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)

INTERIM REPORT 2018

CONTENTS

CORPORATE INFORMATION	2
MANAGEMENT DISCUSSION AND ANALYSIS	3
OTHER INFORMATION	24
REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	30
CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	32
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION	34
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	36
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS	37
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	38

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

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SHARE REGISTRARS AND TRANSFER OFFICES

PRINCIPAL REGISTRAR AND TRANSFER OFFICE:

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CORPORATE WEBSITE

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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

Management Discussion and Analysis

Results

During the period ended 30 June 2018 ("Period Under Review"), the Group recorded profit attributable to owners of the Company of approximately HK$71,872,000 compared to the profit attributable to owners of the Company of approximately HK$127,277,000 for the period ended 30 June 2017 ("Previous Period"). The significant drop in Group's profit attributable to owners of the Company during the Period Under Review was primarily due to (i) decrease in revenue to approximately HK$193,165,000 (the Previous Period: approximately HK$505,471,000), (ii) drop in net gain arising from the arrangement in relation to a site located at Longhua (see the paragraph below with heading "Net Gain In Relation To The Longhua Project" on page 12) and (iii) increase in net loss in fair value of investments held for trading arising from the Period Under Review.

The basic earnings per share for the Period Under Review was HK16.85 cents compared to the basic earnings per share of HK29.84 cents for the Previous Period.

Financial Review

Revenue

The revenue for the Period Under Review was approximately HK$193,165,000 or 61.8% less than the Previous Period. Lower revenue reported during the Period Under Review was mainly due to decreased sales in high-end communication device and automobile.

In terms of business segment, approximately 85.6% of the revenue was generated from PCB sector (Previous Period: approximately 88.8%) and approximately 14.4% came from surface finishing sector (Previous Period: approximately 11.2%). In terms of the machines geographical installation base, the revenue composition during the Period Under Review was 59.0% machines in PRC, 24.6% in Taiwan, 4.8% in the USA, and 11.6% in rest of the world.

Gross Profit

Notwithstanding to the above, the Group recorded an improvement in the average gross profit margin from 16.7% in Previous Period to 20.4% for the Period Under Review, which is mainly attributable to completion of jobs with higher gross profit margin and costs spent on debugging technical issues arising from the new electroplating equipment named SCP line was much reduced.

Other income

(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. 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 of approximately HK$1,853,000 (the Previous Period: interest income and handling fee income of approximately HK$670,000 and HK$390,000 respectively) from the Borrower.

(b) Interest received from bank deposits

Interest income from bank deposits was approximately HK$762,000 (the Previous Period: HK$690,000).

(c) Imputed interest income

Please refer to note 8 of the unaudited financial statement for more detailed explanation on the imputed interest income of approximately HK$79,398,000 (the Previous Period: HK$9,479,000).

Selling and Distribution Costs

The costs for the Period Under Review was 8.4% lower than the Previous Period. It was primarily due to decrease in revenue.

Administrative expenses

(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 or loss in relation to the Longhua Project after considering all necessary allowance and the discounting effect ("Net Gain In Relation To The Longhua Project", please refer to the paragraph having the same heading below) and (ii) overall financial performance of the Group for a financial year but excluding Net Gain In Relation To The Longhua Project.

For the Period Under Review, provision for performance related incentive payments in relation to Net Gain In Relation To The Longhua Project was approximately HK$4,659,000 (the Previous Period: HK$5,686,000). Such provision was based on the assumptions that the Company shall receive the guaranteed cash consideration of RMB1.23 billion and additional cash consideration in accordance with the agreed timetable and terms under the Supplemental Agreements (as defined below). No provision was made for performance related incentive payments in relation to overall financial performance of the Group but excluding Net Gain In Relation To The Longhua Project (the Previous Period: HK$424,000).

(b) Rental expenses

The rental expenses recorded in the Period Under Review was approximately HK$5,372,000 (the Previous Period: 4,929,000). It was because the average exchange rate for RMB was higher in Period Under Review than in the Previous Period.

(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$45,656,000 which was 16.6% higher than the Previous Period (the Previous Period: HK$39,167,000). The increase of approximately HK$6,489,000 was mainly attributable to the increase in personnel related cost and other general expenses. As a benchmark, the average inflation rates in China and Hong Kong for first half 2018 were 2.0%[1] and 2.3%[2] respectively.

Finance cost

This represented mainly the imputed interest expenses regarding the provision of performance related incentive payments of approximately HK$833,000 (the Previous Period: HK$567,000).

Since the provision for performance related incentive payments in relation to Net Gain In Relation To The Longhua Project 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.

Taxation

Taxation of approximately HK$34,400,000 (the Previous Period: HK$34,783,000) represented mainly taxes paid or payable by our wholly-owned subsidiaries in China and Taiwan.

The Group has provided a taxation expense of HK$33,473,000 for Net Gain In Relation To The Longhua Project. The remaining HK$927,000 was incurred from the electroplating equipment operations.

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1 Inflation rate in China is reported by the National Bureau of Statistics of China.

2 Inflation rate in Hong Kong is reported by Census and Statistics Department of Hong Kong.

Gain on remeasurement of Deferred Consideration in the Previous Period

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 Supplement 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 ("Guaranteed Cash Consideration") and rights to receive the additional cash consideration ("Additional Cash Consideration") 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 Agreement 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 issued in 2017, 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. This was originally disclosed in 2017 annual report and was restated in this report to approximately HK$136,557,000 by excluding (i) the imputed interest for the Guaranteed Cash Consideration, (ii) increase in fair value for the Additional Cash Consideration and (iii) the revaluation effect due to exchange rate movement.

Other gain or losses

This mainly represented (a) Net change in unrealized fair value loss of held-for-trading investments was approximately HK$7,285,000 (the Previous Period: HK$4,731,000) (b) net exchange gain of approximately HK$1,864,000 (the Previous Period: loss of HK$3,787,000) (c) nil adjustment on non-current portion of the provision of performance bonus to the executive directors of the Company (the Previous Period: HK$2,335,000) (d) impairment loss allowance for financial assets of approximately HK$3,535,000 (the Previous Period: HK$298,000) and (e) gain on change in fair value of Additional Cash Consideration of approximately HK$59,268,000 (the Previous Period: HK$2,117,000).

(a) Net change in unrealized fair value loss of held-for-trading investments was approximately HK$7,285,000 (the Previous Period: HK$4,731,000)

All held-for-trading investments were recorded at fair value as at 30 June 2018 and represented listed securities in Hong Kong. The increase in unrealized fair value loss was primarily attributable to the unexpectedly volatile stock market in Hong Kong in the first half year of 2018. During the Period Under Review, Hang Seng Index decreased from 29,919 as at 31 December 2017 to 28,955 as at 30 June 2018.

Below are information of the Group's financial assets at fair value through profit and loss amounted to approximately HK$7,285,000 as at 30 June 2018:

Company Name/ Stock Code	% of shareholding as at 30 June 2018	Fair value change	Fair value as at 30 June 2018	% of Total Assets of the Group as at 30 June 2018	Fair value as at 31 December 2017	% of Total Assets of the Group as at 31 December 2017
		HK$'000	*HK$'000*		*HK$'000*	
Shanghai Industrial Urban Development Group Ltd. (563)	0.13%	(2,623)	8,784	0.44%	11,407	0.56%
South China Financial Holdings Ltd. (619)	0.91%	(1,790)	4,131	0.20%	5,921	0.29%
South China Holdings Company Ltd (413)	0.20%	(1,483)	6,876	0.34%	8,359	0.41%
Orient Victory Travel Group Company Ltd. (265)	0.38%	–	13,822	0.69%	13,822	0.68%
South China Assets Holdings Ltd. (8155)	0.45%	(605)	2,219	0.11%	2,824	0.14%
Others (Note)		(784)	2,036	0.10%	2,820	0.15%
Total		(7,285)	37,868	1.88%	45,153	2.23%

Note: None of these investment represented more than 1% of the total shareholding for that respective stock as at 30 June 2018.

(b) ***Net exchange gain was approximately HK$1,864,000***

The net exchange gain was mainly due to (i) the exchange gain of approximately HK$1,515,000 arisen from intercompany transactions and (ii) exchange gain of approximately HK$295,000 arisen from transactions of Euro-based receivable and payables.

During the Period Under Review, Euro was depreciated by approximately 2.8%.

(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 in the Previous Period***

As at 30 June 2017, the non-current payable portion of provision of approximately HK$38,442,000 (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 In Relation To The Longhua Project. With the Supplemental Agreements become effective, the estimated timing of payment of the non-current portion of provision is revised and as such an adjustment of provision of approximately HK$2,335,000 was charged to profit or loss during the period ended 30 June 2017.

There was no such adjustment for the Period Under Review.

(d) ***Impairment loss allowance for financial assets of approximately HK$3,535,000***

Trade debtors and contract assets

As part of the Group's credit risk management, the Group applies internal credit rating for its customers and internal project risks in relation to its electroplating equipment operation. Assessment are done (without undue cost or effort) based on the Group's historical credit loss experience, adjusted for factors that are specific to the projects, debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions. An impairment allowance is provided for the estimated loss over the expected life of trade debtors and contract assets.

During the Period Under Review, the Group reversed approximately HK$171,000 impairment allowance based on the provision matrix on trade debtors and contract assets and reversed impairment loss allowance of approximately HK$377,000 due to the recovery of the impaired receivables. The groupings of customer and project are regularly reviewed by management to ensure relevant information about specific debtors and projects is updated.

Loan receivable

At the end of the reporting period, the directors of the Company have assessed the financial position of the Borrower as well as the economic outlook of the industries in which the Borrower operates, and concluded that there has been no significant increase in credit risk since initial recognition of the loan receivable. However, since the repayment period was reduced from 22 months to 16 months, the risk of default becomes lower and hence there was a reversal of impairment allowance of approximately HK$690,000.

Impairment loss allowance for Guaranteed Cash Consideration

Please refer to paragraph titled "Gain on remeasurement of Deferred Consideration in the Previous Period". The Guaranteed Cash Consideration is a financial asset which should also be subjected to impairment review under HKFRS9. The directors of the Company have assessed the potential credit risks. Although from the directors' point of view, there is no material change to the general financial position of the debtors and the project itself, as the expected credit loss was discounted to present value, when the expected payment timetable for the Guaranteed Cash Consideration comes closer, the present value of such loss allowance will be revised upwards. As a result of this change in time value, the Group has recognised a further impairment loss allowance of approximately HK$4,773,000.

(e) Gain on change in fair value of Additional Cash Consideration of approximately HK$59,268,000

The Company has appointed an independent valuation company to determine the fair value for the Additional Cash Consideration under the Supplemental Agreements. Based on the valuation received, the Group has recorded a gain of approximately HK$59,268,000 (the Previous Period: HK$2,117,000).

Net gain in relation to the Longhua Project

As can be seen above, various incomes and expenses in relation to the property re-development plan in Longhua were recorded in the Period Under Review and the Previous Period. In order to help the shareholders to understand the overall impact, we have prepared a summary table below:–

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
Under "Other Income" – Imputed interest income on Guaranteed Cash Consideration	**79,398,000**	9,479,000
Under "Administrative expenses" – Provision for directors' bonus	**(4,659,000)**	(5,686,000)
Under "Finance cost" – Imputed interest on non-current portion of provision for performance related incentive payments	**(833,000)**	(567,000)
Under "Gain on remeasurement of Deferred Consideration"	**–**	136,557,000
Under "Other gains or losses" – Gain on change in fair value of Additional Cash Consideration	**59,268,000**	2,117,000
Under "Other gains or losses" – Impairment loss allowance for Guaranteed Cash Consideration	**(4,773,000)**	–
Under "Other gains or losses" – Adjustment on non-current portion of provision	**–**	(2,335,000)
Under "Taxation"	**(33,473,000)**	(20,915,000)
Net gain in relation to the Longhua Project	**94,928,000**	118,650,000

Deferred Consideration

This represents the estimated amount to be collected from the Property Re-development Plan in Longhua which was based on the valuation report prepared by an independent valuer but after discounting into present value and after netting off impairment allowance as required under HKFRS9.

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 the ultimate controlling 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 reported in above, the total interest earned in relation to this loan was approximately HK$1,853,000 (the Previous Period: interest income and handling fee income of approximately HK$670,000 and HK$390,000 respectively). The average effective interest rate adopted during the Period Under Review is 5% per annum.

The carrying amount for each respective period is shown below:–

	As at 30/6/2018	As at 31/12/2017
	HK$'000	*HK$'000*
Principal outstanding	**66,000**	60,000
Less impairment loss allowance (adoption of HKFRS9 as of 1 January 2018)	**990**	–
Net carrying amount	**65,010**	60,000

Contract assets

The Group is entitled to invoice customers for construction of custom-built electroplating machinery and other industrial machinery based on achieving a series of performance-related milestones. The contract assets represent the amount which the Group is entitled to claim against the customers for the work completed but not yet billed. They are not billed because the agreed performance-related milestones are still under processed. When a performance-related milestone of a certain project is completed, such related contract assets will be transferred to trade receivables.

Contract liabilities

From time to time, customers will pay to the Group various performance related milestone payments in accordance with accepted purchase orders or agreed contracts. Contract liabilities represent the Group's obligations to transfer goods or services to customers for which the Group has already received consideration from the customers.

Deferred taxation under non-current liability

The Group has recorded a deferred taxation of approximately HK$350,503,000 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 decreased to HK$108,975,000 from HK$404,656,000 in Previous Period, representing 73.1% drop. Out of this total revenue, from the perspective of installation location, nearly 52.8% were shipment made to PRC (53.5% in the Previous Period) and 31.7% were shipment made to Taiwan (36.6% in the Previous Period).

Two main markets driving our revenue in PCB sector are PCBs used in smartphone and car. While global smartphone shipment is still on the down trend which is not working to our favour, the degree of automation in car industry is on the up trend.

The global smartphone shipment for quarter one was down by 2.9% on year-over-year basis and was further down by 1.8% for quarter two according to a report released by IDC.

World Smartphone Market, Top 5 Company Shipments, Market Share, and Year-over-Year Growth, Q2 2018 (shipments in millions)

Vendor		2Q18 Shipments	2Q18 Market Share	2Q17 Shipments	2Q17 Market Share	Year-Over-Year Change
1.	Samsung	71.5	20.9%	79.8	22.9%	-10.4%
2.	Huawei	54.2	15.8%	38.5	11.0%	40.9%
3.	Apple	41.3	12.1%	41.0	11.8%	0.7%
4.	Xiaomi	31.9	9.3%	21.4	6.2%	48.8%
5.	OPPO	29.4	8.6%	28.0	8.0%	5.1%
Others		113.7	33.3%	139.5	40.1%	-18.5%
Total		**342.0**	**100.0%**	**348.2**	**100.0%**	**-1.8%**

Source: IDC Worldwide Quarterly Mobile Phone Tracker, July 31, 2018

In 2017, we recorded a very strong growth in PCB sector as our customers were anticipating a much stronger demand in new smartphone models launched in second half of 2017. They bought in quite a number of electroplating equipment from us since late 2016. As actual smartphone shipment was far less than their expectations, most of our customers are facing over capacity at the moment. The chain effect is we received less orders this year.

On the other hand, we are glad to see that the degree of automation in cars keeps rising. Corporation like Ford, BMW, General Motors and even Daimler are spending vast amounts of money on perfecting self-driving technology. We do believe the direction towards self-driving is an irreversible trend. While there are valid fears regarding the impact on employment, the truth is that self-driving vehicles will be able to save trillions of dollars in time, insurance and will ultimately improve number of accidents as well. When the degree of automation in cars keeps rising, it shall mean use of electronics will increase and so is the demand on PCBs.

Electroplating Equipment-Surface Finishing ("SF") Sector

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

The revenue of SF sector has dropped by 64.1% from approximately HK$51,102,000 in the Previous Period to approximately HK$18,337,000 for the Period Under Review. Out of this total revenue, from the perspective of installation location, nearly 68.4% were shipment made to PRC (82.3% in the Previous Period) and 16.1% were shipment made to the USA (nil in the Previous Period).

The revenue was mainly streamed from multinational companies selling automotive parts. Automotive manufacturing is a bit different from other types of manufacturing. It demands a higher set of standards. The reasons behind this logic are safety and efficiency. It goes without saying that any entity creating devices for automotive market must put safety and reliability ahead of all other priorities. Functionality is a secondary key. Every device must function effectively and efficiently. That is why every newly established factories in the automotive industry are required to obtain certifications in countries they are operating as well as qualification from their end customers. The process is lengthy. But once they are certified or qualified, they will get long term orders from their end customers. Given the lengthy qualification process, sometimes we will not see repeated order from our customer as quickly as we would hope for.

Outlook

On year-over-year basis, we expect the revenue for the whole year will be much less than in 2017 and even lower than in 2016.

The trade war currently undergoing is not helping also. It basically curtails investment appetize. As reported by CNBC in July, the ripple effect from a US-China trade war is a drop in foreign investment worldwide. Foreign investors are looking for both economic opportunities and political stability. Uncertainty will only drive away investment. With the non-stop fire between US and China who both keep throwing in a longer and longer product list under the punitive tariff system, most of the investors will choose to stand still. They are not sure which is a better location to produce yet.

On the other hand, we do believe the possible increase in use of mSAP process and the launch of 5G are working to our benefits. Much has been written about the impending global rollout of 5G wireless infrastructure. 5G wireless infrastructure is said to deliver 10X faster data rates and with a roadmap to increase it from 10X to 100X. The profound impact it will have is everything from mobile phone connectivity to transportation, industrial, and entertainment applications as it will enable a unified connectivity mesh encompassing people, autonomous vehicles, IoT devices, industrial machines, and civil infrastructure. With 5G technology arounds the corner, we are looking at emergence of 5G smartphone and associated telecommunication devices. Both of which require the use of PCBs with finer plating lines or higher aspect ratio. To embrace this possible need, as reported in 2017, we have introduced a new electroplating equipment named SCP line to meet the new plating process named mSAP (modified semi-additive process). mSAP is a process capable of creating fine lines with better conductor geometry. When 5G standard is finalized, more 5G compatible devices will be rollout. This should bring in another wave of equipment investment, hopefully starting in 2019. We remain conservatively optimistic in 2019.

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 Long 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.

(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.

(15) On 25 May 2018, Project Company has obtained the land certificate.

As of the date of this interim report, construction is on-going and reaches 8 to 10 floors from the ground.

Progress in searching for another suitable site as our long-term production base

The Group has relocated its production base to a ready-built factory in Datianyan Industrial Zone, Songgan Street Committee, Baoan District (the "Songgan Factory") under a short term lease, which will expire in December 2019.

At the same time, the management team is searching for another suitable production site for the long term development and benefits of PAL. Our primary focus is to look for a site within Shenzhen region. Of course, given the current development in Shenzhen, it is not easy at all to find a spare land which will fit for our manufacturing purposes. Nevertheless, we will try our best and continue the land searching in Shenzhen region. Failing such, we have no choice but to look for a site near the outskirts but out of Shenzhen region. In the case where a suitable long-term production site is identified but the Group meets with any shortage of fund, the Company will consider fund raising options including but not limited to share subscription, right issue and issue of convertible bonds.

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.

Financial Review

Capital Structure, Liquidity and Financial Resources

As at 30 June 2018, the Group had equity attributable to owners of the Company of approximately HK$1,313,374,000 (31 December 2017: HK$1,304,191,000). The gearing ratio was nil (31 December 2017: 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 30 June 2018, the Group had approximately HK$180,390,000 of cash on hand (31 December 2017: HK$169,116,000).

As at 30 June 2018, the Group pledged deposits of HK$6,284,000 (31 December 2017: HK$3,236,000) to banks to secure the issuance of bank guarantee of the same amount. Total bank facilities available to the Group is approximately HK$132,300,000 (31 December 2017: HK$132,300,000). Out of the facilities available, the Group has utilized (i) approximately HK$6,284,000 as the issuance of bank's guarantee under which customers retain right to claim refund of purchase deposits received by the Group as at 30 June 2018 (31 December 2017: HK$3,236,000), (ii) approximately HK$1,218,000 for the issuance of import letters of credit to suppliers (31 December 2017: HK$2,471,000).

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 30 June 2018, the Company had guarantees of approximately HK$137,500,000 (31 December 2017: 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$7,502,000 (31 December 2017: HK$5,707,000).

Capital Commitment

The Group does not have any material capital commitment as at date of this report.

Employee and Remuneration Policies

As at 30 June 2018, the Group employs a total of 652 employees. Employees are remunerated based on performance, experience and industry practice. Performance related bonuses are granted on discretionary basis. Other employee benefits included fund, insurance and medical cover.

Interim 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 improved financial performance for the Group for the Period Under Review was mainly due to the gain on the change in fair value of Deferred Consideration which is an unrealized gain by nature, after due and careful consideration, the Board does not recommend payment of any interim dividend for the six months ended 30 June 2018 (2017: Nil).

By Order of the Board
Asia Tele-Net and Technology Corporation Limited
Lam Kwok Hing, *M.H. J.P.*
Chairman and Managing Director

Hong Kong, 30 August 2018

Other Information

Directors' and Chief Executives' Interests and Short Positions in Shares and Underlying Shares of the Company and its Associated Corporations

At 30 June 2018, 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

	Number of issued ordinary shares held			Percentage of the issued share capital of the Company
Name of director	**Personal interest**	**Corporate interest**	**Total**	
Mr. Lam Kwok Hing	3,474,667	268,516,500 (Note)	271,991,167	63.78%

Note: The amount composed of 48,520,666, 201,995,834 and 18,000,000 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.

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 30 June 2018.

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares of the Company

As at 30 June 2018, 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

Name of shareholders	Capacity	Number of shares held	Percentage of Company's issued share capital
Medusa	Beneficial owner	48,520,666	11.38%
Karfun	Beneficial owner	201,995,834	47.37%
J & A	Beneficial owner	18,000,000	4.22%

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 Corporations" above.

Save as disclosed above, as at 30 June 2018, 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 Corporations" 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.

Share Option Scheme

At the annual general meeting of the Company held on 12 June 2015, the shareholders of the Company approved the adoption of a new share option scheme (the "New Scheme") and the termination of the old share option scheme (the "Old Scheme"). The Old Scheme was adopted by the Company and remained in force for a period of ten years from the date of its adoption. Pursuant to the Old Scheme, the Company had never grant options under the Old Scheme and no option was outstanding under the Old Scheme.

The New Scheme is in line with the prevailing requirements of Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") in relation to share option schemes. The Company had no share options in issue under the New Scheme during the period and up to date of this report.

Corporate Governance

The Company has complied with the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2018, with deviations from code provisions A.2.1 and A.4.2 of the CG Code in respect of the separate roles of chairman and chief executive officer, and rotation of directors.

Code Provision A.2.1

Under the code provision A.2.1, the roles of chairman and chief executive officer 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 Company does not have a separate Chairman and MD and Mr. Lam Kwok Hing currently holds both positions. 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. 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.

Code Provision A.4.2

Under the code provision A.4.2, every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

According to Bye-laws of the Company, the Chairman or MD are not subject to retirement by rotation or taken into account on determining the number of directors to retire. This constitutes a deviation from code provision A.4.2 of the CG Code. As continuation is a key factor to the successful implementation of any long term business plans, the Board believes, together with the reasons for deviation from code provision A.2.1, that the present arrangement is most beneficial to the Company and the shareholders as a whole.

Audit Committee

The Audit Committee comprises three independent non-executive directors, Mr. Cheung Kin Wai, Mr. Kwan Wang Wai, Alan and Mr. Ng Chi Kin, David. The Audit Committee has reviewed with the management of the Company the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters.

The international auditor of the Company, Messrs. Deloitte Touche Tohmatsu have reviewed the financial statements for the period under review and have issued a report on review of interim financial information. In accordance with the requirements of paragraph 39 of Appendix 16 of the Listing Rules, the Audit Committee has reviewed together with management the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial report matters including the review of the unaudited interim financial statements for the six months ended 30 June 2018.

Remuneration Committee

The remuneration committee of the Company (the "Remuneration Committee") is composed of three directors, namely Messrs. Nam Kwok Lun, Kwan Wang Wai Alan and Ng Chi Kin David. The principal functions of the Remuneration Committee include determining the policy for the remuneration of executive directors, assessing performance of executive directors and approving the terms of executive directors' service contracts; making 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.

Nomination Committee

The nomination committee of the Company (the "Nomination Committee") is composed of three Directors, namely Messrs. Lam Kwok Hing, Cheung Kin Wai and Ng Chi Kin David. The principal functions of the Nomination Committee include reviewing the structure, size and composition of the Board, making recommendations on any proposed changes to the Board to complement the Company's corporate strategy, identifying and nominating qualified individuals for appointment as additional directors or to fill Board vacancies as and when they arise.

Review of Accounts

The Audit Committee has reviewed with the Company's management and external auditor the accounting principles and practices adopted by the Group and discussed auditing, internal controls, and financial reporting matters including the review of the unaudited interim financial statements for the period under review. The external auditor has reviewed the interim financial information for the six months ended 30 June 2018 in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

Model Code for Securities Transaction by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") set out in Appendix 10 to the Listing Rules. Upon enquiry by the Company, all directors of the Company have confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2018.

Directors' rights to acquire shares or debentures

Apart from as disclosed under the heading "Directors' and Chief Executives' Interests and Short Positions in Shares and Underlying Shares of the Company and its Associated Corporations" above, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Purchase, Sale or Redemption of Listed Securities of the Company

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during six months ended 30 June 2018.

Events after the reporting period

There is no material subsequent event undertaken by the Company or by the Group after 30 June 2018 and up to the date of this interim report.

Publication of Results on the Websites of the Stock Exchange and the Company

The Interim Report 2018, containing the relevant information required by the Rules Governing the Listing of Securities on the Stock Exchange, has been published on the websites of the Stock Exchange and the Company.

Report on Review of Condensed Consolidated Financial Statements

Deloitte. 德勤

TO THE BOARD OF DIRECTORS OF

ASIA TELE-NET AND TECHNOLOGY CORPORATION LIMITED

(incorporated in Bermuda with limited liability)

Introduction

We have reviewed the condensed 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 32 to 74, which comprise the condensed consolidated statement of financial position as of 30 June 2018 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six months then ended and certain explanatory notes. The Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
30 August 2018

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	NOTES	Six months ended 30 June 2018 HK$'000 (unaudited)	2017 HK$'000 (unaudited)
Revenue	3	**193,165**	505,471
Cost of sales		**(153,756)**	(420,892)
Gross profit		**39,409**	84,579
Other income		**82,750**	11,814
Selling and distribution costs		**(9,413)**	(10,281)
Administrative expenses		**(55,686)**	(50,206)
Gain on remeasurement of Deferred Consideration	9	**–**	136,557
Other gains or losses		**50,304**	(9,522)
Share of results of associates		**(302)**	(202)
Finance costs		**(833)**	(567)
Profit before taxation		**106,229**	162,172
Taxation	4	**(34,400)**	(34,783)
Profit for the period	5	**71,829**	127,389
Other comprehensive (expense) income			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation of foreign operations			
– subsidiaries		**(13,984)**	30,256
– associate		**685**	949
Other comprehensive (expense) income for the period		**(13,299)**	31,205
Total comprehensive income for the period		**58,530**	158,594

	NOTE	Six months ended 30 June 2018 HK$'000 (unaudited)	2017 HK$'000 (unaudited)
Profit (loss) for the period attributable to:			
Owners of the Company		**71,872**	127,277
Non-controlling interests		**(43)**	112
		71,829	127,389
Total comprehensive income (expense) attributable to:			
Owners of the Company		**58,571**	158,470
Non-controlling interests		**(41)**	124
		58,530	158,594
Earnings per share	7		
Basic		**HK16.85 cents**	HK29.84 cents

Condensed Consolidated Statement of Financial Position

AT 30 JUNE 2018

	NOTES	**30.6.2018**	31.12.2017
		HK$'000	*HK$'000*
		(unaudited)	(audited)
Non-current assets			
Property, plant and equipment	8	**39,505**	40,225
Deferred Consideration	9	**1,402,013**	1,348,931
Loan receivable	10	**65,010**	60,000
Interests in associates		**2,797**	2,414
		1,509,325	1,451,570
Current assets			
Inventories		**61,860**	61,459
Debtors and prepayments	11	**92,827**	216,415
Contract assets	12	**74,866**	–
Amounts due from customers for contract work		**–**	75,748
Held-for-trading investments	14	**37,868**	45,153
Amounts due from associates		**42**	21
Taxation recoverable		**3,361**	7,623
Pledged bank deposits	15	**6,284**	3,236
Bank balances and cash		**174,106**	165,880
		451,214	575,535
Current liabilities			
Creditors and accrued charges	16	**173,892**	282,930
Warranty provision		**36,184**	31,609
Contract liabilities		**26,139**	–
Amounts due to customers for contract work		**–**	8,200
Taxation payable		**5,533**	8,253
		241,748	330,992
Net current assets		**209,466**	244,543
Total assets less current liabilities		**1,718,791**	1,696,113

	NOTES	30.6.2018	31.12.2017
		HK$'000	*HK$'000*
		(unaudited)	(audited)
Capital and reserves			
Share capital	17	**4,265**	4,265
Reserves		**1,309,109**	1,299,926
Equity attributable to owners of the Company		**1,313,374**	1,304,191
Non-controlling interests		**512**	553
Total equity		**1,313,886**	1,304,744
Non-current liabilities			
Accrued charges	16	**47,696**	44,647
Warranty provision		**2,391**	5,174
Deferred taxation		**354,818**	341,548
		404,905	391,369
		1,718,791	1,696,113

Condensed Consolidated Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Attributable to owners of the Company										
	Share capital *HK$'000*	Share premium *HK$'000*	Property revaluation reserve *HK$'000*	Legal reserve *HK$'000*	Currency translation reserve *HK$'000*	Contributed surplus *HK$'000*	Capital contribution *HK$'000*	Retained profits *HK$'000*	Subtotal *HK$'000*	Attributable to non-controlling interests *HK$'000*	Total *HK$'000*
Balance at 1 January 2017 (audited)	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 period	–	–	–	–	–	–	–	127,277	127,277	112	127,389
Exchange difference arising on translation of foreign operation											
– subsidiaries	–	–	–	–	30,244	–	–	–	30,244	12	30,256
– associate	–	–	–	–	949	–	–	–	949	–	949
Total comprehensive income for the period	–	–	–	–	31,193	–	–	127,277	158,470	124	158,594
Balance at 30 June 2017	4,265	28,500	13,253	14,336	18,041	48,937	1,206	1,048,631	1,177,169	486	1,177,655
Balance at 31 December 2017 (audited)	4,265	28,500	13,253	14,336	62,857	48,937	1,206	1,130,837	1,304,191	553	1,304,744
Adjustments (see note 2)	–	–	–	–	–	–	–	(49,388)	(49,388)	–	(49,388)
Balance at 1 January 2018 (restated)	4,265	28,500	13,253	14,336	62,857	48,937	1,206	1,081,449	1,254,803	553	1,255,356
Profit (loss) for the period	–	–	–	–	–	–	–	71,872	71,872	(43)	71,829
Exchange difference arising on translation of foreign operation											
– subsidiaries	–	–	–	–	(13,986)	–	–	–	(13,986)	2	(13,984)
– associate	–	–	–	–	685	–	–	–	685	–	685
Total comprehensive (expense) income for the period	–	–	–	–	(13,301)	–	–	71,872	58,571	(41)	58,530
Balance at 30 June 2018 (unaudited)	4,265	28,500	13,253	14,336	49,556	48,937	1,206	1,153,321	1,313,374	512	1,313,886

Condensed Consolidated Statement of Cash Flows

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Net cash from (used in) operating activities	**13,469**	(2,772)
Net cash (used in) from investing activities:		
Purchase of property, plant and equipment	**(2,957)**	(12,064)
Placement of pledged bank deposits	**(6,284)**	–
Withdrawal of pledged bank deposits	**3,236**	29,605
Other investing cash flows	**762**	1,601
	(5,243)	19,142
Net increase in cash and cash equivalents	**8,226**	16,370
Cash and cash equivalents at the beginning of the period	**165,880**	277,181
Cash and cash equivalents at the end of the period	**174,106**	293,551
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**174,106**	293,551

Notes to the Condensed Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2018

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

During the current interim period, the Group applied certain new Hong Kong Financial Reporting Standard ("HKFRSs"). The impact of the application is set out in note 2.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain buildings and financial instruments, which are measured at fair values.

Other than changes in accounting policies resulting from application of new and amendments to HKFRSs and an interpretation, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

2. PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

Application of new and amendments to HKFRSs and an interpretation

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 "Financial Instruments" with HKFRS 4 "Insurance Contracts"
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

In addition, the Group has applied Amendments to HKFRS 9 "Prepayment Features with Negative Compensation" in advance of the effective date, i.e. 1 January 2019.

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

2. PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

2.1 Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers"

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group has applied HKFRS 15 retrospectively, including completed contracts, with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 "Revenue" and HKAS 11 "Construction Contracts" and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15

HKFRS 15 introduces a 5-step approach when recognising revenue:

- 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 Group satisfies a performance obligation.

Under HKFRS 15, the Group 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.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

2. PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

2.1 Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers" *(Continued)*

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15 (Continued)

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met.

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or

- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

2. PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

2.1 Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers" *(Continued)*

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15 (Continued)

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Input method

The progress towards complete satisfaction of a performance obligation is measured based on input method, which is to recognise revenue on the basis of the Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depict the Group's performance in transferring control of goods or services.

The Group recognises revenue from the following major sources:

(a) Sales of custom-built electroplating machinery and other industrial machinery to customers

The Group constructs and sells custom-built electroplating machinery and other industrial machinery under contracts with customers. Such contracts are entered into before construction of the machinery begins. 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. Revenue from construction of custom-built electroplating machinery and other industrial machinery is recognised over time on an input method, i.e. based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. The directors consider that this input method is an appropriate measure of the progress towards complete satisfaction of these performance obligations under HKFRS 15.

2. PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

2.1 Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers" *(Continued)*

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15 (Continued)

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation *(Continued)*

Input method (Continued)

(a) *(Continued)*

The Group is entitled to invoice customers for construction of custom-built electroplating machinery and other industrial machinery based on achieving a series of performance-related milestones. The Group recognises a contract asset for any work performed. When a particular milestone is reached, the Group will send to the customer an invoice for the related milestone payment in accordance with the agreed milestone payments as specified in the purchase order or contract. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point upon the achievement of the particular milestone. If the milestone payment exceeds the revenue recognised to date under the input method then the Group recognises a contract liability for the difference. Sales-related warranties associated with the custom-built electroplating machinery and other industrial machinery cannot be purchased separately and they serve as an assurance that the products will comply with agreed-upon specifications. Accordingly, the Group accounts for warranties in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" consistent with its previous accounting treatment.

(b) Sales of spare parts of electroplating machinery

For sales of spare parts of electroplating machinery to the customers, revenue is recognised when control of the goods has transferred on receipt by the customer. A receivable is recognised by the Group when the goods are delivered to the customers as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

(c) Provision of services – repairs, maintenance and modification

Revenue from provision of services for repairs, maintenance and modification is recognised when the relevant services is provided.

2. PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

2.1 Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers" *(Continued)*

2.1.2 Summary of effects arising from initial application of HKFRS 15

Based on the assessment by the directors of the Company, there is no material impact of transition to HKFRS 15 on retained profits at 1 January 2018.

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	NOTES	Carrying amounts previously reported at 31 December 2017	Adjustments	Carrying amounts under HKFRS 15 at 1 January 2018*
		HK$'000	*HK$'000*	*HK$'000*
Current assets				
Debtors and prepayments	a, c	216,415	(31,670)	184,745
Contract assets	a, c	–	109,306	109,306
Amounts due from customers for contract work	a	75,748	(75,748)	–
Current liabilities				
Creditors and accrued charges	b	282,930	(8,922)	274,008
Contract liabilities	a, b	–	19,010	19,010
Amounts due to customers for contract work	a	8,200	(8,200)	–

* The amounts in this column are before the adjustments from the application of HKFRS 9.

2. PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

2.1 Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers" *(Continued)*

2.1.2 Summary of effects arising from initial application of HKFRS 15 (Continued)

Notes:

(a) As at 1 January 2018, unbilled milestone payments of HK$1,888,000 arising from construction contracts are unconditional as stipulated in the contracts, and hence such balance was recognised as trade debtors and a corresponding contract liabilities at the date of initial application of HKFRS 15. In relation to construction contracts previously accounted for under HKAS 11, the Group has applied input method in estimating the performance obligations satisfied up to date of initial application of HKFRS 15. HK$75,748,000 and HK$8,200,000 of amounts due from/to customers for contract work were reclassified to contract assets and contract liabilities respectively.

(b) As at 1 January 2018, included in the creditors and accrued charges, HK$8,922,000 related to advance billings to customers for services and construction contracts. These balances were reclassified to contract liabilities upon the initial application of HKFRS 15.

(c) As at 1 January 2018, unbilled revenue of HK$33,558,000 arising from completed construction works are conditional as stipulated in the contracts, and hence such balance was reclassified from trade debtors to contract assets upon the initial application of HKFRS 15.

2. PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

2.1 Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers" *(Continued)*

2.1.2 Summary of effects arising from initial application of HKFRS 15 (Continued)

The following table summaries the impacts of apply HKFRS 15 on the condensed consolidated statement of financial position at 30 June 2018 for each of the line items affected. Line items that were not affected by the changes have not been included.

	NOTES	**As reported**	**Adjustments**	**Amounts without application of HKFRS 15**
		HK$'000	*HK$'000*	*HK$'000*
Current assets				
Debtors and prepayments	a, c	92,827	36,930	129,757
Contract assets	a, c	74,866	(74,866)	–
Amounts due from customers for contract work	a	–	38,508	38,508
Current liabilities				
Creditors and accrued charges	b	173,892	10,881	184,773
Contract liabilities	a, b	26,139	(26,139)	–
Amounts due to customers for contract work	a	–	15,830	15,830

Notes:

(a) These adjustments mainly relate to balances presented as contract assets and contract liabilities under HKFRS 15 but would have been stated as amounts due from/to customers for contract work and trade debtors.

2. PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

2.1 Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers" *(Continued)*

2.1.2 Summary of effects arising from initial application of HKFRS 15 (Continued)

Notes: *(Continued)*

(b) As at 30 June 2018, advance billings to customers for services and construction contracts of HK$10,881,000 would have been stated as creditors and accrued charges under HKAS 11. This amount was recognised as contract liabilities under HKFRS 15.

(c) As at 30 June 2018, unbilled revenue of HK$44,461,000 arising from completed construction works which are conditional as stipulated in the contracts would have been stated as trade debtors under HKAS 11. This amount was recognised as contract assets under HKFRS 15.

2.2 Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments"

In the current period, the Group has applied HKFRS 9 "Financial Instruments", Amendments to HKFRS 9 "Prepayment Features with Negative Compensation" and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses ("ECL") for financial assets and other items (for example, contract assets) and (3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

2. PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

2.2 Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" *(Continued)*

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under HKAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

2. PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

2.2 Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" *(Continued)*

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

Classification and measurement of financial assets *(Continued)*

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 "Business Combinations" applies.

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains or losses" line item.

The directors of the Company reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and consider that no changes in classification and measurement on the Group's financial assets.

2. PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

2.2 Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" *(Continued)*

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 *(Continued)*

Impairment under ECL model

The Group assesses ECL on assets which are subject to impairment under HKFRS 9 (including trade debtors, contract assets, GCC (as defined in note 9), loan receivable, amounts due from associates and bank balances). The assessment is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the projects, debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade debtors and contract assets. The ECL on these assets are assessed individually.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

2. PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

2.2 Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" *(Continued)*

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

Impairment under ECL model *(Continued)*

Significant increase in credit risk (Continued)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

2. PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

2.2 Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" *(Continued)*

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

Impairment under ECL model *(Continued)*

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade debtors and contract assets where the corresponding adjustment is recognised through a loss allowance account.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets and contract assets, for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The results of the assessment and the impact thereof are detailed in note 2.2.2.

2. PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

2.2 Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" *(Continued)*

2.2.2 Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Contract assets	Trade debtors	Loan receivable	GCC	Deferred tax liabilities	Accrued charges (non-current)	Retained profits
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Closing balance at 31 December 2017 – HKAS 39	N/A	188,680	60,000	1,083,245	(341,548)	(44,647)	(1,130,837)
Effect arising from initial application of HKFRS 15	109,306	(31,670)	–	–	–	–	–
Effect arising from initial application of HKFRS 9:							
Remeasurement							
Impairment under ECL model (note a)	(747)	(549)	(1,680)	(65,140)	16,285	–	51,831
Other (note b)	–	–	–	–	–	2,443	(2,443)
At 1 January 2018	108,559	156,461	58,320	1,018,105	(325,263)	(42,204)	(1,081,449)

2. PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

2.2 Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" *(Continued)*

2.2.2 Summary of effects arising from initial application of HKFRS 9 (Continued)

Notes:

(a) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all contract assets and trade debtors. To measure the ECL, except for those trade debtors which are credit-impaired, the remaining trade debtors and contract assets have been grouped based on shared credit risk characteristics. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade debtors for the same types of contracts. The Group has therefore concluded that the expected loss rates for the trade debtors are a reasonable approximation of the loss rates for the contract assets.

Loss allowances for other financial assets at amortised cost mainly comprise of loan receivable and GCC are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, the additional credit loss allowance of HK$68,116,000 has been recognised against retained profits. The additional loss allowance is charged against the respective asset.

(b) Adjustment of HK$2,443,000 was made to performance bonus calculated with reference to the net gain from Deferred Consideration (as defined in note a) as a result of the ECL allowance recognised against GCC.

2. PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

2.2 Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" *(Continued)*

2.2.2 *Summary of effects arising from initial application of HKFRS 9 (Continued)*

All loss allowances for financial assets including contract assets, trade debtors and other financial assets at amortised cost as at 31 December 2017 reconcile to the opening loss allowance as at 1 January 2018 is as follows:

	Contract assets	Trade debtors	Loan receivable	GCC
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2017 – HKAS 39	N/A	32,729	N/A	N/A
Amounts remeasured through opening retained profits	747	549	1,680	65,140
At 1 January 2018	747	33,278	1,680	65,140

Except as described above, the application of other amendments to HKFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

2.3 Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the entity's accounting policies above, the opening condensed consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each individual line item.

2. PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

2.3 Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards *(Continued)*

	31 December 2017	HKFRS 15	HKFRS 9	1 January 2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Audited)			(Restated)
Non-current assets				
Property, plant and equipment	40,225	–	–	40,225
Deferred Consideration	1,348,931	–	(65,140)	1,283,791
Loan receivable	60,000	–	(1,680)	58,320
Interests in associates	2,414	–	–	2,414
	1,451,570			1,384,750
Current assets				
Inventories	61,459	–	–	61,459
Debtors and prepayments	216,415	(31,670)	(549)	184,196
Contract assets	–	109,306	(747)	108,559
Amounts due from customers for contract work	75,748	(75,748)	–	–
Held-for-trading investments	45,153	–	–	45,153
Amounts due from associates	21	–	–	21
Taxation recoverable	7,623	–	–	7,623
Pledged bank deposits	3,236	–	–	3,236
Bank balances and cash	165,880	–	–	165,880
	575,535			576,127

2. PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

2.3 Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards *(Continued)*

	31 December 2017 *HK$'000* (Audited)	HKFRS 15 *HK$'000*	HKFRS 9 *HK$'000*	1 January 2018 *HK$'000* (Restated)
Current liabilities				
Creditors and accrued charges	282,930	(8,922)	–	274,008
Warranty provision	31,609	–	–	31,609
Contract liabilities	–	19,010	–	19,010
Amounts due to customers for contract work	8,200	(8,200)	–	–
Taxation payable	8,253	–	–	8,253
	330,992			332,880
Net current assets	244,543			243,247
Total assets less current liabilities	1,696,113			1,627,997
Capital and reserves				
Share capital	4,265	–	–	4,265
Reserves	1,299,926	–	(49,388)	1,250,538
Equity attributable to owners of the Company	1,304,191	–	–	1,254,803
Non-controlling interests	553	–	–	553
Total equity	1,304,744			1,255,356
Non-current liabilities				
Accrued charges	44,647	–	(2,443)	42,204
Warranty provision	5,174	–	–	5,174
Deferred taxation	341,548	–	(16,285)	325,263
	391,369			372,641
	1,696,113			1,627,997

3A. REVENUE FROM GOODS AND SERVICES

Disaggregation of revenue

	Six months ended 30 June 2018 HK$'000
Types of goods or service	
Construction contracts in respect of design, manufacturing and sale of custom-built electroplating machinery and other industrial machinery	
– Printed Circuit Boards	108,975
– Surface Finishing	18,337
	127,312
Sale of spare parts of electroplating machinery	6,266
Provision of services – repairs, maintenance and modification	59,587
Total	193,165
Geographical analysis of revenue by location of external customers	
The People's Republic of China (excluding Hong Kong) (the "PRC")	113,968
Taiwan	47,452
The United States of America	9,305
India	4,020
Hong Kong	3,468
Thailand	3,392
Brazil	2,742
Korea	2,152
Germany	1,730
The United Kingdom	1,575
Singapore	1,552
Mexico	1,180
Others	629
Total	193,165
Timing of revenue recognition	
A point in time	6,266
Overtime	186,899
Total	193,165

3B. SEGMENT INFORMATION

Revenue

The Group's revenue from electroplating machinery business for the six months ended 30 June 2018 and 2017 analysed by principal activity is as follows:

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
Construction contracts in respect of design, manufacturing and sale of custom-built electroplating machinery and other industrial machinery	**127,312**	455,758
Sale of spare parts of electroplating machinery	**6,266**	13,313
Provision of services – repairs, maintenance and modification	**59,587**	36,400
	193,165	505,471

Segment information

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

3B. SEGMENT INFORMATION *(CONTINUED)*

Segment information *(Continued)*

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

	Electroplating equipment Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
Segment revenue	**193,165**	505,471
Segment (loss) profit	**(7,789)**	34,359
Intra-group management fee charged to operating segment	**3,117**	3,133
Other income	**82,008**	11,407
Central corporate expenses	**(17,476)**	(17,512)
Gain on remeasurement of Deferred Consideration (note 9)	**–**	136,557
Imputed interest on non-current portion of provision for performance related incentive payments (note 16)	**(833)**	(567)
Other gains or losses	**47,202**	(5,205)
Profit before taxation	**106,229**	162,172

3B. SEGMENT INFORMATION *(CONTINUED)*

Segment information *(Continued)*

Segment (loss) profit represents the gross (loss) 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 remeasurement of Deferred Consideration, imputed interest on non-current portion of provision for performance related incentive payments, and other gains or losses (including net change in fair value of held-for-trading investments, impairment loss allowance for GCC, gain on change in fair value of ACC (as defined in note 9), 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.

There has been no material change in the total segment assets and total segment liabilities from the amounts disclosed in the last annual financial statements of the electroplating equipment segment. Accordingly, no such information has been disclosed.

4. TAXATION

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
Taxation comprises:		
Current tax – overseas taxation charge for the period	**927**	13,868
Deferred tax charge	**33,473**	20,915
	34,400	34,783

No provision for Hong Kong Profits Tax has been made of the six months ended 30 June 2018 and 2017 as there is no assessable profit for both periods.

Taxation arising in other jurisdictions (including the PRC enterprise income tax) is calculated at the rates prevailing in the relevant jurisdictions.

5. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
Profit for the period has been arrived at after charging (crediting):		
Reversal of allowance for slow moving inventories (included in cost of sales)	**(364)**	(388)
Depreciation of property, plant and equipment	**3,694**	2,891
Imputed interest expense on non-current portion of provision for performance related incentive payments (note 16)	**833**	567
Included in other income		
Interest income from loan receivable	**(1,853)**	(670)
Interest income from bank deposits	**(762)**	(690)
Included in other gains or losses		
Loss on disposal of property, plant and equipment	**8**	254
Net exchange (gain) loss	**(1,864)**	3,787
Net change in fair value of held-for-trading investments	**7,285**	4,731
Adjustment on non-current portion of provision (note 16)	**–**	2,335
Impairment loss allowance for financial assets, net	**3,535**	298
Gain on change in fair value of ACC	**(59,268)**	(2,117)

6. DIVIDEND

No dividends were paid, declared or proposed during either period. The directors do not recommend the payment of an interim dividend.

7. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the Group's profit for the period attributable to owners of the Company of HK$71,872,000 (six months ended 30 June 2017: HK$127,277,000) and the number of ordinary shares of 426,463,400 (six months ended 30 June 2017: HK$426,463,400) in issue.

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

8. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2018, the Group spent approximately HK$2,957,000 (six months ended 30 June 2017: approximately HK$12,064,000) on acquisition of property, plant and equipment.

9. DEFERRED CONSIDERATION

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 Re-development Plan. Pursuant to the Re-development Agreement, the Counter Party is responsible for the 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 progress of the Re-development Plan up to 31 December 2016 was set out in the Company's 2016 annual report.

9. **DEFERRED CONSIDERATION** *(CONTINUED)*

According to the terms of the Re-development Agreement, the Group recognised the right to receive the Relevant Properties (the "Deferred Consideration") of approximately HK$999,560,000, based on the valuation report issued by Avista Valuation Advisory Limited ("Avista"), an independent professional valuer. The Deferred Consideration was initially recognised at its fair value and subsequently carried at cost less impairment.

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.

9. **DEFERRED CONSIDERATION** *(CONTINUED)*

With the effective of the Supplemental Agreements, the Group surrendered its right to receive the Relevant Properties in exchange for the right to receive GCC and ACC. The fair values of GCC and ACC were approximately HK$910,602,000 and HK$193,657,000 respectively at the initial recognition. The fair values of GCC and ACC had 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. In the estimation of the fair values of GCC and ACC, the directors of the Company expect the pre-sales certificate to be issued on 30 June 2019. The Group recognised a gain on remeasurement of Deferred Consideration of HK$136,557,000 upon the initial recognition of GCC and ACC. 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 recognised a gain on change in fair value of ACC of approximately HK$59,268,000 (six months ended 30 June 2017: HK$2,117,000) included in other gains or losses in profit or loss during the six months ended 30 June 2018. The increase of fair value for the six months ended 30 June 2018 is mainly due to the increase in average unit rate.

As GCC is carried at amortised cost, imputed interest of approximately HK$79,398,000 (six months ended 30 June 2017: HK$9,479,000) is recognised as other income in the profit or loss during the six months ended 30 June 2018.

Impairment loss allowance of GCC of approximately HK$4,773,000 (six months ended 30 June 2017: nil) is recognised as other gains or losses in the profit or loss during the six months ended 30 June 2018.

As at 30 June 2018, the Deferred Consideration is made up of GCC of approximately HK$1,081,415,000 (net of impairment loss allowance of HK$69,189,000) and ACC of approximately HK$320,598,000) (31 December 2017: GCC of approximately HK$1,083,245,000 and ACC of approximately HK$265,686,000).

10. LOAN RECEIVABLE

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

	30.6.2018	31.12.2017
	HK$'000	*HK$'000*
Repayable after one year	**66,000**	60,000
Less: impairment loss allowance	**(990)**	–
	65,010	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 the ultimate controlling 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. During the current interim period, KTFG repaid loan of approximately HK$30,000,000 (six months ended 30 June 2017: nil) and drawdown loan of approximately HK$36,000,000 (six months ended 30 June 2017: nil). As at 30 June 2018, a loan of HK$65,010,000 net of impairment loss allowance of HK$990,000 (31 December 2017: HK$60,000,000) 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.

11. DEBTORS AND PREPAYMENTS

	30.6.2018	31.12.2017
	HK$'000	*HK$'000*
Trade debtors	**98,076**	221,409
Less: Allowance for bad and doubtful debts	**(28,352)**	(32,729)
	69,724	188,680
Other debtors and prepayments	**23,103**	27,735
	92,827	216,415

The Group allows a general credit period of one to two months to its trade customers except construction contracts where the Group allows milestone payments. Each construction contract will normally involve two to six milestone payments, namely deposit payment, shipment payment, arrival payment, installation completion payment, trial production payment and acceptance payment. Depending on the size of the order, it will normally take a range from eight to fifteen months from the time the electroplating machine is shipped before a construction contract will reach the acceptance milestone. 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.

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

	30.6.2018	31.12.2017
	HK$'000	*HK$'000*
1 – 60 days (note)	**42,759**	156,945
61 – 120 days	**22,746**	22,736
121 – 180 days	**1,819**	5,153
Over 180 days	**2,400**	3,846
	69,724	188,680

Note: As at 30 June 2018, unbilled milestone payment of HK$7,531,000 arising from construction contracts, which are unconditional as stipulated in the contracts, are included in this band.

12. CONTRACT ASSETS

The contract assets primarily relate to the Group's right to consideration for work completed and not billed because the rights are conditioned on the Group's future performance in achieving specified milestones at the reporting date on contract work. The contract assets are transferred to trade receivables when the rights become unconditional. The Group is typically entitled to receive the final acceptance payment upon the final acceptance of the completion of contract work by customers.

Details of the impairment assessment are set out in note 13.

13. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS AND OTHER ITEMS SUBJECT TO ECL MODEL

Trade debtors and contract assets

As part of the Group's credit risk management, the Group applies internal credit rating for its customers in relation to its electroplating equipment operation.

The Group assessed credit impaired balances individually. In addition, for non-credit impaired balances, the Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL, trade debtors and contract assets are assessed individually.

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort.

During the current interim period, the Group reversed HK$171,000 impairment allowance.

13. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS AND OTHER ITEMS SUBJECT TO ECL MODEL *(CONTINUED)*

Trade debtors and contract assets *(CONTINUED)*

Allowance for impairment

The movement in the allowance for impairment in respect of trade debtors and contract assets during the current interim period was as follows.

	Trade debtors *HK$'000*	Contract assets *HK$'000*
Balance at 1 January 2018*	33,278	747
Amounts written off	(4,409)	–
Amounts recovered during the period	(377)	–
Net remeasurement of loss allowance	(140)	(31)
Balance at 30 June 2018	28,352	716

* The Group has initially applied HKFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated.

GCC and loan receivable

Details of the GCC and loan receivable are set out in note 9 and 10 respectively. At the end of the reporting period, the directors of the Company has assessed the financial position of the debtors as well as the economic outlook of the industries in which the debtors operate, and concluded that there has been no significant increase in credit risk since initial recognition of the GCC and loan receivable. Accordingly, the loss allowance for the GCC and loan receivable is measured at an amount equal to 12m ECL.

The movement in the allowance for impairment in respect of GCC and loan receivable during the current interim period was as follows:

	GCC *HK$'000*	Loan receivable *HK$'000*
Balance at 1 January 2018*	65,140	1,680
Net remeasurement of loss allowance	4,773	(690)
Currency realignment	(724)	–
Balance at 30 June 2018	69,189	990

* The Group has initially applied HKFRS 9 at 1 January 2018. Under the translation method chosen, comparative information is not restated.

14. HELD-FOR-TRADING INVESTMENTS

Held-for-trading investments, financial assets at FVTPL, as at 30 June 2018 and 31 December 2017 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. The fair value of held-for-trading investments is classified as Level 1 of the fair value hierarchy.

15. PLEDGED BANK DEPOSITS

The pledged bank deposits represent deposits pledged to banks for the issuance of shipping guarantee by banks to the customer, and will be released upon expiry of such bank guarantee(s). During the current interim period, the Group made a placement of pledged bank deposits of approximately HK$6,284,000 (six months ended 30 June 2017: nil). During the current interim period, the Group made withdrawal of pledged bank deposits of approximately HK$3,236,000 (six months ended 30 June 2017: approximately HK$29,605,000).

16. CREDITORS AND ACCRUED CHARGES

	30.6.2018	31.12.2017
	HK$'000	*HK$'000*
Trade creditors	**99,429**	181,499
Accrued staff costs	**16,822**	17,731
Commission payables to sales agents	**15,859**	18,587
Other creditor and accrued charges (note)	**89,478**	100,838
Advances received from customers for contract work	**–**	105
Advances received from customers for services	**–**	8,817
	221,588	327,577
Less: Non-current portion of accrued charges (note)	**(47,696)**	(44,647)
	173,892	282,930

Note: As at 30 June 2018, the non-current payable portion of provision of approximately HK$47,696,000 (31 December 2017: HK$44,647,000) represents the provision of performance bonus to the executive directors of the Company. An imputed interest expense of approximately HK$833,000 (six months ended 30 June 2017: HK$567,000) is charged to profit or loss during the current period. With the effective of the Supplemental Agreements, the estimated timing of payment of the non-current portion of provision was revised and an adjustment of provision of approximately HK$2,335,000 was charged to profit or loss during the six months ended 30 June 2017.

16. CREDITORS AND ACCRUED CHARGES *(CONTINUED)*

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

	30.6.2018	31.12.2017
	HK$'000	*HK$'000*
0 – 60 days	**35,825**	51,790
61 – 120 days	**16,476**	43,841
121 – 180 days	**14,644**	30,020
Over 180 days	**32,484**	55,848
	99,429	181,499

17. SHARE CAPITAL

	Number of shares	**Amount**
	'000	*HK$'000*
Shares of HK$0.01 each		
Authorised		
At 1 January 2017, 31 December 2017, 1 January 2018 and 30 June 2018	20,000,000	200,000
Issued and fully paid:		
At 1 January 2017, 31 December 2017, 1 January 2018 and 30 June 2018	426,463	4,265

18. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets 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. In 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).

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. Information about the valuation techniques and inputs used in determining the fair value of various assets are disclosed below.

18. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS *(CONTINUED)*

Financial assets	Fair value as at 30 June 2018	Fair value as at 31 December 2017	Fair value hierarchy	Valuation technique and key inputs	Significant unobservable inputs
(1) ACC as included in Deferred Consideration classified as derivative financial instruments	**Assets – HK$320,598,000**	Assets – HK$265,686,000	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 RMB32,967 to RMB56,333 (31 December 2017: RMB32,329 to RMB55,000) per square meter and the discount rate of 13.57% (31 December 2017: 14.52%)
(2) Investments in equity securities listed in Hong Kong classified as held-for-trading investments	**Assets – HK$37,868,000**	Assets – HK$45,153,000	Level 1	Quoted bid prices in active market	Not applicable

Reconciliation of Level 3 fair value measurements of financial assets

	ACC as included in Deferred Consideration (note 9) *HK$'000*
At 1 January 2017	–
Recognition	193,657
Change in fair value	58,147
Currency realignment	13,882
At 31 December 2017	265,686
Change in fair value	59,268
Currency realignment	(4,356)
At 30 June 2018	320,598

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

19. RELATED PARTY TRANSACTION

During the current interim period, the Group entered into the following transactions with associates:

Trade sales and service rendered		Trade purchase		Warranty expense		Installation expense	
2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
1,698	1,243	**46**	–	**233**	50	**930**	689

During the current interim period, the Group received interest income and handling fee income of approximately HK$1,853,000 and nil respectively (six months ended 30 June 2017: HK$670,000 and HK$390,000 respectively) from KTFG. Details of the loan receivable due from KTFG are set out in the condensed consolidated statement of financial position and note 10.

During the current interim period, the Group received rental income of approximately HK$81,000 (six months ended 30 June 2017: HK$81,000) and management income of approximately HK$154,000 (six months ended 30 June 2017: HK$132,000) from BioEm Air Sanitizing Technology Company Limited ("BioEm"). During the current interim period, the Group also paid to BioEm for their products at a value of approximately HK$14,000 (six months ended 30 June 2017: HK$13,000) which was recorded as administrative expense. Mr. Lam Kwok Hing, an executive director and the ultimate controlling shareholder of the Company, through his private investment vehicle, Excel Dragon Investment Company Limited, holds 40% indirect interest in BioEm and acts as a corporate director of BioEm.

The remuneration of key management during the period was approximately HK$11,449,000 (six months ended 30 June 2017: approximately HK$12,901,000). The amount included approximately HK$72,000 (six months ended 30 June 2017: approximately HK$72,000) as mandatory provident fund.