average unit rate and discount rate, and checking its mathematical accuracy; and</li> <li>• Assessing the appropriateness of the estimation of timing of receipt of the consideration.</li> </ul>

# Independent Auditor’s Report

## KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
<i>Revenue recognition on contract works</i>	
<p>We identified the revenue recognition on contract works as a key audit matter due to the significant management judgments and estimation are required in the determination of contract revenue and estimated total contract costs.</p> <p>The Group is engaged in design, manufacturing and sales of custom built machinery. As disclosed in note 4 to the consolidated financial statements, the Group recognises contract revenue and costs on the percentage of completion method, measured by reference to the proportion of the contract costs incurred for the work performed to date over the estimated total contract costs. Accordingly, revenue recognition involves a significant degree of judgment, with estimates being made to estimate the total contract costs.</p> <p>As disclosed in note 6 to the consolidated financial statements, the contract revenue amounted to HK\$699,695,000 for the year ended 31 December 2017.</p>	<p>Our procedures in relation to the revenue recognition on contract works included:</p> <ul style="list-style-type: none"> <li>• Obtaining an understanding of the Group’s process in estimation of the contract revenue and on determination and approval of the estimated total contract costs;</li> <li>• Challenging the reasonableness of the basis and assumptions of the estimated total contract costs;</li> <li>• Comparing actual total contract costs incurred to estimated total contract costs of contracts completed during the year, on a sample basis, to assess the reasonableness of management’s estimation;</li> <li>• Performing arithmetical check on the schedule of the calculation of the percentage of completion, on a sample basis, based on the schedule prepared by the management with information including contract sum, estimated total contract costs and contract costs incurred (the “Schedule”); and</li> <li>• Verifying contract sum, estimated total contract costs and contract cost incurred as set out in the Schedule, on a sample basis, to the respective signed contracts, approved cost budgets and relevant supporting documents of the contract costs incurred respectively.</li> </ul>

# Independent Auditor's Report

## OTHER INFORMATION

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

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

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

# Independent Auditor's Report

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

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- 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.

# Independent Auditor's Report

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Wong Wang Hei.

### **Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

28 March 2018

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	NOTES	2017 HK\$'000	2016 HK\$'000
Revenue	6	800,966	601,898
Cost of sales		(697,283)	(480,994)
Gross profit		103,683	120,904
Gain on change in fair value/recognition of Other Asset	16	194,704	999,560
Gain on disposal of subsidiaries	29	–	77,490
Other gains and losses	7	(10,884)	(11,441)
Other income		119,151	1,950
Selling and distribution costs		(19,954)	(22,269)
Administrative expenses		(103,553)	(117,836)
(Allowance for) reversal of bad and doubtful debts		(1,039)	388
Finance costs	8	(1,202)	(4)
Share of results of associates		(366)	1,057
Profit before taxation		280,540	1,049,799
Taxation	9	(70,504)	(287,428)
Profit for the year	10	210,036	762,371
Other comprehensive income (expense)			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange difference arising on translation of foreign operations			
– subsidiaries		75,613	(42,229)
– associate		434	(324)
Other comprehensive income (expense) for the year		76,047	(42,553)
Total comprehensive income for the year		286,083	719,818
Profit for the year attributable to:			
Owners of the Company		209,483	761,996
Non-controlling interests		553	375
		210,036	762,371



# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	NOTE	2017 HK\$'000	2016 HK\$'000
Total comprehensive income for the year attributable to:			
Owners of the Company		285,492	719,453
Non-controlling interests		591	365
		<b>286,083</b>	719,818
Earnings per share			
Basic	13	<b>HK\$0.49</b>	HK\$1.79

# Consolidated Statement of Financial Position

At 31 December 2017

	NOTES	2017 HK\$'000	2016 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	15	40,225	28,742
Other Asset	16	1,348,931	958,215
Loan receivable	17	60,000	–
Interests in associates	18	2,414	3,196
		<b>1,451,570</b>	990,153
<b>Current assets</b>			
Inventories	19	61,459	63,954
Amounts due from customers for contract work	20	75,748	78,441
Debtors, bills receivables and prepayments	21	216,415	149,594
Held-for-trading investments	22	45,153	42,342
Amounts due from associates	23	21	21
Taxation recoverable		7,623	54
Pledged bank deposits	24	3,236	30,516
Bank balances and cash	24	165,880	277,181
		<b>575,535</b>	642,103
<b>Current liabilities</b>			
Creditors, bills payables and accrued charges	25	282,930	264,161
Warranty provision	26	31,609	29,013
Amounts due to customers for contract work	20	8,200	9,789
Amounts due to associates	23	–	34
Taxation payable		8,253	16,206
		<b>330,992</b>	319,203
Net current assets		<b>244,543</b>	322,900
Total assets less current liabilities		<b>1,696,113</b>	1,313,053

# Consolidated Statement of Financial Position

At 31 December 2017

	NOTES	2017 HK\$'000	2016 HK\$'000
Capital and reserves			
Share capital	27	4,265	4,265
Reserves		1,299,926	1,014,434
Equity attributable to owners of the Company		1,304,191	1,018,699
Non-controlling interests		553	362
Total equity		1,304,744	1,019,061
Non-current liabilities			
Accrued charges	25	44,647	29,854
Warranty provision	26	5,174	4,304
Deferred taxation	28	341,548	259,834
		391,369	293,992
		1,696,113	1,313,053

The consolidated financial statements on pages 55 to 127 were approved and authorised for issue by the Board of Directors on 28 March 2018 and are signed on its behalf by:

**LAM KWOK HING**  
CHAIRMAN AND MANAGING DIRECTOR

**NAM KWOK LUN**  
DEPUTY CHAIRMAN

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Attributable to owners of the Company								Attributable to non-controlling interests		Total
	Share capital	Share premium	Property revaluation reserve	Legal reserve	Currency translation reserve	Contributed surplus	Capital contribution	Retained profits	Subtotal	interests	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (note a)	HK\$'000	HK\$'000 (note b)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2016	4,265	28,500	13,253	14,336	29,391	48,937	1,206	159,358	299,246	2,317	301,563
Profit for the year	-	-	-	-	-	-	-	761,996	761,996	375	762,371
Exchange difference arising on translation of foreign operations											
- subsidiaries	-	-	-	-	(42,219)	-	-	-	(42,219)	(10)	(42,229)
- associate	-	-	-	-	(324)	-	-	-	(324)	-	(324)
Total comprehensive (expense) income for the year	-	-	-	-	(42,543)	-	-	761,996	719,453	365	719,818
Dividend paid by a subsidiary to its non-controlling interest	-	-	-	-	-	-	-	-	-	(2,320)	(2,320)
Balance at 31 December 2016	4,265	28,500	13,253	14,336	(13,152)	48,937	1,206	921,354	1,018,699	362	1,019,061
Profit for the year	-	-	-	-	-	-	-	209,483	209,483	553	210,036
Exchange difference arising on translation of foreign operations											
- subsidiaries	-	-	-	-	75,575	-	-	-	75,575	38	75,613
- associate	-	-	-	-	434	-	-	-	434	-	434
Total comprehensive income for the year	-	-	-	-	76,009	-	-	209,483	285,492	591	286,083
Dividend paid by a subsidiary to its non-controlling interest	-	-	-	-	-	-	-	-	-	(400)	(400)
Balance at 31 December 2017	4,265	28,500	13,253	14,336	62,857	48,937	1,206	1,130,837	1,304,191	553	1,304,744

## Notes:

- (a) In accordance with statutory requirements in the PRC (as defined in note 6 to the consolidated financial statements), certain subsidiaries registered in the PRC had transferred a certain percentage of their annual net income from retained profits to legal reserve until the statutory funds is accumulated up to 50% of their registered capital. No such transfer was required for the years ended 31 December 2017 and 2016 as the relevant subsidiaries had already transferred up to 50% of their registered capital to legal reserve.
- (b) The contributed surplus arose as a result of the capital restructuring on 23 April 2004.

# Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	NOTES	2017 HK\$'000	2016 HK\$'000
<b>OPERATING ACTIVITIES</b>			
Profit before taxation		<b>280,540</b>	1,049,799
Adjustments for:			
Share of results of associates		<b>366</b>	(1,057)
Interest income		<b>(1,686)</b>	(905)
Finance costs		<b>1,202</b>	4
Dividend income		<b>–</b>	(149)
Depreciation of property, plant and equipment		<b>5,280</b>	3,031
Release of prepaid lease payments		<b>–</b>	1,504
Allowance for (reversal of) slow moving inventories		<b>288</b>	(1,201)
Allowance for (reversal of) bad and doubtful debts		<b>1,039</b>	(388)
Loss on disposal of property, plant and equipment		<b>288</b>	54
Net change in fair value of held-for-trading investments		<b>(754)</b>	11,308
Warranty provision		<b>30,965</b>	22,449
Net exchange loss (gain)		<b>9,069</b>	(10,068)
Gain on change in fair value/recognition on			
Other Asset	16	<b>(194,704)</b>	(999,560)
Imputed interest on GCC	16	<b>(113,786)</b>	–
Loss on derecognition of prepaid lease payments		<b>–</b>	7,036
Gain on disposal of subsidiaries	29	<b>–</b>	(77,490)
Adjustment on non-current portion of provision for performance related incentive payments		<b>2,335</b>	–
Operating cash flows before movements in working capital		<b>20,442</b>	4,367
Increase in held-for-trading investments		<b>(2,057)</b>	(17,564)
Decrease (increase) in inventories		<b>9,126</b>	(27,291)
Decrease (increase) in amounts due from customers for contract work		<b>5,893</b>	(27,559)
(Increase) decrease in loans receivable		<b>(60,000)</b>	1,660
Increase in debtors, bills receivables and prepayments		<b>(59,783)</b>	(3,943)
Increase in creditors, bills payables and accrued charges		<b>14,271</b>	139,966
Utilisation of warranty provision		<b>(27,499)</b>	(12,295)
Decrease in amounts due to customers for contract work		<b>(1,589)</b>	(32,919)
Cash (used in) generated from operations		<b>(101,196)</b>	24,422
Overseas income tax paid		<b>(25,043)</b>	(6,987)
<b>NET CASH (USED IN) FROM OPERATING ACTIVITIES</b>		<b>(126,239)</b>	17,435

# Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	NOTE	2017 HK\$'000	2016 HK\$'000
<b>INVESTING ACTIVITIES</b>			
Withdrawal of pledged bank deposits		30,516	51,826
Placement of pledged bank deposits		(3,236)	(64,744)
Net cash inflow arising from disposal of subsidiaries	29	–	162,003
Repayment of an entrusted loan		–	35,810
Addition to prepayment of acquisition of the lands		–	(35,810)
Dividend received from associates		–	2,151
Dividend received from investments		–	149
Interest received		1,686	905
Purchase of property, plant and equipment		(16,666)	(1,910)
Repayment from an associate		–	585
Proceeds on disposal of property, plant and equipment		254	22
<b>NET CASH FROM INVESTING ACTIVITIES</b>		<b>12,554</b>	150,987
<b>FINANCING ACTIVITIES</b>			
Net decrease in bank borrowing		–	(15,500)
Interest paid		(13)	(4)
Repayment to an associate		(34)	–
Dividend paid by a subsidiary to its non-controlling interest		(400)	(2,320)
<b>CASH USED IN FINANCING ACTIVITIES</b>		<b>(447)</b>	(17,824)
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(114,132)</b>	150,598
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>		<b>277,181</b>	128,602
<b>EFFECT ON FOREIGN EXCHANGE RATE CHANGES</b>		<b>2,831</b>	(2,019)
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>		<b>165,880</b>	277,181
<b>ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Bank balances and cash		165,880	277,181

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 1. GENERAL

Asia Tele-Net And Technology Corporation Limited (the "Company") is incorporated in Bermuda under The Companies Act 1981 of Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

The consolidated financial statements are presented in Hong Kong dollars ("HKD"), which is the same as the functional currency of the Company.

The Company is an investment holding company and its principal subsidiaries are mainly engaged in electroplating equipment business. The details of principal activities of its principal subsidiaries are set out in note 35.

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

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKAS 7	Disclosure initiative
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses
Amendments to HKFRS 12	As part of the annual improvements to HKFRSs 2014 – 2016 cycle

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

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

### 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 34. 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 34, the application of these amendments has had no impact on the Group’s consolidated financial statements.

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

HKFRS 9	Financial instruments <sup>1</sup>
HKFRS 15	Revenue from contracts with customers and the related amendments <sup>1</sup>
HKFRS 16	Leases <sup>2</sup>
HKFRS 17	Insurance contracts <sup>4</sup>
HK(IFRIC) – Int 22	Foreign currency transactions and advance consideration <sup>1</sup>
HK(IFRIC) – Int 23	Uncertainty over income tax treatments <sup>2</sup>
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions <sup>1</sup>
Amendments to HKFRS 4	Applying HKFRS 9 “Financial instruments” with HKFRS 4 “Insurance contracts” <sup>1</sup>
Amendments to HKFRS 9	Prepayment features with negative compensation <sup>2</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture <sup>3</sup>
Amendments to HKAS 28	Long-term interests in associates and joint ventures <sup>2</sup>
Amendments to HKAS 40	Transfers of investment property <sup>1</sup>
Amendments to HKAS 28	As part of the annual improvements to HKFRSs 2014 – 2016 cycle <sup>1</sup>
Amendments to HKFRSs	Annual improvements to HKFRSs 2015 – 2017 cycle <sup>2</sup>

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

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2019.

<sup>3</sup> Effective for annual periods beginning on or after a date to be determined.

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2021.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

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

### HKFRS 9 “Financial instruments”

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

Certain 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. All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- 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 the following potential impact on initial application of HKFRS 9:

#### **Classification and measurement:**

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

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

### HKFRS 9 “Financial instruments” (Continued)

#### **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 that subject to the impairment provisions upon application of HKFRS 9 by the Group.

The Group will apply the simplified approach for any of the items subject to impairment within the scope of HKFRS 9. Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by Group as at 1 January 2018 would be increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on Other Asset, loan receivable, trade debtors and bills receivables, amounts due from associates and deposits with financial institutions. Such further impairment recognised under expected credit loss model would reduce the opening retained profits and increase the deferred tax asset at 1 January 2018.

### HKFRS 15 “Revenue from contracts with customers”

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

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for 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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) *(Continued)*

### HKFRS 15 “Revenue from contracts with customers” *(Continued)*

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15. In 2016, the HKICPA issued clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company have assessed the impact on application of HKFRS 15 and consider that the performance obligations are similar to the current identification of separate revenue components under HKAS 18.

The application of HKFRS 15 may have impact on sales of electroplating machinery and other industrial machinery to certain customers in which may meet the HKFRS 15 criteria for recognising revenue at a point of time upon the completion of the installation of the machineries in which the control of the machineries are transferred to the customers. The change in accounting policy regarding certain sales of electroplating machinery and other industrial machinery would expect to result in derecognition of amounts due from/to customers work and recognition of contract asset and liability as at 1 January 2018, and opening retained profits would decrease.

Sales of electroplating machinery and other industrial machinery to other customers may meet the HKFRS 15 criteria for recognising revenue over time since the products are tailor-made with customers’ specification which does not have alternative use to the Group and the Group is entitled to payment for work performed up to date. Upon the application of HKFRS 15, there is no change of the timing and amounts of revenue recognition.

The directors of the Company did not anticipate a material impact on revenue from sale of spare parts of electroplating machinery and provision of services – repairs and maintenance. However, the application of HKFRS 15 in the future may result in more disclosures in the consolidated financial statements.

The directors of the Company intend to apply the limited retrospective method with cumulative effect of initial application recognised in opening balance of equity at 1 January 2018.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

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

### HKFRS 16 “Leases”

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 “Leases” and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Under HKAS 17, the Group has already recognised prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of HK\$7,152,000 as disclosed in note 30. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

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

### HKFRS 16 “Leases” (Continued)

In addition, the Group currently considers refundable rental deposits paid of HK\$1,757,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

The directors of the Company anticipate that the application of the other new and amendments to HKFRSs and Interpretations will have no material impact on the consolidated financial statements of the Group in the future.

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for certain buildings and financial instruments, which are measured at revalued amounts or fair values, at the end of each reporting period, as explained in the accounting policies set out below.

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

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

The principal accounting policies are set out below.

### **Basis of consolidation**

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

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

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

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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Basis of consolidation** *(Continued)*

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

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

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into 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**

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs).

### **Interests in associates**

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Interests in associates *(Continued)*

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate and the retained interest is a financial asset within the scope of HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of the relevant interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate.

When a group entity transacts with an associate of the Group profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Revenue recognition

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

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

The Group's accounting policy for the recognition of revenue from construction services is described in the accounting policy for construction contracts below.

Service income is recognised when services are provided.

Interest income is accrued on a time appointment basis, by reference to the principal outstanding and at the effective interest rates 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.

### Construction contracts

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

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

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Construction contracts** *(Continued)*

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work.

Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under debtors, bills receivables and prepayments.

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and cost necessary to make the sale.

### **Property, plant and equipment**

Property, plant and equipment includes leasehold land (classified as finance leases) and buildings held for use on the production or supply of goods and services, or for administrative purposes are stated in the consolidated statement of financial position at cost or revaluated amount less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Advantage has been taken of the transitional relief provided by paragraph 80A of HKAS 16 "Property, plant and equipment" from the requirement to make regular revaluations of the Group's buildings which had been revalued prior to 30 September 1995. Prior to 30 September 1995, the revaluation increase arising on the revaluation of these assets was credited to the property revaluation reserve. Any future decreases in value of these assets will be dealt with as an expense to the extent that they exceed the balance, if any, on the revaluation reserve relating to a previous revaluation of the same asset. On the subsequent sale or retirement of a revalued asset, the corresponding revaluation surplus is transferred to retained profits.

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, on the same basis as other property assets, commences when the assets are ready for their intended use.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

### **Leasing**

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

#### ***The Group as lessee***

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

#### ***Leasehold land and building***

When the Group makes payments for a property interest which includes both leasehold 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 property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant 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 leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

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 rates prevailing at the end of each reporting period. Income and expenses items 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 currency translation reserve (attributed to non-controlling interests as appropriate).

### 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.

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

### Taxation

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

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Taxation** *(Continued)*

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

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

The carrying amount of deferred tax assets is reviewed at the end of 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 are recognised in profit or loss, except when they relate 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.

### **Retirement benefit costs**

Payments to defined contribution retirement benefits scheme/state-managed retirement benefits schemes/ the Mandatory Provident Fund Scheme ("MPF Scheme") are charged as an expense when employees have rendered service entitling them to the contributions.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Financial instruments**

Financial assets and financial liabilities are recognised when a group entity 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 assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

### ***Financial assets***

The Group's financial assets are classified into one of two categories, including held-for-trading investments 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.

### ***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, 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.

### ***Held-for-trading investments***

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Financial instruments** *(Continued)*

#### **Financial assets** *(Continued)*

##### *Held-for-trading investments (Continued)*

Held-for-trading investments are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets, and is included in "other gains and losses" line item. Fair value is determined in the manner described in note 33.

##### *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 GCC (as defined in note 16), loans receivable, debtors, bills receivables, amounts due from associates, pledged bank deposits and bank balances) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment loss on financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

##### **Impairment of financial assets**

Financial assets, other than held-for-trading investments, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when 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 a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of debtors 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 one to two months and other observable changes in national or local economic conditions that correlate with default on debtors.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Financial instruments** *(Continued)*

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

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of debtors and amounts due from associates, 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 debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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 was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

#### ***Financial liabilities and equity instruments***

Debt 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 into and the definitions of a financial liability and an equity instrument.

#### ***Equity instruments***

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



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **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 costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

##### *Financial liabilities at amortised cost*

Financial liabilities including creditors, bills payables, accrued charges and amounts due to associates, are subsequently measured at amortised cost, using the effective interest method.

##### *Derivative financial instruments*

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

### ***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 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, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Impairment losses of non-financial assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible 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 relevant asset is estimated in order to determine the extent of the impairment loss, if any.

When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs 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 (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

### Provision

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, 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.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Provision for warranties

Provision for warranties are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, 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).

### Other asset

Other asset are recognised when the Group has the right to receive the future economic benefit relating to the asset. The measurement of other asset is detailed in Note 16.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

### Estimation of the fair value of Other Asset (as defined in note 16) and impairment assessment of GCC at the end of the reporting period

As disclosed in note 16, the carrying amount of the Other Asset at 31 December 2017 is approximately HK\$1,348,931,000 which include GCC and ACC. The fair value of GCC and ACC are approximately HK\$910,602,000 and HK\$193,657,000 respectively at the initial recognition and the fair value of ACC is approximately HK\$265,686,000 at 31 December 2017 which have been arrived at on the basis of the valuation performed by an independent professional valuer. In determining the fair value, the valuer has based on a method of valuation which involves certain assumptions including timing of receipt GCC and ACC, average unit rate and discount rate. The management has exercised their judgement and is satisfied with the assumptions used in the valuation.

When there is objective evidence that GCC may be impaired, the Group estimated the recoverable amount of GCC. The amount of impairment loss is measured as the difference between GCC's carrying amount and its recoverable amount. Where the recoverable amount of GCC is less than the carrying amount, impairment loss may arise.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

### Revenue recognition of contract works

Revenue from contract works in respect of design, manufacturing and sales of custom-built electroplating machinery and other industrial machinery, which is individually built to customer order and unique specifications, is recognised on the percentage of completion method, measured by reference to the proportion of the contract costs incurred for the work performed to date over the estimated total contract costs. Accordingly, any changes to the estimated total contract cost may have material impact on the contract revenue recognised in each accounting period over the contract term.

### Allowances for bad and doubtful debts

When there is an objective evidence that loan receivable, trade debtors and bills receivables, other debtors and amounts due from associates may be impaired, the Group estimates the future cash flows of those balances. The amount of the impairment loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial assets' original effective interest rate (i.e. the effective interest rate computed on initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2017, the carrying amount of loan receivable was approximately HK\$60,000,000 (2016: nil) with no allowance for bad and doubtful debts, trade debtors and bills receivables was approximately HK\$188,680,000 (2016: approximately HK\$106,771,000) (net of allowance for bad and doubtful debts of approximately HK\$32,729,000 (2016: approximately HK\$31,911,000)), other debtors was approximately HK\$17,590,000 (2016: approximately HK\$7,726,000) (net of allowance for bad and doubtful debts of approximately HK\$5,852,000 (2016: approximately HK\$5,852,000)) and amounts due from associates was approximately HK\$21,000 (2016: approximately HK\$21,000) (net of allowance for bad and doubtful debts of approximately HK\$1,975,000 (2016: approximately HK\$1,975,000)).

### Provision for warranties

The provision of warranties of the Group is determined based on the management's best estimate of the Group's liabilities under a warranty period of 1 to 2 years granted for the electroplating products based on its 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 will be recognised in profit or loss when the amounts are settled. Likewise, if the amounts are settled for an amount that is less than the management's estimation, a future credit to profit or loss will be recognised in profit or loss when the amounts are settled. As at 31 December 2017, the carrying amount of provision of warranties was approximately HK\$36,783,000 (2016: approximately HK\$33,317,000).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

### Allowance for inventories

Management of the Group reviews an aging analysis of inventories at the end of the reporting period, and makes allowance for slow moving inventory items identified that are not suitable for use in current production. Management estimates the net realisable value for raw materials primarily based on the latest invoice prices and current market conditions. However, given the competitiveness of the industry, these prices may subsequently be affected. The Group carries out an inventory review on an item-by-item basis at the end of the reporting period and makes allowance for raw materials. As at 31 December 2017, the carrying amount of inventories was approximately HK\$61,459,000 (2016: approximately HK\$63,954,000). allowance for slow moving inventories of approximately HK\$288,000 was made during the year ended 31 December 2017 (2016: reversal of allowance for slow moving inventories of approximately HK\$1,201,000).

## 5. 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 for both years.

The capital structure of the Group consists of debts and equity attributable to owners of the Company, comprising issued share capital and reserves. The directors of the Company review the capital structure on a continuous basis. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends and issuance of new shares as well as the addition of new borrowings.

## 6. REVENUE AND SEGMENT INFORMATION

### Revenue

The Group's revenue from electroplating machinery business for the years ended 31 December 2017 and 2016 analysed by principal activity is as follows:

	2017 HK\$'000	2016 HK\$'000
Construction contracts in respect of design, manufacturing and sale of custom-built electroplating machinery and other industrial machinery	699,695	529,529
Sale of spare parts of electroplating machinery	18,109	18,480
Provision of services – repairs and maintenance	83,162	53,889
	<b>800,966</b>	<b>601,898</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 6. REVENUE AND SEGMENT INFORMATION (Continued)

### Segment information

#### Segment revenue and results

Information reported to the executive directors, being the chief operating decision makers, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided.

The Group has one operating segment being the electroplating equipment segment which contributes the entire revenue of the Group. Reconciliation of the operating segment profit to profit before taxation is as follows:

	Electroplating equipment	
	2017	2016
	HK\$'000	HK\$'000
Segment revenue	800,966	601,898
Segment profit	177	32,858
Intra-group management fee charged to operating segment	6,571	6,767
Other income	118,084	1,492
Central corporate expenses	(36,226)	(58,235)
Gain on change in fair value/recognition of Other Asset (note 16)	194,704	999,560
Gain on disposal of subsidiaries (note 29)	–	77,490
Imputed interest on non-current portion of provision for performance related incentive payments (note 25)	(1,189)	–
Other gain or losses	(1,581)	(10,133)
Profit before taxation	280,540	1,049,799

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit represents the gross profit of the electroplating equipment segment, other income and expenses directly attributable to the segment activity (including intra-group management fee) and share of results of associates but excluding other income (including interest income from loan receivable, imputed interest income of GCC, unallocated interest income, dividend income and sundry income), central corporate expenses including auditor's remuneration and directors' emoluments, gain on change in fair value/recognition of Other Asset and gain on disposal of subsidiaries, imputed interest on non-current portion of provision for performance related incentive payments, and other gain or loss (including net change in fair value of held-for-trading investments, loss on derecognition of prepaid lease payments, adjustment on non-current portion of provision and unallocated net exchange gain or loss). This is the measure reported to the chief operating decision maker in order to assess segment performance.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 6. REVENUE AND SEGMENT INFORMATION *(Continued)*

### Segment information *(Continued)*

#### Segment assets and liabilities

Amounts of segment asset and liabilities of the Group are not reviewed by the chief operating decision maker or otherwise regularly provided to the chief operating decision maker since the year ended 31 December 2017, accordingly, segment assets and liabilities are not presented.

#### Other segment information

	Electroplating equipment	
	2017	2016
	HK\$'000	HK\$'000
Amounts included in the measure of segment result:		
Allowance for (reversal of) bad and doubtful trade debtors	1,039	(388)
Allowance for (reversal of) slow moving inventories	288	(1,201)
Share of results of associates	(366)	1,057
Loss on disposal of property, plant and equipment	288	54
Depreciation	5,201	2,909
Release of prepaid lease payments	–	1,504
Provision for warranty	30,965	22,449

	Unallocated	
	2017	2016
	HK\$'000	HK\$'000
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss:		
Loss on derecognition of prepaid lease payments	–	7,036
Gain on change in fair value/recognition of Other Asset	194,704	999,560
Imputed interest income of GCC	113,786	–
Adjustment on non-current portion of provision for performance related incentive payments	2,335	–
Imputed interest on non-current portion of provision for performance related incentive payments	1,189	–

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 6. REVENUE AND SEGMENT INFORMATION (Continued)

### Geographical information

The Group's operations are mainly located in Hong Kong, the People's Republic of China (excluding Hong Kong) (the "PRC"), Taiwan, Europe, the United States of America and other Asia countries.

Information about the Group's revenue from external customers is presented based on the location of external customers.

	2017 HK\$'000	2016 HK\$'000
PRC	373,847	343,666
Taiwan	241,725	110,924
Korea	67,965	11,950
Thailand	47,101	5,724
India	24,874	1,882
The United States of America	19,679	16,907
Portugal	8,861	27,503
Brazil	4,561	–
Singapore	2,454	5,789
Mexico	2,270	35,045
Philippines	1,598	230
The United Kingdom	720	10,558
Canada	673	–
Russia	614	14,495
Europe	51	1,095
Tunisia	23	2,083
Switzerland	21	140
Germany	–	13,049
Others	3,929	858
	<b>800,966</b>	<b>601,898</b>



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 6. REVENUE AND SEGMENT INFORMATION (Continued)

### Geographical information (Continued)

Information about the Group's non-current assets excluding financial instruments is presented based on the geographical location of the assets.

	2017 HK\$'000	2016 HK\$'000
Hong Kong	32,928	23,844
PRC	6,576	963,042
Others	3,135	3,267
	<b>42,639</b>	<b>990,153</b>

### Information about major customers

Revenues from customers under the electroplating equipment segment of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2017 HK\$'000	2016 HK\$'000
Customer A	122,719	N/A <sup>1</sup>
Customer B	106,479	N/A <sup>1</sup>
Customer C	88,350	71,319
Customer D	81,608	61,761
Customer E	N/A <sup>1</sup>	88,915
Customer F	N/A <sup>1</sup>	87,409

<sup>1</sup> The corresponding revenue did not contribute over 10% of total sales of the Group.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 7. OTHER GAINS AND LOSSES

	2017 HK\$'000	2016 HK\$'000
Net change in fair value of held-for-trading investments	754	(11,308)
Net exchange (loss) gain	(8,986)	5,733
Loss on disposal of property, plant and equipment	(288)	(54)
Loss on derecognition of prepaid lease payments (note 16)	–	(7,036)
Adjustment on non-current portion of provision for performance related incentive payments (note 25)	(2,335)	–
Other gains and losses	(29)	1,224
	<b>(10,884)</b>	<b>(11,441)</b>

## 8. FINANCE COSTS

	2017 HK\$'000	2016 HK\$'000
Interest on bank borrowing	13	4
Imputed interest on non-current portion of provision for performance related incentive payments (note 25)	1,189	–
	<b>1,202</b>	<b>4</b>

## 9. TAXATION

	2017 HK\$'000	2016 HK\$'000
The taxation charge comprises:		
Hong Kong Profits Tax:		
Charge for the year	–	1,233
Overseas taxations		
Charge for the year	9,505	19,651
Deferred tax charge (note 28)	60,999	266,544
	<b>70,504</b>	<b>286,195</b>
	<b>70,504</b>	<b>287,428</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 9. TAXATION (Continued)

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. No tax was payable on the profit for the years ended 31 December 2017 and 2016 arising in Hong Kong for certain group entities since the assessable profit is wholly absorbed by tax losses brought forward.

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the remaining group entities subjected to Hong Kong Profits Tax have no assessable profit for both years.

Overseas taxation (including PRC enterprise income tax) is calculated at the rates prevailing in the relevant jurisdictions.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulations of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

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

	2017 HK\$'000	2016 HK\$'000
Profit before taxation	<b>280,540</b>	1,049,799
Taxation at the income tax rate of 16.5% (2016: 16.5%)	<b>46,289</b>	173,217
Tax effect of share of results of associates	<b>60</b>	(174)
Tax effect of expenses not deductible for tax purpose	<b>3,721</b>	4,129
Tax effect of income not taxable for tax purpose	<b>(811)</b>	(965)
Tax effect of tax losses not recognised	<b>7,342</b>	9,461
Tax effect of deductible temporary differences not recognised	<b>10</b>	33
Tax effect of utilisation of tax losses previously not recognised	<b>(799)</b>	(3,296)
Effect of different tax rates of subsidiaries operating in other jurisdictions	<b>14,692</b>	105,023
Taxation for the year	<b>70,504</b>	287,428

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 10. PROFIT FOR THE YEAR

	2017 HK\$'000	2016 HK\$'000
Profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration	2,083	1,545
Cost of inventories recognised as expenses (including allowance for slow moving inventories of approximately HK\$288,000 (2016: reversal of allowance for slow moving inventories of approximately HK\$1,201,000))	476,496	351,135
Depreciation of property, plant and equipment	5,280	3,031
Release of prepaid lease payments	–	1,504
Operating lease payments in respect of rented premises	10,618	4,451
Staff costs:		
Directors' fee (note 11)	264	234
Directors' salaries, other benefits and performance related incentive payments (note 11)	18,469	41,600
Salaries and allowances	113,059	108,679
Contributions to retirement contributions schemes	2,361	2,419
	134,153	152,932
Interest income from loan receivable	(2,182)	(41)
Imputed interest income of GCC (note 16) (included in other income)	(113,786)	–
Investment income		
Interest earned on bank deposits	(1,686)	(905)
Dividend income from		
– Other investments	–	(149)
	(1,686)	(1,054)

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 11. DIRECTORS' AND CHIEF EXECUTIVES' EMOLUMENTS

The emoluments paid or payable to each of the five (2016: five) directors were as follows:

### For the year ended 31 December 2017

	Executive directors		Independent non-executive directors			Total HK\$'000
	Lam Kwok Hing HK\$'000	Nam Kwok Lun HK\$'000	Kwan Wang Wai, Alan HK\$'000	Ng Chi Kin, David HK\$'000	Cheung Kin Wai HK\$'000	
Other emoluments						
Salaries and other benefits	3,600	3,600	–	–	–	7,200
Contributions to retirement benefits schemes	18	18	–	–	–	36
Fees	–	–	88	88	88	264
<b>Total emoluments</b>	<b>3,618</b>	<b>3,618</b>	<b>88</b>	<b>88</b>	<b>88</b>	<b>7,500</b>

### For the year ended 31 December 2016

	Executive directors		Independent non-executive directors			Total HK\$'000
	Lam Kwok Hing HK\$'000	Nam Kwok Lun HK\$'000	Kwan Wang Wai, Alan HK\$'000	Ng Chi Kin, David HK\$'000	Cheung Kin Wai HK\$'000	
Other emoluments						
Salaries and other benefits	3,600	3,600	–	–	–	7,200
Contributions to retirement benefits schemes	18	18	–	–	–	36
Performance related incentive payments (Note)	1,160	290	–	–	–	1,450
Fees	–	–	78	78	78	234
<b>Total emoluments</b>	<b>4,778</b>	<b>3,908</b>	<b>78</b>	<b>78</b>	<b>78</b>	<b>8,920</b>

Note: The performance related incentive payment was determined by reference to profitability of the Group and was approved by the Remuneration Committee on 29 August 2016.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 11. DIRECTORS' AND CHIEF EXECUTIVES' EMOLUMENTS *(Continued)*

The executive directors' emoluments shown above were mainly for the services in connection with the management of the affairs of the Company and the Group.

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

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

No compensation was paid to the above directors of the Company during the current year for the profit and prior year for the loss of office as or as an inducement to join or upon joining the Company. None of the above directors of the Company has waived any emoluments during the current and prior years.

Apart from the emoluments for the directors as disclosed above, during the year ended 31 December 2017, the Group has made a provision for performance related incentive payments to the executive directors of the Company in an aggregate amount of approximately HK\$11,269,000 ("2017 Provision") (2016: approximately HK\$32,950,000 ("2016 Provision")) which is approved by the Remuneration Committee of the Company on 28 March 2018 (2016: 30 March 2017).

The non-current portion of the 2017 Provision is approximately HK\$11,269,000 (2016: 2016 Provision of approximately HK\$29,854,000) which is calculated by applying the pre-agreed percentage on the net gain on change in fair value of Other Asset but after netting off the associated taxes and discounted to present value.

The basis of the estimated timing of the payment of the 2016 Provision which is associated with the net gain on recognition of Other Asset to mid of year 2022 has been set out in the Company's 2016 annual report.

The current portion of the 2016 Provision payable in year 2017 was approximately HK\$3,096,000 which was calculated based on financial performance for the Group for the year ended 31 December 2016 but excluding the provision for non-current portion of the 2016 Provision as disclosed above. Subsequent to 30 March 2017, actual allocation to individual director was determined by the Remuneration Committee, payments were made to the executive directors in accordance with the agreed bonus distribution mechanism in year 2017 as disclosed below.

As actual allocation for the 2017 Provision to individual executive directors, namely, Mr. Lam Kwok Hing and Mr. Nam Kwok Lun, is not yet finalised as at 31 December 2017. The table above showing the emoluments paid or payable to the directors for the year ended 31 December 2017 does not include the 2017 Provision. After payment is made or allocation is determined by the Remuneration Committee, further disclosure of the payment of the 2017 Provision will be made in the coming year's annual report.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 11. DIRECTORS' AND CHIEF EXECUTIVES' EMOLUMENTS *(Continued)*

As actual allocation for the 2016 Provision to individual executive directors, namely, Mr. Lam Kwok Hing and Mr. Nam Kwok Lun, was not yet finalised as at 31 December 2016. The table above showing the emoluments paid or payable to the directors for the year ended 31 December 2016 does not include the 2016 Provision. During the year ended 31 December 2017, the allocation was determined, the payment of HK\$2,477,000 and HK\$619,000 to Mr. Lam Kwok Hing and Mr. Nam Kwok Lun respectively was made for the current portion of the 2016 Provision.

## 12. FIVE HIGHEST PAID EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2016: two) were directors and chief executive of the Company whose emoluments are included in note 11. The emoluments of the remaining three (2016: three) individuals were as follows:

	2017 HK\$'000	2016 HK\$'000
Salaries and other benefits	3,730	5,328
Performance bonus (note)	592	100
Contributions to retirement benefits schemes	54	54
	<b>4,376</b>	5,482

Note: Performance bonus are determined by reference to profitability of the Group.

Their emoluments were within the following band:

	Number of employees	
	2017	2016
HK\$1,000,001 – HK\$1,500,000	2	1
HK\$1,500,001 – HK\$2,000,000	1	1
HK\$2,500,001 – HK\$3,000,000	–	1

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 13. 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
The Group's profit for the year attributable to owners of the Company	<b>209,483</b>	761,996
Number of ordinary shares	<b>426,463,400</b>	426,463,400

No diluted earnings per share have been presented as there were no potential ordinary shares in issue during both years.

## 14. DIVIDEND

No dividend was paid or proposed during 2017, nor has any dividend been proposed since the end of reporting period (2016: nil).



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Furniture and fixtures HK\$'000	Leasehold improvements HK\$'000	Plant, machinery and equipment HK\$'000	Motor vehicles HK\$'000	Computer software HK\$'000	Total HK\$'000
<b>COST OR VALUATION</b>							
At 1 January 2016	48,379	9,006	16,769	57,799	12,287	4,046	148,286
Currency realignment	-	(93)	-	(684)	(220)	-	(997)
Additions	-	348	-	566	996	-	1,910
Disposals	-	(23)	-	(370)	(105)	-	(498)
At 31 December 2016	48,379	9,238	16,769	57,311	12,958	4,046	148,701
Currency realignment	-	133	-	1,167	231	-	1,531
Additions	-	351	345	9,694	6,276	-	16,666
Disposals	-	(120)	(224)	(1,349)	(500)	-	(2,193)
At 31 December 2017	48,379	9,602	16,890	66,823	18,965	4,046	164,705
<b>COMPRISING</b>							
At cost	12,667	9,602	16,890	66,823	18,965	4,046	128,993
At valuation							
- 31 March 1992	35,712	-	-	-	-	-	35,712
	48,379	9,602	16,890	66,823	18,965	4,046	164,705
<b>DEPRECIATION, AMORTISATION AND IMPAIRMENT</b>							
At 1 January 2016	25,777	8,226	16,769	53,530	10,125	3,539	117,966
Currency realignment	-	(54)	-	(479)	(83)	-	(616)
Provided for the year	829	206	-	1,193	417	386	3,031
Eliminated on disposals	-	(17)	-	(310)	(95)	-	(422)
At 31 December 2016	26,606	8,361	16,769	53,934	10,364	3,925	119,959
Currency realignment	-	79	-	709	104	-	892
Provided for the year	835	215	52	2,350	1,781	47	5,280
Eliminated on disposals	-	(58)	(224)	(869)	(500)	-	(1,651)
At 31 December 2017	27,441	8,597	16,597	56,124	11,749	3,972	124,480
<b>CARRYING AMOUNTS</b>							
At 31 December 2017	20,938	1,005	293	10,699	7,216	74	40,225
At 31 December 2016	21,773	877	-	3,377	2,594	121	28,742

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold land and buildings	over the shorter of 20 – 50 years or the term of the lease
Furniture and fixtures	25%
Leasehold improvements	over the shorter of 25% or the term of the lease
Plant, machinery and equipment	12½% to 33⅓%
Motor vehicles	33⅓%
Computer software	12½%

As at 31 December 2017, had the revalued leasehold land and buildings been carried at cost less accumulated depreciation, the carrying value of the leasehold land and buildings would have been stated at approximately HK\$20,299,000 (2016: approximately HK\$21,091,000).

## 16. OTHER ASSET

On 7 August 2011, a wholly-owned subsidiary of the Company entered into an agreement (the “Re-development Agreement”) with an independent third party (“Counter Party”) in relation to a re-development plan (“Re-development Plan”) of two parcels of industrial land located in Bao An District, Shenzhen, the PRC (the “Land”) from industrial land into residential properties for resale. Details of the Re-development Agreement are set out in the Company’s circular dated 19 September 2011. Pursuant to the Re-development Agreement, the Group has agreed to vacate from the Land and demolish the existing buildings and structures built or erected on the Land at its own costs, and the Counter Party has agreed to re-develop the Land into residential properties and to compensate the Group by paying a relocation compensation of RMB50 million (approximately HK\$64 million) to the Group and transferring the title of 41,000 sq.m. marketable residential or commercial properties which do not include subsidized apartments and any floor area reserved for public facilities usage on the redeveloped land (“Relevant Properties”) to the Group upon the completion of the Redevelopment Plan. Pursuant to the Re-development Agreement, the Counter Party is responsible for the Re-development Plan (including but not limited to application to relevant responsible bodies of the PRC government, payment of additional land premium if any, provision of all required fund, design and construction of re-developed properties, sales of the re-developed properties, as well as obtaining a “Sale of land use rights contract” (土地使用權出讓合同書) from the relevant responsible bodies of the PRC government) and set up a project company (the “Project Company”) for the purpose of the Re-development Plan. The Project Company was established by the Counter Party in August 2011.

The Group has entered into a re-development contract (“Re-development Contract”) and relocation compensation agreement (“Relocation Compensation Agreement”) with the Project Company in September 2011. Under the Re-development Contract, the Group shall apply for re-development of the Land under the “Shenzhen city town re-development formulated plan” (深圳市城市更新單元規劃制定計劃) and the Project Company shall have completed the application for town re-development and the Re-development Plan shall have been listed as a “Town re-development formulated plan of the State” (政府城市更新規劃制定計劃) (“Completion of Registration”) within two years after the signing of the Re-development Contract but in any event not later than 26 months of the date of the Re-development Agreement.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 16. OTHER ASSET *(Continued)*

Under the Relocation Compensation Agreement, the Project Company paid a relocation compensation of RMB50 million for the compensation of all the costs incurred for the relocation by the Group which including the relocation subsidy and cost of demolition work.

The progress of the Re-development Plan up to 31 December 2015 was set out in the Company's 2015 annual report.

The Project Company received a land planning permit dated 10 August 2016 from the Urban Planning Land and Resources Commission of Shenzhen Municipality confirming that the Land shall be re-developed into a comprehensive development site comprising an office building, shops, public facilities required by local government and four to six blocks of residential buildings.

As part of the standard process under the "Town re-development formulated plan of the State", the certificate of land use right of the Land was returned to the local government so that once the land premium being agreed upon, the Project Company could enter into the "Sale of land use right contract" with the local government. With the return of the land use right of the Land to the local government in August 2016, the Group derecognised the prepaid lease payments with carrying amount of approximately HK\$7,036,000. The "Sales of land use rights contract" has subsequently been signed on 21 March 2017. The Project Company applied the construction planning permit and construction permit in order to start the construction works. In second half 2017, the Project Company has obtained all required permits and the construction was started.

According to the terms of the Re-development Agreement, the Group recognised the fair value of the right to receive the Relevant Properties of approximately HK\$999,560,000, based on the valuation report issued by Avista Valuation Advisory Limited ("Avista"), an independent professional valuer, as an asset and recognised the same amount as gain in the profit or loss during the year ended 31 December 2016. The valuation was dependent on certain significant inputs that involved judgements, including average unit rate and lack of marketability discount rate. The right to receive the Relevant Properties was initially recognised at its fair value and subsequently carries at cost less impairment.

As at 31 December 2016, the carrying amount of the right to receive the Relevant Properties was approximately HK\$958,215,000.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 16. OTHER ASSET (Continued)

On 4 January 2017, the Group, the Counter Party and the Project Company entered into the supplemental agreements (“Supplemental Agreements”) to amend certain terms associated with the settlement arrangement of the Re-development Plan. Pursuant to the Supplemental Agreements, instead of transferring the title of the Relevant Properties, the Group is offered a guaranteed cash consideration of RMB1.23 billion (“GCC”), payable by six tranches within fifteen days after eighteen months of the issue of the presales certificate without waiting for the completion of the Re-development Plan. The first tranche will be payable within fifteen day after three months of the issue of the pre-sales certificate and the next tranche will be payable three months thereafter and so on. Apart from GCC, the Group will receive additional cash consideration representing the difference between the actual net sales proceed less RMB1.23 billion (“ACC”). Actual net sales proceed is equal to actual gross proceed to be received by the Project Company in respect of the Relevant Properties during the pre-sales period and after netting off value-added taxes, urban maintenance and construction tax, educational surtax, stamp duty, share of sales and marketing expenses and decoration expenses (if any). ACC in relation to residential properties will be payable within thirty-six months after the issue of the pre-sales certificate and ACC in relation to commercial properties will be payable within seventy-two months after the issue of the pre-sales certificate. The details of the amendment are set out in the Company’s circular dated 15 February 2017. The transactions contemplated under the Supplemental Agreements have been approved by the shareholders of the Company on 2 March 2017.

With the effective of the Supplemental Agreements, the right to receive the Relevant Properties is changed to the right to receive GCC and ACC. The right to receive the Relevant Properties at 31 December 2016 and the right to receive GCC and ACC at 31 December 2017 are referred as “Other Asset”. The fair values of GCC and ACC are approximately HK\$910,602,000 and HK\$193,657,000 respectively at the initial recognition. The fair values of GCC and ACC have been arrived at using discounted cash flow method by discounting future cash flows at an interest rate of 14.9% per annum based on a valuation performed by Avista. Pursuant to the Supplemental Agreements, the deadline for the Project Company to obtain the pre-sales certificate is on or before 30 June 2019. The directors of the Company expect the pre-sales certificate to be issued on 30 June 2019 in the estimation of the fair values of GCC and ACC accordingly. Subsequent to the initial recognition, GCC is measured at amortised cost using the effective interest method, less any impairment while ACC is measured at fair value with changes in fair value through profit or loss. The Group recognises a gain in change in fair value of the Other Asset of approximately HK\$194,704,000 in profit or loss during the year ended 31 December 2017. As GCC is carried at amortised cost, imputed interest of approximately HK\$113,786,000 is recognised as other income in the profit or loss during the year ended 31 December 2017.

As at 31 December 2017, the carrying amount of the Other Asset is approximately HK\$1,348,931,000 (including GCC of approximately HK\$1,083,245,000 and ACC of approximately HK\$265,686,000).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 17. LOAN RECEIVABLE

The following is the maturity profile of the loan receivable at the end of the reporting period:

	2017 HK\$'000	2016 HK\$'000
Repayable after one year	60,000	–

On 31 October 2016, the Group entered into a loan facility agreement with Karl Thomson Financial Group Limited (“KTFG”), which is a wholly owned subsidiary of Hoifu Energy Group Limited (“Hoifu”). Mr. Lam Kwok Hing, an executive director and a substantial shareholder of the Company, and Mr. Nam Kwok Lun, an executive director of the Company who has an indirect interest in the Company, are the directors of Hoifu. The Group provides an unsecured revolving loan facility of HK\$130,000,000 bearing interest at prime rate as announced from time to time by The HongKong and Shanghai Banking Corporation Limited for lending Hong Kong Dollars for a term of three years commencing from the loan effective date and ending on 30 October 2019. As at 31 December 2017, a loan of HK\$60,000,000 (2016: nil) was drawn by KTFG in according to the terms of the loan facility agreement. The average effective interest rate, which is equal to contractual interest rate, is 5% per annum.

## 18. INTERESTS IN ASSOCIATES

	2017 HK\$'000	2016 HK\$'000
Cost of investments in associates		
Unlisted	3,285	3,285
Impairment loss made	(1,709)	(1,709)
	1,576	1,576
Share of post-acquisition gains, net of dividend received	1,633	2,849
Share of currency translation reserve	(795)	(1,229)
Share of net assets	2,414	3,196

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 18. INTERESTS IN ASSOCIATES (Continued)

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

Name of associate	Form of business structure	Country of incorporation	Proportion of nominal value of issued capital held by the Group indirectly		Principal activities
			2017	2016	
Asia Vigour (Holdings) Limited	Incorporated	British Virgin Islands	49%	49%	Investment holding
Process Automation (Sea) Pte. Ltd.	Incorporated	Singapore	36%	36%	Sale of electroplating machines and spare parts

The summarised financial information in respect of the Group's associates is set out below:

	2017 HK\$'000	2016 HK\$'000
Total assets	13,624	19,680
Total liabilities	(6,918)	(10,803)
Net assets	6,706	8,877
Dividends declared by an associate for the year	(850)	(1,203)
Group's share of net assets of associates	2,414	3,196
Revenue	22,063	28,873
(Loss) profit for the year	(1,017)	2,935
Group's share of results of associates for the year	(366)	1,057
Group's share of other comprehensive income (expense) of associates	434	(324)

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 18. INTERESTS IN ASSOCIATES (Continued)

Since prior year, the Group discontinued recognition of its share of losses of an associate. The unrecognised share of losses of the associate, extracted from the relevant management accounts of the associate, both for the year and cumulatively, are as follows:

	2017 HK\$'000	2016 HK\$'000
Unrecognised share of losses of an associate for the year	14	13
Accumulated unrecognised share of losses of an associate	2,302	2,288

## 19. INVENTORIES

	2017 HK\$'000	2016 HK\$'000
Raw materials	61,459	63,954

## 20. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	2017 HK\$'000	2016 HK\$'000
Contracts in progress at the end of the reporting period:		
Contract costs incurred	653,126	405,004
Recognised profits less recognised losses	108,028	50,863
Progress billings	761,154 (693,606)	455,867 (387,215)
	67,548	68,652
Represented by:		
Due from customers included in current assets	75,748	78,441
Due to customers included in current liabilities	(8,200)	(9,789)
	67,548	68,652

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 20. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

(Continued)

At the end of the reporting period, there were no retention monies held by customers for contract work performed (2016: nil). At 31 December 2017, advances received from customers for contract work amounted to approximately HK\$105,000 (2016: approximately HK\$6,307,000) which were included in creditors, bills payables and accrued charges.

## 21. DEBTORS, BILLS RECEIVABLES AND PREPAYMENTS

	2017 HK\$'000	2016 HK\$'000
Trade debtors and bills receivables	221,409	138,682
Less: Allowance for bad and doubtful debts	(32,729)	(31,911)
	188,680	106,771
Other debtors and prepayments	27,735	42,823
	216,415	149,594

As at 31 December 2016, the trade debtors balance included trade debts due from associates of approximately HK\$4,232,000.

The Group allows a general credit period of one to two months to its trade customers except construction contracts where the Group allows stage payments. Each construction contract will normally involve two to six stage payments, namely deposit payment, shipment payment, arrival payment, installation completion payment, chemical testing payment and acceptance payment. It will take at least fifteen months from the time the electroplating machine is shipped before a construction contract will reach the acceptance stage. In most of the cases, invoice is due on presentation and credit will only be offered to customers in accordance with their financial credit abilities and established payment records.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 21. DEBTORS, BILLS RECEIVABLES AND PREPAYMENTS (Continued)

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

	2017 HK\$'000	2016 HK\$'000
1 – 60 days	156,945	100,241
61 – 120 days	22,736	3,714
121 – 180 days	5,153	1,120
Over 180 days	3,846	1,696
	<b>188,680</b>	<b>106,771</b>

As at 31 December 2017, the trade debtors and bills receivables of approximately HK\$156,945,000 (2016: approximately HK\$100,241,000) were neither past due nor impaired. No significant counterparty default was noted in the past.

As at 31 December 2017, trade debtors of approximately HK\$31,735,000 (2016: approximately HK\$6,530,000) were past due but not impaired as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these trade receivables is 86 days (2016: 65 days) as at 31 December 2017.

Aging of trade debtors which are past due but not impaired at the end of the reporting period:

	2017 HK\$'000	2016 HK\$'000
Past due by:		
1 – 60 days	22,736	3,714
61 – 120 days	5,153	1,120
121 – 180 days	2,585	308
Over 180 days	1,261	1,388
	<b>31,735</b>	<b>6,530</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 21. DEBTORS, BILLS RECEIVABLES AND PREPAYMENTS (Continued)

### Movement in the allowance for bad and doubtful debts

	2017 HK\$'000	2016 HK\$'000
Balance at beginning of the year	31,911	32,299
Allowance made (reversal) on trade debtors	1,039	(388)
Written off against trade debtors	(221)	–
Balance at end of the year	32,729	31,911

Included in the allowance for doubtful debts of approximately HK\$32,729,000 (2016: approximately HK\$31,911,000) are individually impaired trade debtors, which were in severe financial difficulties. The Group has provided fully for these debts.

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines its credits. Credit sales are made to customers with a satisfactory trustworthy history. Credit limits attributed to customers are reviewed regularly.

In determining the recoverability of a trade debtor, the management considers the credit history including default or delay in settlement, subsequent settlement, aging analysis of the trade debtors and financial position of debtors. The trade debtors that were past due but not impaired were either subsequently settled or with no historical default of payments by the respective customers. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

The trade debtors and bills receivables that are denominated in currencies other than the functional currency of the relevant group entities are set out below:

	Sterling Pound ("GBP") HK\$'000	United States Dollars ("USD") HK\$'000	Euro ("EUR") HK\$'000	Canadian Dollars ("CAD") HK\$'000
As at 31 December 2017	–	116,318	–	78
As at 31 December 2016	48	64,771	3,304	–

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 22. HELD-FOR-TRADING INVESTMENTS

	2017 HK\$'000	2016 HK\$'000
Equity securities listed in Hong Kong	45,153	42,342

Held-for-trading investments as at 31 December 2017 and 2016 represent equity securities listed in Hong Kong. The fair values of the investments are determined based on the quoted market bid prices available on the Stock Exchange.

## 23. AMOUNTS DUE FROM AND TO ASSOCIATES

### Amounts due from associates

	2017 HK\$'000	2016 HK\$'000
Interest-bearing at Hong Kong prime rate plus 2% per annum	1,975	1,975
Less: Allowance for bad and doubtful debts	(1,975)	(1,975)
	–	–
Non-interest bearing	21	21
	21	21

The above balances are unsecured and repayable on demand.

### Amounts due to associates

The amounts due to associates were of a non-trade nature, unsecured, interest-free and repayable on demand.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 24. PLEDGED BANK DEPOSITS AND BANK BALANCES

Bank balances including saving deposits and time deposits carry interest at market rates ranging from 0.001% to 3.6% per annum (2016: 0.001% to 3.1% per annum). The pledged deposits carry fixed interest rate at 0.1% per annum (2016: 0.1% per annum). The pledged bank deposits represent deposits pledged to banks to secure banking facilities granted to the Group, and will be released upon settlement of the relevant bank borrowing or upon expiry of the relevant banking facilities. Included in the bank balances and cash of the Group is an amount denominated in RMB of approximately HK\$32,748,000 (2016: approximately HK\$28,712,000), which are not freely convertible into other currencies.

The bank balances and pledged deposits that are denominated in currencies other than the functional currency of the relevant group entities are set out below:

	USD HK\$'000	Australia Dollars ("AUD") HK\$'000	GBP HK\$'000	EUR HK\$'000	Taiwan Dollars ("NTD") HK\$'000	Renminbi ("RMB") HK\$'000	Philippine Peso ("PESO") HK\$'000	CAD HK\$'000
As at 31 December 2017	78,275	318	53	11,529	1,330	125	115	773
As at 31 December 2016	76,205	258	411	5,335	1,326	132	115	194

## 25. CREDITORS, BILLS PAYABLES AND ACCRUED CHARGES

	2017 HK\$'000	2016 HK\$'000
Trade creditors	178,588	168,292
Bills payables	2,911	3,741
Accrued staff costs	17,731	19,759
Commission payables to sales agents	18,587	15,662
Other creditor and accrued charges (note)	100,838	72,117
Advances received from customers for contract work	105	6,307
Advances received from customers for services	8,817	8,137
	<b>327,577</b>	294,015
Less: Non-current portion of accrued charges (note)	<b>(44,647)</b>	(29,854)
	<b>282,930</b>	264,161

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 25. CREDITORS, BILLS PAYABLES AND ACCRUED CHARGES (Continued)

Note: As at 31 December 2017, the non-current payable portion of provision of approximately HK\$44,647,000 (2016: HK\$29,854,000) represents the provision of performance bonus to the executive directors of the Company which is determined by the board of directors of the Company with reference to the net gain from the Other Asset. An imputed interest expense of approximately HK\$1,189,000 (2016: nil) is charged to profit or loss during the current year. With the effective of the Supplemental Agreements, the estimated timing of payment of the non-current portion of provision is revised and an adjustment of provision of approximately HK\$2,335,000 (2016: nil) is charged to profit or loss during the current year.

The following is an aged analysis of trade creditors and bills payables as at the end of the reporting period which is based on the invoice dates of the amounts due:

	2017 HK\$'000	2016 HK\$'000
0 – 60 days	51,790	81,470
61 – 120 days	43,841	25,589
121 – 180 days	30,020	22,556
Over 180 days	55,848	42,418
	<b>181,499</b>	<b>172,033</b>

The average credit period on purchase of goods is 60 – 120 days.

Creditors, bills payables and accrued charges that are denominated in currencies other than the functional currency of the relevant group entities are set out below:

	USD	AUD	GBP	EUR	NTD	RMB	Japanese Yen ("JPY")	CAD
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 31 December 2017	31,466	105	286	6,796	2,321	22	1,396	940
As at 31 December 2016	37,040	120	662	6,883	324	22	249	940

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 26. WARRANTY PROVISION

	2017 HK\$'000	2016 HK\$'000
At 1 January	33,317	23,163
Additional provision in the year	30,965	22,449
Utilisation of provision	(27,499)	(12,295)
At 31 December	36,783	33,317
Analysed for reporting purposes as:		
Current	31,609	29,013
Non-current	5,174	4,304
	36,783	33,317

The warranty provision represents management's best estimation of the Group's liability under one to two years warranty granted on electroplating products, based on prior experience and industry averages for defective products.

## 27. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Shares of HK\$0.01 each		
Authorised:		
At 1 January 2016, 31 December 2016 and 31 December 2017	20,000,000,000	200,000
Issued and fully paid:		
At 1 January 2016, 31 December 2016 and 31 December 2017	426,463,400	4,265

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 28. DEFERRED TAXATION

The following is the deferred tax liabilities recognised and movements thereon during the current and prior reporting periods:

	<b>Accelerated tax depreciation</b> HK\$'000	<b>Revaluation of properties</b> HK\$'000	<b>Fair value adjustment of Other Asset</b> HK\$'000	<b>Total</b> HK\$'000
At 1 January 2016	1,239	3,076	–	4,315
Charge to profit or loss (note 9)	–	–	266,544	266,544
Currency realignment	–	–	(11,025)	(11,025)
At 31 December 2016	1,239	3,076	255,519	259,834
Charge to profit or loss (note 9)	–	–	60,999	60,999
Currency realignment	–	–	20,715	20,715
At 31 December 2017	1,239	3,076	337,233	341,548

At 31 December 2017, the Group had estimated unused tax losses of approximately HK\$397,400,000 (2016: approximately HK\$357,745,000) and other deductible temporary differences of approximately HK\$28,850,000 (2016: approximately HK\$28,790,000) available for offset against future profits. No deferred tax asset has been recognised due to the uncertainty of future profits streams. The tax losses may be carried forward indefinitely.

Starting from 1 January 2008, the tax law of the PRC requires withholding tax upon the distribution of undistributed retained profits earned by the PRC subsidiaries to the overseas shareholders. Deferred tax has not been provided for in the consolidated financial statements in respect of the temporary differences attributable to the profits after 1 January 2008 amounting to approximately HK\$1,109,324,000 (2016: approximately HK\$817,725,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 29. DISPOSAL OF SUBSIDIARIES

On 7 July 2016, the Group entered into an agreement (the "Disposal Agreement") with two independent third parties, to dispose of the entire issued share capital of PAL Properties Investment Limited ("PAL Properties") and its subsidiaries, at a consideration of approximately HK\$181,950,000. The principal assets of PAL Properties were its investment in a subsidiary incorporated in the PRC which held the lands comprising four parcels of land located at north of Songbai Road, Gongmin Subdistrict Office, Guangming.

The completion of the Disposal Agreement took place on 27 September 2016.

	HK\$'000
<b>Consideration received:</b>	
Cash received	181,950
<b>Analysis of assets and liabilities over which control was lost:</b>	
Prepayments	58,756
Prepaid lease payments	38,427
Bank balances and cash	19,947
Other payables	(12,670)
Net assets disposed of	104,460
<b>Gain on disposal of subsidiaries</b>	
Consideration received or receivable	181,950
Net assets disposed of	(104,460)
Gain on disposal	77,490
<b>Net cash inflow arising from disposal</b>	
Cash consideration	181,950
Less: Bank balances and cash disposed of	(19,947)
	162,003



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 30. OPERATING LEASE COMMITMENTS

### The Group as lessee

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

	2017 HK\$'000	2016 HK\$'000
Within one year	6,818	8,619
Within two to five years	334	5,674
	<b>7,152</b>	14,293

Operating lease payments represent rentals payable by the Group for its factory premises and staff quarters in the PRC. Leases are negotiated for five years and rentals are fixed for the leased period.

## 31. PLEDGE OF ASSETS

As at 31 December 2017, the Group pledged bank deposits of approximately HK\$3,236,000 (2016: approximately HK\$30,516,000) to secure general banking facilities granted to the Group.

As at 31 December 2017, the Group utilised approximately HK\$5,707,000 (2016: HK\$42,539,000) of the banking facilities for the issuance of bank's guarantee for (1) warranty obligation of the Group, and (2) shipping guarantee to the customer of the Group.

## 32. RETIREMENT BENEFITS SCHEMES

Since 1 December 2000, the Group has operated pension schemes under the rules and regulations of the Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately in an independently managed fund. The Group has followed the minimum statutory contribution requirements of 5% of eligible employees' relevant aggregate income with a maximum monthly contribution of HK\$1,500 per person. The contributions are charged to profit or loss as incurred. The Group's liability is limited to the monthly contributions to the fund.

The relevant PRC subsidiaries are required to make contributions to the state-managed schemes in the PRC based on a certain percentage of the monthly salaries of their current employees to fund the benefits. The employees are entitled to retirement pension calculated with reference to their basic salaries on retirement and their length of service in accordance with the relevant government regulations. The PRC government is responsible for the pension liability to these retired staff.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 33. FINANCIAL INSTRUMENTS

### Categories of financial instruments

	2017 HK\$'000	2016 HK\$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	1,505,155	425,488
ACC	265,686	–
Held-for-trading investments	45,153	42,342
Financial liabilities		
Amortised cost	318,655	279,358

### Financial risk management objectives and policies

The Group's major financial instruments include GCC, ACC, loan receivable, debtors and bills receivables, held-for-trading investments, amounts due from associates, pledged bank deposits, bank balances, creditors, bills payables, accrued charges and amounts due to associates. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and 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.

#### *Currency risk*

Several subsidiaries of the Group have foreign currency sales and purchases. The Group is therefore exposed to foreign currency risk. In addition, certain debtors, pledged bank deposits, bank balances, creditors, bills payables and accrued charges are denominated in currencies other than the functional currency of the respective group entities. The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 33. FINANCIAL INSTRUMENTS (Continued)

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

#### Currency risk (Continued)

The carrying amounts of the group's entities' foreign currency denominated monetary assets and monetary liabilities against their functional currency at the end of the reporting period are as follows:

	Assets		Liabilities	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
AUD	318	258	105	120
CAD	851	194	940	940
EUR	11,529	8,639	6,796	6,883
GBP	53	459	286	662
NTD	1,330	1,326	2,321	324
USD	194,593	140,976	31,467	37,040
PESO	115	115	–	–
JPY	–	–	1,396	249
RMB	125	132	22	22

The carrying amounts of inter-company balances of certain group entities which were denominated in foreign currency are as follows:

	Assets	
	2017 HK\$'000	2016 HK\$'000
HKD against RMB	145,105	147,518

The directors of the Company expect the foreign exchange exposure on USD against HKD to be minimal because HKD is pegged with USD under the Linked Exchange Rate System. Accordingly, no sensitivity analysis is presented for it.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 33. FINANCIAL INSTRUMENTS (Continued)

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

#### Currency risk (Continued)

##### Sensitivity analysis

The following table details the Group's sensitivity to a 10% (2016: 10%) increase and decrease in relevant foreign currencies against the functional currency of the relevant group entities. 10% (2016: 10%) is the sensitivity rate used that 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 10% (2016: 10%) change in foreign currency rates. A positive number below indicates an increase in post-tax profit for the year where relevant currencies strengthen 10% (2016: 10%) against the functional currency of the relevant group entities. For a 10% (2016: 10%) weakening of relevant currencies against the functional currency of the relevant group entities, there would be an equal and opposite impact on the result.

	Profit or loss	
	2017 HK\$'000	2016 HK\$'000
AUD against HKD	18	12
CAD against HKD	(7)	(62)
EUR against HKD	395	147
GBP against HKD	(19)	(17)
NTD against HKD	(83)	84
PESO against HKD	10	10
JPY against HKD	(117)	(21)
RMB against HKD	9	9
HKD against RMB	12,116	12,318

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 33. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

#### *Interest rate risk*

The Group is exposed to cash flow interest rate risk in relation to variable-rate loan receivable as at 31 December 2017 (see note 17 for details). It is the Group's policy to keep its loan receivable at floating rate of interest so as to minimise the fair value interest rate risk.

The Group is exposed to fair value interest rate risk in relation to pledged bank deposits and time deposits placed with banks (see note 24 for details). The Group has not used any derivative contracts to hedge this exposure to interest rate risk. The directors of the Company consider that the Group's exposure to fair value interest rate risk is not significant as the fixed-rate pledged bank deposits and time deposits are with short maturity period.

The Group currently does not have any interest rate hedging policy. However, management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

#### *Equity price risk*

The Group is exposed to potential loss in market value resulting from an adverse change in prices through its quoted held-for-trading investments. Management manages this exposure by closely monitoring the performance of the investments and market conditions. Management will consider diversifying the portfolio of investments as they consider appropriate.

#### *Sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to equity price risks for held-for-trading investments at the end of the reporting period.

If the prices of the respective equity instruments had been 10% (2016: 10%) higher/lower the Group's post-tax profit for the year ended 31 December 2017 would increase/decrease by approximately HK\$3,770,000 (2016: approximately HK\$3,535,000) as a result of the changes in fair value of held-for-trading investments.

In the management's opinion, the above sensitivity analysis is unrepresentative of the inherent risk as the year end exposure does not reflect the exposure during the year.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 33. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

#### **Other price risk**

The Group is exposed to price risk on ACC (note 16) at 31 December 2017.

As at 31 December 2017, the Group is required to estimate the fair value of ACC with changes in fair value to be recognised in the profit or loss. The fair value will be affected either positively or negatively, amongst others, by the average unit rate of properties.

#### *Sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to other price risk for ACC at the end of the reporting period.

If the prices of the respective average unit rate of properties 10% higher/lower the Group's post-tax profit for the year ended 31 December 2017 would increase/decrease by approximately HK\$20,151,000 as a result of the changes in fair value of ACC.

In the management's opinion, the above sensitivity analysis is unrepresentative of the inherent risk as the year end exposure does not reflect the exposure during the year.

#### **Credit risk**

The Group's credit risk are primarily attributable to loans receivable, trade debtors and bills receivables, amounts due from associates, pledged bank deposits and bank balances.

The Group's maximum exposure to credit risk in the event of the counterparties' failure to discharge their obligations as at 31 December 2017 in relation to each class of recognised financial assets is the carrying amount of those 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. The management closely monitors the subsequent settlement of the debts and does not grant long credit period to customers. 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 33. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

#### **Credit risk** *(Continued)*

The Group's pledged bank deposits and bank balances are mainly deposited with banks in Hong Kong and the PRC. The Group had concentration of credit risk as 75% and 18% of the total bank balances as at 31 December 2017 was placed in the banks in Hong Kong and the PRC respectively (2016: 87% and 10% of the total bank balances in the banks in Hong Kong and the PRC respectively). The credit risk on liquid funds is limited because the counterparties are banks with good credit-rating.

The Group had concentration of credit risk as 25% (2016: 43%) of the total trade debtors and bills receivables as at 31 December 2017 was due from the Group's five largest trade debtors, and 100% of the total loan receivable as at 31 December 2017 was due from the Group's largest borrower. The GCC as at 31 December 2017 was due from the Project Company. The Group's five largest trade debtors are multi-national companies or well-established corporations. In order to minimise the credit risk of those receivables, management closely monitored the recoverability of the amounts due. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

#### **Liquidity risk**

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

As at 31 December 2017, the Group has unutilised banking facilities of approximately HK\$126,593,000 (2016: approximately HK\$89,761,000).

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. 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 settle. The table includes both interest and principal cash flows.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 33. FINANCIAL INSTRUMENTS (Continued)

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

#### Liquidity risk (Continued)

Liquidity risk tables

	Weighted average effective interest rate %	On demand and less than 1 month HK\$'000	1 – 3 months HK\$'000	3 months to 1 year HK\$'000	1 year to 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
2017							
Creditors, bills payables and accrued charges	–	137,662	77,753	58,301	49,025	322,741	318,655
2016							
Creditors, bills payables and accrued charges	–	114,956	87,995	46,553	36,651	286,155	279,324
Amounts due to associates	–	34	–	–	–	34	34
		114,990	87,995	46,553	36,651	286,189	279,358

### Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of held-for-trading investments (listed in Hong Kong) are determined with reference to the quoted market bid prices available on the relevant exchange;
- the fair value of ACC is determined in accordance with discount cash flow method; and
- 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 consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 33. FINANCIAL INSTRUMENTS (Continued)

### Fair value (Continued)

#### Fair value measurement recognised in the consolidated statement of financial position

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis.

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined. On particular, the valuation technique and inputs used, as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets	Fair value as at 31 December		Fair value hierarchy	Valuation technique and key inputs	Significant unobservable inputs
	2017	2016			
(1) ACC as included in Other Asset classified as derivative financial instruments	<b>Assets – HK\$265,686,000</b>	Nil	Level 3	Discount cash flow method  The key inputs are average unit rate, discount rate and timing of cash flow of ACC	The average unit rate of RMB32,329 to RMB55,000 per square meter and the discount rate of 14.52%
(2) Investments in equity securities listed in Hong Kong classified as held-for-trading investments	<b>Assets – HK\$45,153,000</b>	Assets – HK\$42,342,000	Level 1	Quoted bid prices in active market	Not applicable

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 33. FINANCIAL INSTRUMENTS (Continued)

### Reconciliation of Level 3 fair value measurements of financial assets

	ACC as included in Other Asset (Note 16)	
	2017 HK\$'000	2016 HK\$'000
At 1 January	–	–
Recognition	193,657	–
Change in fair value	58,147	–
Currency realignment	13,882	–
At 31 December	265,686	–

There were no transfers among levels of the fair value hierarchy.

### Fair value measurements and valuation processes

In estimating the fair value of an asset or a liability, where Level 1 inputs are not available, the management of the Group work closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

## 34. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Dividend payables HK\$'000	Interest payables HK\$'000	Amounts due to associates HK\$'000	Total HK\$'000
At 1 January 2017	–	–	34	34
Financing cash flows	(400)	(13)	(34)	(447)
Dividend declared	400	–	–	400
Interest expenses	–	13	–	13
At 31 December 2017	–	–	–	–

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 35. PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries as at 31 December 2017 and 2016 are as follows:

Name of subsidiary	Place/country of incorporation/ registration	Issued and fully paid up ordinary share capital/ registered capital	Proportion of ownership interest attributable to the Company		Principal activities
			2017 %	2016 %	
ATNT Global Investments Company Limited	Hong Kong	HK\$2	100	100	Securities trading
ATNT Group Management Limited	Hong Kong	HK\$2	100	100	Management services
台灣亞洲自動化設備股份有限公司	Taiwan	TWD10,000,000	100	100	Installation of electroplating machines and after sale services
Fast Richmate Limited	British Virgin Islands*	US\$1	100	100	Investment holding
Happy Win Resources Limited	British Virgin Islands*	US\$1	100 <sup>#</sup>	100 <sup>#</sup>	Investment holding
Longfaith Holdings Limited	British Virgin Islands*	US\$1	100	100	Investment holding
Mega Core Investment Limited	British Virgin Islands*	US\$100	100	100	Investment holding
Palcon International Limited	British Virgin Islands*	US\$100	60	60	Investment holding
PAL Control Sdn. Bhd.	Malaysia	MYR2	60	60	Software development
PAL Europe Limited	Hong Kong	HK\$2	100	100	Investment holding

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 35. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place/country of incorporation/ registration	Issued and fully paid up ordinary share capital/ registered capital	Proportion of ownership interest attributable to the Company		Principal activities
			2017 %	2016 %	
PAL Finance Limited	Hong Kong	HK\$2	100	100	Money lending
PAL SEA Limited	British Virgin Islands*	US\$100	100	100	Investment holding
PAL (Sea) Sdn. Bhd.	Malaysia	MYR300,000	60	60	Sale of electroplating machines
PAL Service Sdn. Bhd.	Malaysia	MYR50,002	60	60	Sale of electroplating machines and spare parts
PAL Surface Treatment Systems Limited	Hong Kong	HK\$10,000	100	100	Sale of electroplating machines and spare parts
Process Automation (BVI) Limited	British Virgin Islands*	HK\$110,000	100 <sup>#</sup>	100 <sup>#</sup>	Investment holding
Process Automation (China) Limited 寶盈科技(深圳)有限公司 (Wholly foreign-owned enterprise ("WFOE"))	PRC	HK\$8,500,000	100	100	Design, manufacture and sale of electroplating machines
Process Automation (Europe) Limited	The United Kingdom	GBP1	100	100	Sale of electroplating machines

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 35. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place/country of incorporation/ registration	Issued and fully paid up ordinary share capital/ registered capital	Proportion of ownership interest attributable to the Company		Principal activities
			2017 %	2016 %	
Process Automation International Limited ("PAIL")	Hong Kong	HK\$2 (note)	100	100	Design, manufacture and sale of electroplating machines
Process Automation (Shenzhen) Limited 寶龍自動機械(深圳)有限公司(WFOE)	PRC	HK\$18,000,000	100	100	Design, manufacture and sale of electroplating machines
Rich Town Properties Limited	British Virgin Islands*	US\$2	100	100	Property investment

\* The subsidiaries operate in Hong Kong. The remaining subsidiaries operate in their places of incorporation.

# The proportion of ownership interest directly attributable to the Company. The proportion of ownership interest attributable to the remaining subsidiaries are indirectly attributable to the Company.

Note: At 31 December 2017 and 2016, PAIL had outstanding 11,000,000 non-voting deferred shares which were held by Process Automation (BVI) Limited. The deferred shares carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of PAIL and practically carry no rights to participate in any distribution on winding up.

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 36. RELATED PARTY TRANSACTION

During the year, the Group entered into the following transactions with related parties:

	Trade sales and service rendered		Trade purchases		Warranty expense		Installation expense	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
Associates	2,454	5,791	35	63	312	520	1,770	936

Details of the outstanding balances with associates are set out in notes 21 and 23.

During the year, the Group paid commission expense and other securities dealing expense from securities dealing of approximately HK\$5,000 (2016: approximately HK\$32,000) to Karl-Thomson Securities Company Limited, which is a wholly owned subsidiary of Hoifu.

During the year ended 31 December 2017, the Group received interest income and handling fee income of approximately HK\$2,182,000 and HK\$390,000 respectively (2016: nil) from KTFG. Details of the loan receivable due from KTFG are set out in note 17.

During the year, the Group received rental income of approximately HK\$163,000 (2016: HK\$163,000) and management income of approximately HK\$275,000 (2016: HK\$260,000) from BioEm Air Sanitizing Technology Company Limited ("BioEm"). During the year, the Group also paid to BioEm for their products at a value of approximately HK\$22,000 (2016: HK\$5,000) which was recorded as administrative expense. Mr. Lam Kwok Hing, an executive director and a substantial shareholder of the Company, through his private investment vehicle, Excel Dragon Investment Limited, holds 40% indirect interest in BioEm and acts as a corporate director of BioEm.

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

	2017 HK\$'000	2016 HK\$'000
Salaries and other short-term employee benefits	15,908	17,747
Retirement benefits costs	126	162
	<b>16,034</b>	<b>17,909</b>

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 37. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY AT 31 DECEMBER 2017

### Statement of financial position

	2017 HK\$'000	2016 HK\$'000
Non-current assets		
Interests in subsidiaries	47,286	47,286
Amounts due from subsidiaries	86,892	78,823
	<b>134,178</b>	126,109
Current assets		
Amounts due from subsidiaries	46,729	20,875
Amounts due from associates	21	21
Other debtors and prepayments	60	–
Bank balances	1,561	1,635
	<b>48,371</b>	22,531
Current liabilities		
Creditors and accrued charges	1,049	5,511
Amounts due to subsidiaries	68,647	25,927
	<b>69,696</b>	31,438
Net current liabilities	<b>(21,325)</b>	(8,907)
	<b>112,853</b>	117,202
Capital and reserves		
Share capital	4,265	4,265
Reserves	63,941	83,083
Total equity	<b>68,206</b>	87,348
Non-current liabilities		
Accrued charges	44,647	29,854
	<b>112,853</b>	117,202

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 37. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY AT 31 DECEMBER 2017 (Continued)

### Movement of the Company reserves

	Share premium HK\$'000	Contributed surplus HK\$'000	Retained profits (accumulated losses) HK\$'000	Total HK\$'000
Balance at 1 January 2016	28,500	78,447	4,694	111,641
Loss and total comprehensive expense for the year	–	–	(28,558)	(28,558)
Balance at 31 December 2016	28,500	78,447	(23,864)	83,083
Loss and total comprehensive expense for the year	–	–	(19,142)	(19,142)
Balance at 31 December 2017	28,500	78,447	(43,006)	63,941



# Financial Summary

## RESULTS

	Year ended 31 December				
	2013	2014	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	470,839	558,316	423,806	601,898	<b>800,966</b>
Profit for the year attributable to:					
Owners of the Company	8,607	9,892	29,013	761,996	<b>209,483</b>
Non-controlling interests	176	1,469	488	375	<b>553</b>
	8,783	11,361	29,501	762,371	<b>210,036</b>

## ASSETS AND LIABILITIES

	At 31 December				
	2013	2014	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total assets	555,171	568,269	570,711	1,632,256	<b>2,027,105</b>
Total liabilities	(273,017)	(277,140)	(269,148)	(613,195)	<b>(722,361)</b>
	282,154	291,129	301,563	1,019,061	<b>1,304,744</b>
Equity attributable to owners of the Company	280,565	289,237	299,246	1,018,699	<b>1,304,191</b>
Non-controlling interests	1,589	1,892	2,317	362	<b>553</b>
	282,154	291,129	301,563	1,019,061	<b>1,304,744</b>