CHTC FONG'S INTERNATIONAL COMPANY LIMITED

(Incorporated in Bermuda with limted liability)

(Stock Code: 641)

SMART DYEING & FINISHING
CHTC FONG'S
INNOVATIONS

ANNUAL REPORT 2018

CONTENTS

CORPORATE INFORMATION

CHAIRMAN EMERITUS

Mr. Fong Sou Lam

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Director

Mr. Fong Kwok Leung, Kevin

Independent Non-executive Directors

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

COMPANY SECRETARY

Mr. Lee Che Keung

AUTHORISED REPRESENTATIVES

Mr. Ji Xin
Mr. Lee Che Keung

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

LEGAL ADVISER

Reed Smith Richards Butler

AUDITOR

PKF Hong Kong Limited

PRINCIPAL BANKERS IN HONG KONG

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

PRINCIPAL BANKERS IN THE PEOPLE'S REPUBLIC OF CHINA

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

BERMUDA PRINCIPAL REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH REGISTRAR AND TRANSFER OFFICE

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

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Level 13, Tower 2,
Kowloon Commerce Centre,
51 Kwai Cheong Road, Kwai Chung, Hong Kong
Tel: (852) 2497 3300
Fax: (852) 2432 2552

WEBSITE ADDRESS

http://www.fongs.com

On behalf of the board of directors (the "Board") of CHTC Fong's International Company Limited (the "Company", together with its subsidiaries, the "Group"), I am pleased to present to the shareholders the audited annual results of the Group for the year ended 31 December 2018.

For the year ended 31 December 2018, the Group recorded consolidated revenue of approximately HK$3,472,000,000 (2017: HK$3,404,000,000), representing an increase of 2% over last year. Profit attributable to owners of the Company was approximately HK$141,000,000 (2017: HK$281,000,000), representing a decrease of 50% from last year. Basic earnings per share for the year was 12.82 HK cents as compared to 25.56 HK cents for last year. The Board recommended the payment of a final dividend of 2 HK cents per share for the year ended 31 December 2018.

During the year, the manufacture of dyeing and finishing machines business remains the core business of the Group, accounting for approximately 78% of the Group's consolidated revenue for the year, while the manufacture of stainless steel casting products and trading of stainless steel supplies businesses accounted for approximately 14% and 7% of the Group's consolidated revenue for the year, respectively. The year of 2018 is full of challenges, especially in the second half of the year, when the global economic growth slowed down due to the trade war between China and the United States and the downturn in the Chinese economy. To embrace change as an opportunity, the Group continued to commit more resources to development of its existing core business, striving for its long-term goal to maintain steady growth. The Group will focus on improving product functions and services and developing more competitive automated intelligent printing and dyeing systems in pursuit of total intelligent solutions, and endeavour to diversify its products and services to cater to market demand and broaden its customer base. The Group is confident in maintaining its position as a leading supplier of dyeing and finishing machines.

CHAIRMAN'S STATEMENT

It is anticipated that the global economy will continue to recover with a slow pace. Nevertheless, there are several uncertainties in the business environment including the ongoing China-US trade war, the fluctuation of currency exchange rates and the upward trend of corporates' borrowing costs. By maintaining a prudent attitude towards the business performance in the coming year, the Group will remain highly alert to market changes so as to respond as appropriate. The Group will continue to enhance its inventory and receivables management and reduce daily operating expenses to manage and react to possible risks based on the principle of prudent financial management, with a view to improving the overall financial performance and position of the Group.

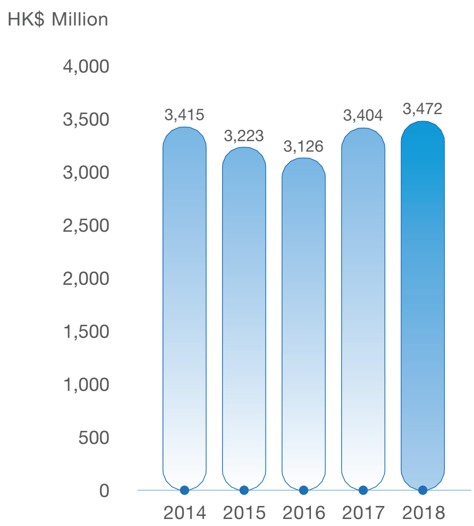
Lastly, I would like to take this opportunity to thank all of our shareholders, customers, suppliers, bankers, and business partners for their continued support and confidence in the Group. I would also like to express my sincere gratitude to my fellow directors, the management team and all staff for their efforts and contributions to the Group.

Ye Maoxin
Chairman

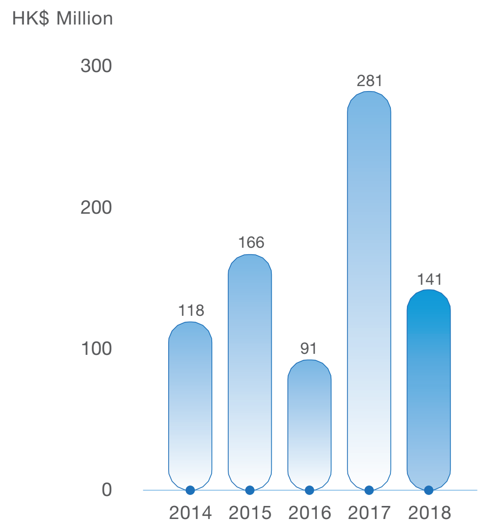
Hong Kong, 27 March 2019

FINANCIAL HIGHLIGHTS

REVENUE

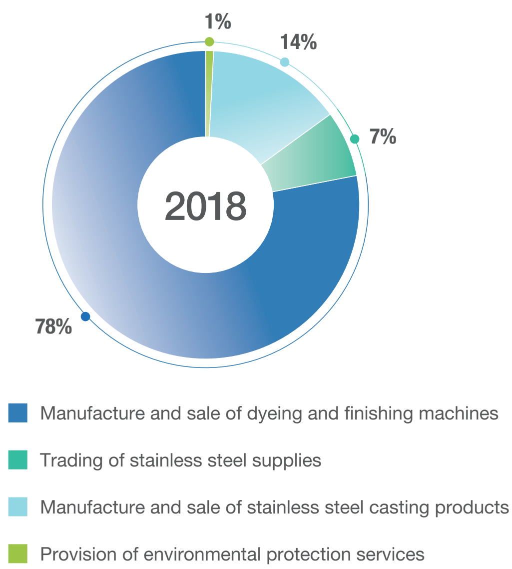


PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

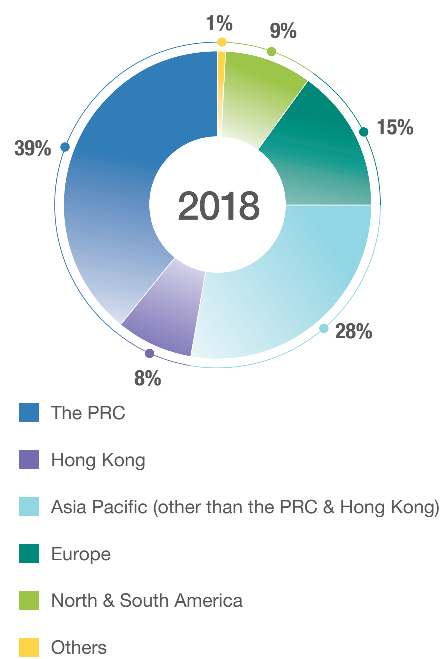


ANALYSIS OF REVENUE FOR THE YEAR

By principal activity



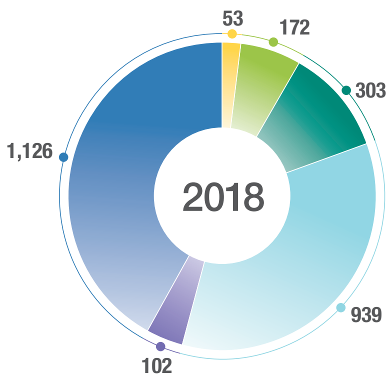
By geographical region



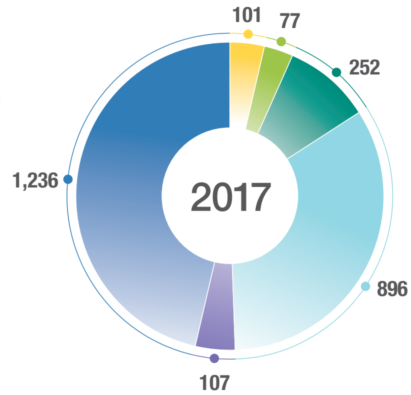
ANALYSIS OF REVENUE FOR THE YEAR *(continued)*

Manufacture and Sale of Dyeing and Finishing Machines

By geographical region

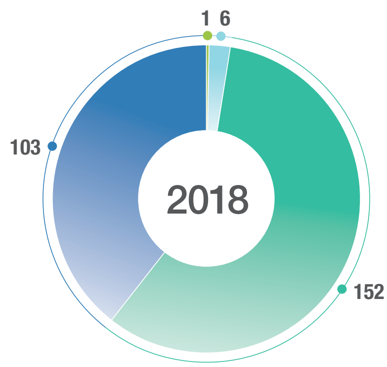


HK$ Million		HK$ Million
1,126	The PRC	1,236
102	Hong Kong	107
939	Asia Pacific	896
303	Europe	252
172	North & South America	77
53	Others	101
2,695		2,669

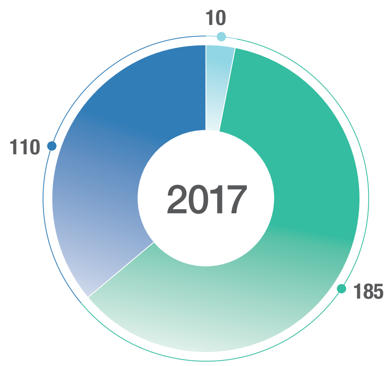


Trading of Stainless Steel Supplies

By geographical region

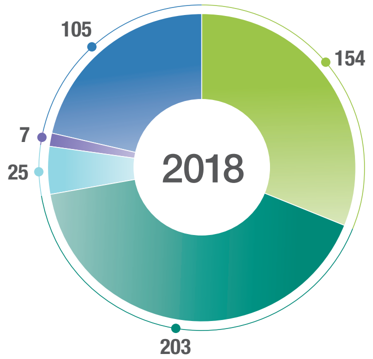


HK$ Million		HK$ Million
103	The PRC	110
152	Hong Kong	185
6	Asia Pacific	10
1	North & South America	0
262		305

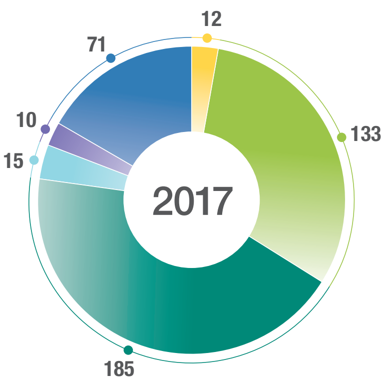


Manufacture and Sale of Stainless Steel Casting Products

By geographical region



HK$ Million		HK$ Million
105	The PRC	71
7	Hong Kong	10
25	Asia Pacific	15
203	Europe	185
154	North & South America	133
0	Others	12
494		426



Chairman Emeritus

Mr. Fong Sou Lam, aged 84, is the founder of the Group and the Chairman Emeritus of the Company. Mr. Fong established the dyeing and finishing machine manufacturing business in 1963 and has over 50 years of business experience in the industry.

MEMBERS OF THE BOARD OF DIRECTORS

Chairman and Executive Director

Mr. Ye Maoxin, aged 56, joined the Company as a Non-executive Director and the Vice-Chairman of the Board on 9 June 2011 and has been re-designated as an Executive Director and the Chairman of the Board with effect from 1 September 2015. Mr. Ye is also the Chairman of the Nomination Committee and a member of the Remuneration Committee of the Company. Mr. Ye is responsible for formulating the overall corporate development and strategic directions of the Group. Mr. Ye holds a Bachelor of Engineering degree in machinery manufacturing from Xian Jiaotong University（西安交通大學）and an Executive Master of Business Administration degree from Guanghua School of Management, Beijing University（北京大學光華管理學院）. Mr. Ye is currently the vice-president of China Hi-Tech Group Corporation（中國恒天集團有限公司）, the general manager of China Textile Machinery (Group) Company Limited（中國紡織機械（集團）有限公司）, a director of China Hi-Tech Holding Company Limited and the president of Newish Trading Limited. Mr. Ye is also the chairman of Jingwei Textile Machinery Company Limited（經緯紡織機械股份有限公司）, a company listed on the Shenzhen Stock Exchange (A-share stock code: 000666). Mr. Ye has over 30 years of solid experience in business management in the textile machinery industry.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

Executive Directors

Mr. Ji Xin, aged 49, has been appointed as an Executive Director of the Company with effect from 15 March 2012, and has acted as the Chief Executive Officer with effect from 1 January 2013. Mr. Ji is also a member of the Nomination Committee and Remuneration Committee of the Company. Mr. Ji received his Bachelor's degree in Engineering in Mechanical Designs from Tianjin Polytechnic University (天津工業大學) in 1991 and an Executive Master of Business Administration degree from the School of Economics and Management of Tsinghua University (清華大學) in 2008. He is a senior engineer and has been appointed as a visiting professor by Tianjin Polytechnic University (天津工業大學) since 2008. Mr. Ji had held the positions as the chairman of Qingdao Textile Machinery Co., Ltd. (青島紡織機械股份有限公司) and as the chairman of Qingdao Hongda Textile Machinery Co., Ltd. (青島宏大紡織機械有限責任公司), being corporations affiliated with China Hi-Tech Group Corporation (中國恒天集團有限公司). In addition, Mr. Ji is currently a director of China Textile Industry Association (中國紡織工業聯合會), the vice-president of China Textile Machinery Association (中國紡織機械器材工業協會), the vice-president of China Nonwovens and Industrial Textiles Association (中國產業用紡織品行業協會) and the vice-president of China Dyeing and Printing Association (中國印染行業協會). Mr. Ji was accredited as Qingdao City Excellent Entrepreneur (青島市優秀企業家), Qingdao City Labour Model (青島市勞動模範), Labour Model in China Textile Industry (全國紡織工業勞動模範) and Top Ten Innovative Figure in China Textile Industry in 2007(二零零七年中國紡織行業十大創新人物). Mr. Ji has rich experience in areas ranging from operational management, sales and marketing, capital operations and strategic planning.

Mr. Du Qianyi, aged 53, joined the Company on 15 March 2012 and has been appointed as an Executive Director of the Company with effect from 18 April 2016, he is currently the Chief Financial Officer of the Group. Mr. Du had previously served as an Executive Director of the Company during the period from 15 March 2012 to 31 December 2012. Since 1986, Mr. Du had worked for corporations affiliated with China Hi-Tech Group Corporation (中國恒天集團有限公司) and had held positions as finance director, chief accountant and financial controller of Shaoyang Textile Machinery Co., Ltd. (邵陽紡織機械有限責任公司) during the period from 1997 to 2003. He had also held the positions as deputy finance director and finance director of China Textile Machinery (Group) Co., Ltd. (中國紡織機械(集團)有限公司) and as the finance director of China Hi-Tech Group Corporation (中國恒天集團有限公司). Mr. Du has been working in the textile machinery industry for a prolonged period, knowing the traits in the markets and operations of the textile machinery industry, having extensive experience in corporate management as well as solid theoretical foundation and rich practical experience in the areas of capital operations, operational management and financial management.

Non-executive Director

Mr. Fong Kwok Leung, Kevin, aged 57, is the eldest son of Mr. Fong Sou Lam who is the founder of the Group as well as the Chairman Emeritus and a substantial shareholder of the Company. Mr. Fong holds a Bachelor's degree in Business Administration from the Simon Fraser University, Canada. Mr. Fong joined the Group in 1986 and was appointed as an Executive Director of the Company on 25 July 1990. Mr. Fong had been responsible for overseeing the stainless steel trading and stainless steel casting businesses of the Group for a long period. With effect from 1 October 2016, Mr. Fong has been re-designated from an Executive Director to a Non-executive Director of the Company due to his desire to devote more time to his own family business. Mr. Fong has also been appointed as a consultant of the Company as from 1 October 2016 for providing consultancy services in relation to the business development of the Group.

Independent Non-executive Directors

Mr. Ying Wei, aged 52, has been appointed as an Independent Non-executive Director of the Company since 1 September 2011. Mr. Ying is also the Chairman of the Audit Committee and a member of the Remuneration Committee and Nomination Committee of the Company. Mr. Ying holds a Master's Degree in Business Administration from the University of San Francisco and a Bachelor's Degree in Economics from the Zhejiang Gongshang University（浙江工商大學）(formerly known as Hangzhou Institute of Commerce（杭州商學院）) in China. He is a non-practicing member of the Chinese Institute of Certified Public Accountants（中國註冊會計師協會）. Mr. Ying is currently an independent non-executive director of Fountain Set (Holdings) Limited (stock code: 420) and an independent non-executive director of Zhongsheng Group Holdings Limited (stock code: 881). Mr. Ying is also the Managing Director of CDH Investments.

Dr. Yuen Ming Fai, aged 68, has been appointed as an Independent Non-executive Director of the Company since 1 September 2004. He is also a member of the Audit Committee, Nomination Committee and Remuneration Committee of the Company. Dr. Yuen is currently the Professor Emeritus of the Department of Mechanical and Aerospace Engineering at the Hong Kong University of Science and Technology. Dr. Yuen holds a doctorate degree in Mechanical Engineering from the University of Bristol, the United Kingdom and is a fellow member of both the Institution of Mechanical Engineers (UK) and the Hong Kong Institution of Engineers.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

Mr. Li Jianxin, aged 65, has been appointed as an Independent Non-executive Director of the Company since 1 July 2014. Mr. Li is also the Chairman of the Remuneration Committee and a member of the Audit Committee and Nomination Committee of the Company. Mr. Li graduated from Inner Mongolia Engineering College（內蒙古工學院）(currently known as Inner Mongolia University of Technology（內蒙古工業大學）) specialising in chemical machinery and obtained a Bachelor of Engineering degree. Mr. Li completed his study of the postgraduate course on Chinese Culture and Modernisation（中國文化與現代化）at Tsinghua University（清華大學）in 2003. Over the period between 1985 until his retirement in 2013, Mr. Li had been working for a large Chinese state-owned commercial bank and held positions as the assistant general manager of Credit and Investment Approval Department, a commission member of Investment Commission and a member of the Credit Policy Committee at the Main Office focusing on approval of corporate finance. Mr. Li holds the title of Senior Economist having many years of experience in financial affairs and in-depth knowledge of the business operations of a wide range of industries and has accumulated extensive experience in financial analysis, project finance, investment management and risk control.

SENIOR MANAGEMENT

Dr. Tsui Tak Ming, William, aged 60, is a vice-president of the Company and is in charge of the research and development division of the Group. Dr. Tsui is a chartered engineer and chartered I.T. professional, he holds a bachelor of science degree and a doctorate of philosophy degree in Aeronautical Engineering from the University of Manchester, the United Kingdom and is a fellow member of both the Institution of Mechanical Engineers (UK) and the Hong Kong Institution of Engineers. Dr. Tsui is also a corporate member of the British Royal Aeronautical Society, the Hong Kong Computer Society and the British Computer Society. Dr. Tsui is an expert in Physics, Computing, Automation Control and Management issues. Dr. Tsui joined the Group in 1989 and has over 30 years of experience in research and development on mechanical engineering and information technology. Dr. Tsui is the inventor of over 50 inventions of the Group with patent granted. He has been a member of the advisory committee in various universities including the University of Hong Kong, the Hong Kong Polytechnic University and the City University of Hong Kong.

Mr. Wong Tak Man, Francis, aged 54, is a sales director of Fong's National Engineering Company, Limited (a wholly-owned subsidiary of the Company) and is responsible for overseeing the sales and marketing activities of the dyeing and finishing machine business of the Group in the knitting market in China. Mr. Wong graduated from the Hong Kong Polytechnic (which was subsequently renamed the Hong Kong Polytechnic University) with a Higher Diploma in Marine Engineering. Mr. Wong joined the Group in 1987.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

Mr. Leung Sheung Wai, Walter, aged 52, is a sales director of Fong's National Engineering Company, Limited (a wholly-owned subsidiary of the Company) and is responsible for overseeing the sales and marketing activities of the dyeing and finishing machine business of the Group in the overseas market. Mr. Leung graduated from the Hong Kong Polytechnic (which was subsequently renamed the Hong Kong Polytechnic University) with a Higher Diploma in Textile Chemistry. He is also a Chartered Member of the Textile Institute and a Fellow of the Society of Dyers and Colourists. Mr. Leung joined the Group in 1997.

Mr. Wong Ching Chuen, Patrick, aged 57, is a sales director of Fong's National Engineering Company, Limited (a wholly-owned subsidiary of the Company) and is responsible for overseeing the sales and marketing activities of the dyeing and finishing machine business of the Group in the woven market in China. Mr. Wong has been educated in the Hong Kong Polytechnic (which was subsequently renamed the Hong Kong Polytechnic University) for Mechanical Engineering and Griffith University in Australia for law. Mr. Wong has extensive experience in China trade for industrial equipment supplies and engineering work. Mr. Wong joined the Group in July 2000.

Mr. Roland Hampel, aged 64, is the Joint Managing Director of A. Monforts Textilmaschinen GmbH & Co. KG ("German Monforts"), a wholly-owned subsidiary of the Company. Mr. Hampel graduated from Aachen Technical High School with a Diploma in Engineering. He is an engineer with more than 30 years' experience as an executive manager in the design of textile machines especially driers and thermo treatment machines. Mr. Hampel joined German Monforts in 1999 and is currently responsible for all sales, technical services, finance and human resources and administration management issues. Mr. Hampel is also a board member of Monforts Fong's Textile Machinery Co. Limited and a member of the technical advisory committee of the German machine builder's guild VDMA (German Engineering Federation).

Mr. Stefan Floeth, aged 50, has been appointed as Joint Managing Director of German Monforts with effect from 1st January 2019 and is responsible for all technology (mechanical and electrical engineering) and material management issues including the management of the manufacturing plant in Austria. Mr. Floeth graduated from Krefeld University of Applied Sciences with a Diploma in Textile Machinery Engineering and had ever worked for German Monforts from 1996 to 2009. During the period of 2010 to 2018 he held the position of managing director in a German company manufacturing nonwoven machines extending his experiences in the field of technical textiles.

Mr. Lee Che Keung, aged 57, is the company secretary of the Company. Mr. Lee graduated from the Hong Kong Polytechnic (which was subsequently renamed the Hong Kong Polytechnic University) with a Professional Diploma in Company Secretaryship and Administration and is an associate member of the Hong Kong Institute of Chartered Secretaries. Mr. Lee is responsible for the investor relations of the Company and the overall corporate secretarial matters of the Group. Mr. Lee joined the Group in February 1990.

MANAGEMENT DISCUSSION AND ANALYSIS

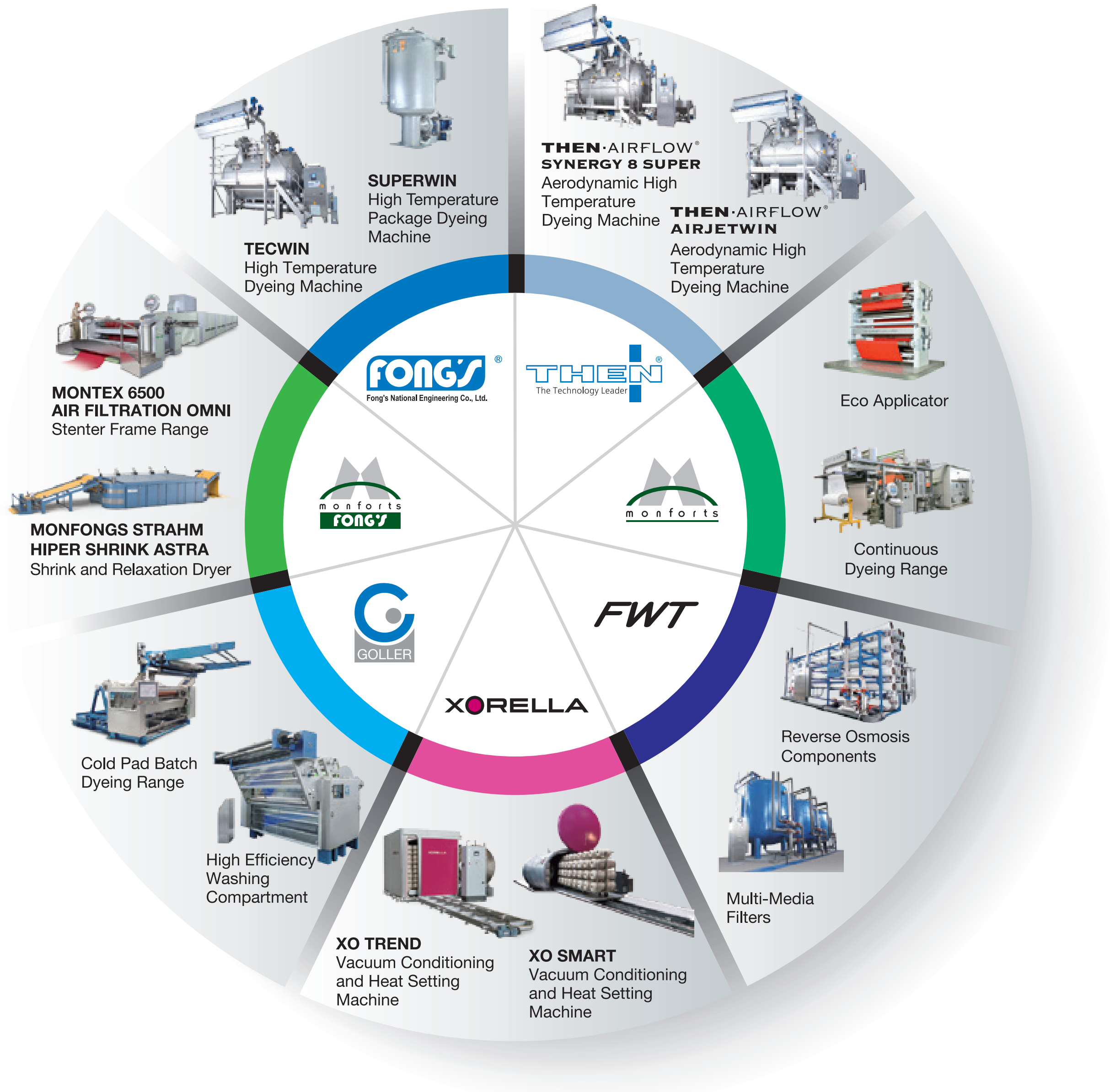
BUSINESS PERFORMANCE

For the year ended 31 December 2018 (the "Year"), the Group recorded consolidated revenue of approximately HK$3,472,000,000, representing a slight increase of 2% as compared to approximately HK$3,404,000,000 for last year. Profit attributable to owners of the Company was approximately HK$141,000,000, representing a decrease of 50% as compared to approximately HK$281,000,000 for last year. Basic earnings per share for the Year was 12.82 HK cents as compared to 25.56 HK cents for last year.

MANUFACTURE AND SALE OF DYEING AND FINISHING MACHINES

The dyeing and finishing machine manufacturing industry is facing intense competition. Besides, the breakout of trade war between China and the United States has clouded the global economic environment. The ongoing trade war discouraged some customers in China from investing in production equipment, which posed challenges to the dyeing and finishing machine business of the Group. However, the overall sales of dyeing and finishing machines had not been significantly affected thanks to the concerted efforts of the Group's operating team to increase promotions in overseas markets and improve the quality and competitiveness of our products. For the Year, this business segment recorded revenue of approximately HK$2,695,000,000, accounting for 78% of the Group's revenue and representing a slight increase of 1% from approximately HK$2,669,000,000 for last year. In particular, combined sales from Hong Kong and the PRC markets were approximately HK$1,228,000,000, representing a decrease of 9% from approximately HK$1,343,000,000 for last year; while sales from overseas markets were approximately HK$1,467,000,000, representing an increase of 11% from approximately HK$1,326,000,000 for last year. Along with the price pressures on orders exerted by the economic uncertainties during the second half of 2018 and the increasing price of stainless steel as the major raw materials, gross profit margin recorded an decrease and operating profit decreased by 60% to approximately HK$121,000,000 from approximately HK$300,000,000 for last year.

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



In order to cater to the future development of the textile industry, the demand on automated production and the new trend of smart factories, the Group will continue to invest resources in enhancing the efficiency, as well as the functions of environmental protection, energy saving and automation of its dyeing and finishing machines so as to provide innovative energy-saving and eco-friendly equipment and solutions to customers, thus creating more value.

MANAGEMENT DISCUSSION AND ANALYSIS

As set out in the Annual Report 2017, in mid-2017, the Group signed a strategic cooperation agreement with Yantai Yelin Textile Printing & Dyeing Co., Ltd.(煙臺業林紡織印染有限責任公司)to establish a joint venture company, Yantai Yelin Textile Technology Co., Ltd.(煙臺業林紡織科技有限公司), in Yantai, the PRC. The joint venture company will engage in printing, dyeing and after-finishing of high-end fabrics by developing the most advanced automatic printing and dyeing production line in the PRC with the new automatic printing and dyeing solutions of the Group. The concept of automatic printing and dyeing production line has been listed as one of the typical fields of national intelligent manufacturing enterprises by the Ministry of Industry and Information Technology. The joint venture company will become the first demonstration enterprise, where the Group will be able to showcase its automatic production solutions on printing and dyeing to customers.

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

In December 2018, the Group established a wholly-owned subsidiary, Zhejiang CHTC Fong's Intelligent Printing and Dyeing Machinery Co., Ltd.(浙江恒天立信智能印染機械有限公司), in Binhai Industrial Park, Keqiao Economic and Technological Development Zone, Shaoxing City, Zhejiang Province, the PRC. Subsequently on 30 January 2019, the Group successfully obtained a parcel of industrial land located at the park by way of open tender auction organised and held by the Shaoxing Keqiao Public Resources Trading Centre(紹興市柯橋區公共資源交易中心). The land occupies an area of approximately 115 mu (76,680 m^2) with a land use right of 50 years and the land premium was RMB40,257,000. The Group plans to construct a base in the park for research and development, design, manufacture and marketing of intelligent supporting system for dyeing and finishing equipment to our customers. The base will mainly focus on (i) central chemical measuring and dispensing system, (ii) central intelligent control system for printing and dyeing equipment, (iii) exhaust gas purification device and system for stenter frames, (iv) automated intelligent material handling system of textile fabrics and production supplies, and (v) computerised numerical controlled machining centre for core components required for the supporting systems. The establishment of such base for manufacture and supply of intelligent supporting systems for dyeing and finishing machines in Shaoxing will help cement the Group's market position and business development in the dyeing and finishing machinery industry.

MANAGEMENT DISCUSSION AND ANALYSIS

The new production plant of the Group located at Linhai Industrial Park, Tsui Hang New District, Zhongshan City, Guangdong Province, the PRC is starting to conduct interior decoration and equipment installation by phases. It is expected that the relocation of production lines to the new Zhongshan plant will be completed in 2019. Upon full operation of the new plant, the Group's production capacity is expected to increase significantly. The new Zhongshan plant will be keen on improving energy conservation and production efficiency, as well as applying more automated processes in its production process to shorten the production cycle and reduce manpower and management costs, and thus improve the Group's operation efficiency.

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

The Zhongshan plant of Monforts Fong's

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

MANAGEMENT DISCUSSION AND ANALYSIS

Looking forward, Chinese government has proactively launched various reforming and innovative initiatives in recent years to propel domestic demand and promote requirements on “Environment Protection and Energy Saving” by encouraging technological transformation and upgrading in traditional industries to replace and purchase manufacturing equipment for capacity expansion. Those policies will have a positive effect on economic growth in the long run, and also provide new opportunities for the Group in the medium to long term development. The Board believes that the Group has laid a solid foundation for its mission to “become a world-class manufacturer of dyeing and finishing machinery”. By excelling ourselves and striving to continuously broaden product offerings for our customers, we will use our best endeavour to increase our market share and make the Group bigger and stronger.

IGATEX 2018 in Pakistan

CHTC Fong’s participated in the International Exhibition on Textile Industry in Shanghai

TRADING OF STAINLESS STEEL SUPPLIES

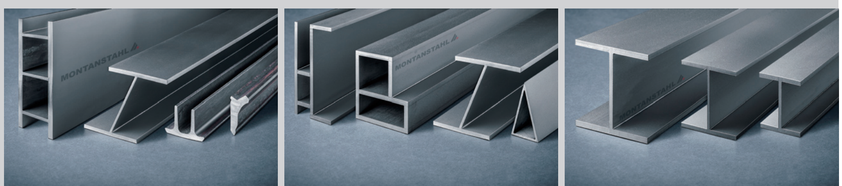
The breakout of trade war between China and the United States has clouded the global economic environment. The ongoing trade war has negatively influenced the stainless steel supplies market, which led to a decrease in sales of stainless steel supplies of the Group. On the other hand, the stainless steel price has posted a steady rise since the beginning of 2017, and the gross profit margin from stainless steel distribution also experienced an increase. For the year ended 31 December 2018, this business segment recorded revenue of approximately HK$262,000,000, accounting for approximately 7% of the Group's revenue and representing an decrease of 14% as compared to approximately HK$305,000,000 for last year. Operating profit for the year amounted to approximately HK$18,000,000 as compared to profit of approximately HK$14,000,000 for last year.

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

outokumpu
high performance stainless steel

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

MONTANSTAHL
special profiles in steel



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

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

Looking into 2019, the price of stainless steel is expected to remain stable with slight fluctuations. The construction industry in Hong Kong is booming as more major infrastructure projects have commenced, which, coupled with the accelerated pace of urbanisation and infrastructure construction in the PRC, will provide opportunities for trading of stainless steel. Therefore, the Group remains optimistic on the prospect of the stainless steel trading business. The Group will closely monitor and response to market changes to maintain steady growth in this business segment.

MANUFACTURE AND SALE OF STAINLESS STEEL CASTING PRODUCTS

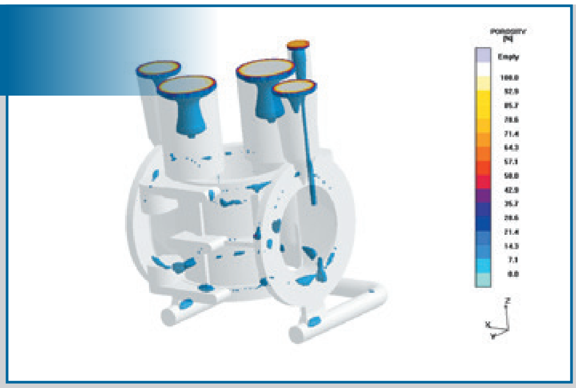
The products of this business segment are primarily high-quality castings and machined processing parts made of stainless steel, dual-phase steel and nickel-based alloys that are widely used in industrial equipment in industries such as valves, pumps, chemical, oil and natural gas and foods, with customers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

For the year 2018, this business segment recorded revenue of approximately HK$494,000,000, accounting for 14% of the Group's revenue and representing an increase of 16% as compared to approximately HK$426,000,000 for last year. Operating profit increased to approximately HK$81,000,000 from approximately HK$56,000,000 for last year. This business segment performed well as a whole with satisfactory growth in results.

The Group will continue to optimise cost control, improve workshops and the production processes of certain products, increase automated production equipment, reduce the scrappage rate of its products and enhance product quality, and develop new customers. On the other hand, the Group has established a marketing centre in Atlanta, Georgia to expand its sales network in the United States, aiming for more orders and laying a solid foundation for sustainable and healthy development of this business segment.

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

MAGMA Cast
simulation software



Machine Centre

Machining Part

ENVIRONMENTAL PROTECTION SERVICES

As stated in the Annual Report 2017 of the Company, the Group completed the acquisition of 51% equity interest in Beijing CSCE Environmental Engineering Technology Co., Ltd. ("CSCE") on 27 October 2017. CSCE and its subsidiaries are principally engaged in kitchen wastes innocuous treatment projects and animal carcasses innocuous treatment projects in the PRC.

Taian China Science Environmental Engineering Co., Ltd.(泰安中科環保工程有限公司)("CSEE"), a wholly-owned subsidiary of CSCE, obtained the concession rights to operate kitchen wastes recycling and innocuous treatment projects for the urban area of Taian City, Shandong Province in June 2013, and has established a kitchen wastes treatment plant at the northern foot of Hama Mountain(蛤蟆山) in Taian City. In 2014, CSEE was entrusted by the Environmental Health Management Office of Taian City(泰安市環境衛生管理處)("Taian Health Office") to operate the sewage treatment plant of a landfill neighbouring its kitchen wastes treatment plant, pursuant to which, CSEE was required to upgrade the plant to improve its sewage treatment capability and provide treatment for the sewage generated from the landfill during its operations of burying ash-slag wastes on a free-of-charge basis for Taian Health Office. However, the domestic waste disposal operations in the ash-slag landfill resulted in a significant change in the leachate and the quantity of sewage from the landfill, which materially affected the biological wastewater treatment system of CSEE. Treatment of such sewage is beyond the scope of work stipulated in the agreement between CSEE and relevant government authority and also exceeds the sewage treatment capabilities of CSEE. As a result, the kitchen wastes treatment plant has been taken over by Taian Health Office since January 2019.

Taian CSCE Environmental Engineering Technology Co., Ltd.(泰安中科潔能環境工程技術有限公司)("Taian CSCE") and Dongping CSCE Environmental Engineering Technology Co., Ltd.(東平中科潔能環境工程技術有限公司)("Dongping CSCE"), being wholly-owned subsidiaries of CSCE, obtained the concession rights to operate animal carcasses innocuous treatment projects in March 2017 and February 2018 respectively. Having obtained the concession rights, Taian CSCE invested and constructed an animal carcasses innocuous treatment facilities, but the facilities failed to meet the environmental requirements for its normal operations and had suspended operations since August 2017. Upon its acquisition of CSCE, the Group conducted technical transformation for the facilities of Taian CSCE to improve the production processes and rectify its odor problem. Following inspection by the Taian Daiyue District Government(泰安市岱岳區政府), Taian CSCE received the approval to restore operations on 27 September 2018 and resumed trial production on 28 September 2018. Due to environmental problem, operations of the animal carcasses innocuous treatment facilities are at a standstill and Dongping CSCE has stopped collection and transportation of animal carcasses. The Group is now actively negotiating with the government in respect of collection and innocuous treatment of animal carcasses, seeking to reach a solution on resumption of operations and realisation of relevant government subsidies so that the companies can continue its performance of concession agreement and normal operations to avoid causing losses to the companies.

For the year ended 31 December 2018, this business segment recorded revenue of approximately HK$21,000,000, while the operating loss amounted to approximately HK$33,000,000. The Board believes that the current operating position of this business segment will not have a material adverse effect on the overall financial position of the Group. The Company will consider disclosing updates on this business segment for any further development as and when appropriate.

MAJOR ACQUISITION OF ASSETS

As disclosed in the Interim Report 2018 of the Company, on 12 April 2018, Fong's Manufacturers Company Limited (the "Purchaser"), a wholly-owned subsidiary of the Company, entered into a preliminary sale and purchase agreement (the "Preliminary Agreement") with Joyful Lake Limited (the "Vendor"), an independent third party for the acquisition of the entire issued share capital of PT Harvest Holdings Limited (the "Target Company"). The Target Company is a company incorporated in Hong Kong and is principally holding the properties, being the whole floor of Level 13, of Tower 2 with a gross floor area of approximately 24,959 square feet and eight car parks on Level 6 of Kowloon Commerce Centre, No. 51 Kwai Cheong Road, Kwai Chung, Hong Kong. Further details of the Preliminary Agreement were disclosed in the Company's announcement dated 12 April 2018.

Subsequently, the formal sale and purchase agreement was entered into between the Vendor and the Purchaser on 28 June 2018 and the transaction was completed on 23 August 2018. The consideration for acquisition of the Target Company was approximately HK$325,293,000.

In December 2018, the Group relocated to Kowloon Commerce Centre as the head office premises of the Group and the Company's principal place of business in Hong Kong, to cope with the future expansion and development of the Group's business. The Board considers that the relocation of its head office to Kowloon Commerce Centre can better give prominence to the Group's business positioning and better reflect the corporate image of the Group. Furthermore, in view of the development of Hong Kong property market, the Board considers that the acquisition will enable the Group to save future rental expenses, broaden the fixed asset base of the Group and provide capital appreciation potential to the Group.

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

HUMAN RESOURCES

As at 31 December 2018, the Group had a total of approximately 4,570 employees (31 December 2017: approximately 4,500 employees) across mainland China, Hong Kong, Macau, Germany, Switzerland, Austria, Thailand, India, Turkey and Central and South America. In 2018, total staff costs (including Directors' emoluments, employees' remuneration and contribution to retirement benefits schemes) amounted to approximately HK$758,000,000 (2017: HK$745,000,000), accounting for 22% (2017: 22%) of its revenue. The Group will continue to monitor the market situation and consolidate its human resources and labour structure in order to utilise manpower more efficiently and enhance operational productivity.

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

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

LIQUIDITY AND CAPITAL SOURCES

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

During the year ended 31 December 2018, the Group's net cash inflow from operating activities was approximately HK$132,000,000. As at 31 December 2018, the Group's inventory level increased to approximately HK$764,000,000 as compared to approximately HK$751,000,000 as at 31 December 2017.

As at 31 December 2018, bank borrowings of the Group amounted to approximately HK$1,895,000,000. Most of the bank borrowings were sourced from Hong Kong, with 96% denominated in Hong Kong dollars and 4% in United States dollars. The Group's bank borrowings are predominantly subject to floating interest rates.

As at 31 December 2018, the Group's bank balances and cash amounted to approximately HK$587,000,000, of which 48% was denominated in Renminbi, 26% in United States dollars, 13% in Hong Kong dollars, 12% in Euros and the remaining 1% in other currencies.

The Group continued to maintain prudent financial management policies during the year. As at 31 December 2018, the Group's gearing ratio, defined as net bank borrowings (other than payables in ordinary course of business) over total equity, increased to 84% (31 December 2017: 36%) and its current ratio was 0.73 (31 December 2017: 0.97). The change of gearing ratio was primarily due to the increase of the debt scale.

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

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report for the year ended 31 December 2018.

The Company wishes to highlight the importance of the Board in ensuring effective leadership and control of the Company, transparency and accountability of all aspects of operations and that its business is conducted in accordance with applicable laws and regulations.

The Company also recognises the importance of good corporate governance to the Group's healthy growth and has devoted considerable efforts to identifying and formulating corporate governance practices appropriate to the Group's needs.

Throughout the year ended 31 December 2018, the Company has complied with all the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except for the derivations from the code provision A.6.7 of the CG Code that independent non-executive directors and other non-executive directors should attend general meetings to gain and develop a balanced understanding of the views of shareholders. Mr. Ying Wei, an Independent Non-executive Director, was unable to attend the annual general meeting of the Company held on 25 May 2018 due to other business engagement.

CODES FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules. All the Directors have confirmed, following a specific enquiry by the Company, that they have complied with the required standard as set out in the code of conduct regarding securities transactions by the Directors adopted by the Company throughout the year ended 31 December 2018 and up to the date of this report.

BOARD OF DIRECTORS

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

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

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

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

Non-executive Director
Mr. Fong Kwok Leung, Kevin

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

The biographical details of the current Directors are set out under the section headed "Directors and Senior Management Profile" of this Annual Report. The current composition and structure of the Board are established with reference to the board diversity policy prepared and adopted by the Company. The professional background, skills or experience of the current Directors are also in line with the Group's demand for all-round sustainable development.

There is no relationship (including financial, business, family or other material or relevant relationship) among members of the Board and in particular, between the Chairman and the Chief Executive Officer.

CORPORATE GOVERNANCE REPORT

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

The Company has maintained suitable and adequate insurance coverage for all Directors and officers against their liabilities arising from legal actions due to the performance of corporate activities. During the year, no claim was made against any Directors and officers of the Company. The Company reviews the insurance purchased annually to ensure the provision of reasonable and sufficient protection.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

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

NON-EXECUTIVE DIRECTOR AND INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the Non-executive Director and Independent Non-executive Directors has entered into a service contract with the Company for a term of two years, subject to retirement by rotation and is eligible for re-election in accordance with the provisions of the Bye-laws of the Company.

Mr. Fong Kwok Leung, Kevin has been re-designated from an Executive Director to a Non-executive Director of the Company with effect from 1 October 2016 due to his desire to devote more time to his own family business. The Company entered into a service contract with Mr. Fong for a term of two years commencing on 1 October 2016 and expiring on 30 September 2018. Upon expiry, his term of office has been extended to 30 September 2020 at a director's fee of HK$180,000 per annum, but such service contract is determinable by either party giving to the other party at least one month's prior written notice. In addition, on 15 October 2016, Mr. Fong and the Company entered into a consultancy agreement without a fixed term of service whereby Mr. Fong was appointed as a consultant of the Company with retrospective effect from 1 October 2016 for providing consultancy services to the Company in respect of the business development of the Group, but such consultancy agreement is determinable by either party giving to the other party at least one month's prior written notice. Mr. Fong is entitled to a monthly remuneration of HK$100,000 and the use of a private car provided by the Group under the consultancy agreement.

The Company has three Independent Non-executive Directors, representing more than one-third of the members of the Board, of which at least one possesses the appropriate professional qualifications or accounting or related financial management expertise. In compliance with Rule 3.10(2) of the Listing Rules, Mr. Ying Wei, one of the Independent Non-executive Directors, is a non-practising member of the Chinese Institute of Certified Public Accountants（中國註冊會計師協會）and has appropriate qualifications on accounting and related financial management expertise.

The Company has received from each of the Independent Non-executive Directors an annual confirmation of his independence. The Board considers that each Independent Non-executive Director is independent in character and judgement and that they all meet the specific independence criteria as required under Rule 3.13 of the Listing Rules.

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

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

BOARD MEETINGS

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

The Board is scheduled to meet regularly at least four times a year at approximately quarterly intervals to discuss the overall strategy as well as the operational and financial performance of the Group. Other board meetings will be held when necessary. The Bye-laws of the Company allows board meetings to be conducted by way of telephone or video conference and any resolutions to be passed by way of written resolutions circulated to and signed by all Directors from time to time when necessary unless any matters in which a substantial shareholder or a Director or their respective associates has a conflict of interest. As some of the Directors are on occasional, and sometimes unexpected, business trips and/or are stationed in different regions of the PRC, it may, in practice, be inconvenient to convene a full board meeting on a frequent basis. Hence, the Board may approve certain issues in the form of a written resolution. With a view to facilitating Directors' attendance at board meetings and committee meetings as well as corporate events, the Company Secretary will seek advice from the Board and prepare an annual plan for the Board. The Board held a total of eight board meetings (including three meetings by way of circulation of written resolutions) during the year ended 31 December 2018. The attendance record of each Director at the board meetings is disclosed below in this report.

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

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

CORPORATE GOVERNANCE FUNCTIONS

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

BOARD COMMITTEES

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

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

NOMINATION COMMITTEE

On 28 March 2012, the Board established the Nomination Committee pursuant to the requirements of the CG Code. It considers matters regarding the nomination and/or appointment or re-appointment of Director(s). The terms of reference of the Nomination Committee was revised by the Board on 27 March 2019, which are closely aligned with the CG Code, and are available on the Company's website at http://www.fongs.com and the Stock Exchange's website at http://www.hkexnews.hk.

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

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

The Company recognises and embraces the benefits of having a diverse board to the quality of its performance. The Company adopted a board diversity policy on 28 August 2013 and revised on 27 March 2019 with the aim of setting out the approach to achieve diversity on the Board. In designing the Board's composition, board diversity has been considered to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business.

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

The Nomination Committee is responsible for monitoring the implementation of the board diversity policy and will at the appropriate time set measurable objectives for achieving diversity of the Board. It is also responsible to consider and recommend to the Board suitably qualified persons to become a member of the Board, monitor the succession planning of Directors and assess the independence of Independent Non-executive Directors. No candidate had been nominated for appointment as additional Director during the year.

During the year, the Nomination Committee reviewed the structure, size and composition of the Board. It also assessed and confirmed the independence of the Independent Non-executive Directors, and recommended to the Board regarding the nomination of Dr. Yuen Ming Fai and Mr. Li Jianxin for re-appointment as an Independent Non-executive Director and the nomination of Mr. Fong Kwok Leung, Kevin for re-appointment as a Non-executive Director.

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

APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

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

Pursuant to code provision A.4.3 of the CG Code, if an Independent Non-executive Director has served for more than nine years, any further appointment of such Independent Non-executive Director should be subject to a separate resolution to be approved by the Shareholders. Dr. Yuen Ming Fai was appointed as an Independent Non-executive Director in September 2004. During his tenure of office over the past years, Dr. Yuen had performed his duty as an Independent Non-executive Director to the satisfaction of the Board. The Board was of the opinion that Dr. Yuen remains independent notwithstanding the length of his service and believed that his valuable professional knowledge and general business acumen would continue to generate significant contribution to the Board, the Company and its shareholders as a whole. Pursuant to code provision A.4.3 of the CG Code, a separate ordinary resolution was proposed at the annual general meeting of the Company held on 25 May 2018 to approve the re-election of Dr. Yuen as an Independent Non-executive Director.

In accordance with the provisions of the Bye-laws of the Company, Mr. Du Qianyi and Mr. Fong Kwok Leung, Kevin will retire from office as Directors by rotation at the forthcoming annual general meeting. The retiring Directors are eligible for re-election and have agreed to offer themselves for re-election at the forthcoming annual general meeting.

INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

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

As from 1 April 2012, all Directors are provided with monthly updates on the Company's performance and financial position to enable the Board as a whole and each Director to discharge their duties. In addition, briefings and updates on the latest development regarding the Listing Rules and other applicable regulatory requirements are provided to the Board from time to time to ensure compliance and enhance their awareness of good corporate governance practices.

All Directors are also encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. According to the records maintained by the Company, the trainings undertaken by each of the Directors during the year ended 31 December 2018 are summarised as follows:

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

A – Attending courses/seminars on business management, risk management and/or tax compliance
B – Reading materials relating to corporate governance, directors' duties and responsibilities

REMUNERATION COMMITTEE

The Board established a Remuneration Committee in December 2005 with specific terms of reference which deal clearly with its authority and duties. The terms of reference of the Remuneration Committee were revised by the Board on 27 March 2019. The revised terms of reference, which are closely aligned with the CG Code, are available on the Company's website at http://www.fongs.com and the Stock Exchange's website at http://www.hkexnews.hk.

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

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

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

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

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

AUDIT COMMITTEE

The Company established its Audit Committee in December 1998. The terms of reference of the Audit Committee were revised by the Board on 27 March 2019 in terms substantially the same as the provisions set out in the CG Code. The revised terms of reference of the Audit Committee are available on the Company's website at http://www.fongs.com and the Stock Exchange's website at http://www.hkexnews.hk.

The main duties of the Audit Committee are to:

(i) review the financial statements and reports and consider any significant or unusual items raised by the financial officers of the Group or external auditors before submission to the Board;

(ii) review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process;

(iii) make recommendation to the Board on the appointment, re-appointment and removal of external auditors; and

(iv) review the adequacy and effectiveness of the Group's financial reporting system, internal control system, risk management system and associated procedures and arrangements to enable employees of the Group to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Group.

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

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

The external auditor was invited to attend meetings of the Audit Committee held during the year to discuss with the members of the Audit Committee on issues arising from the audit and financial reporting matters. The Chairman of the Audit Committee provided the Board with a briefing on the significant issues after each meeting of the Audit Committee. There was no disagreement between the Board and the Audit Committee on the selection and re-appointment of the external auditor during the year ended 31 December 2018.

The Audit Committee held three meetings in 2018 and the attendance record of individual member is set out in this Corporate Governance Report. In discharging its responsibilities, the Audit Committee has performed the following works during the year ended 31 December 2018:

(i) reviewed the annual report of the Group for the year ended 31 December 2017 and the interim report of the Group for the six months ended 30 June 2018, as well as the reports prepared by the external auditor covering major findings in the course of its audit;

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

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

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

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

(vi) considered the re-appointment of PKF Hong Kong Limited as auditor of the Company.

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

ATTENDANCE RECORD OF INDIVIDUAL DIRECTOR AT MEETINGS IN 2018

	Number of Attendance/Number of Possible Attendance				
	Board Meeting	Audit Committee Meeting	Nomination Committee Meeting	Remuneration Committee Meeting	Annual General Meeting
Executive Directors					
Mr. Ye Maoxin	8/8	3/3	2/2	1/1	1/1
Mr. Ji Xin	8/8	3/3	2/2	1/1	1/1
Mr. Du Qianyi	8/8	3/3	–	–	1/1
Non-executive Director					
Mr. Fong Kwok Leung, Kevin	8/8	3/3	–	–	1/1
Independent Non-executive Directors					
Mr. Ying Wei	6/8	3/3	2/2	1/1	0/1
Dr. Yuen Ming Fai	8/8	3/3	2/2	1/1	1/1
Mr. Li Jianxin	8/8	3/3	2/2	1/1	1/1

AUDITOR'S REMUNERATION

During the year, PKF Hong Kong Limited (which for the purpose includes any entity under common control, ownership or management with the auditor or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally) provided the following audit and non-audit services to the Group:

(i) Audit services; and

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

Total remuneration paid for the above audit services and non-audit services was approximately HK$3,196,000.

RESPONSIBILITIES FOR PREPARATION AND REPORTING OF ACCOUNTS

The consolidated financial statements of the Company for the year ended 31 December 2018 have been reviewed by the Audit Committee and audited by the external auditor, PKF Hong Kong Limited. The Directors acknowledged their responsibility for preparing the financial statements of the Group which were prepared in accordance with statutory requirements and applicable accounting standards. A statement by the external auditor about their reporting responsibilities is set out in the Independent Auditor's Report of this Annual Report.

RISK MANAGEMENT AND INTERNAL CONTROLS

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

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

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

During 2018, members of the internal audit department carried out an internal audit project to identify the key risk areas which covered all aspects of corporate strategies, operations and finance of the Group. The Board has reviewed the risk assessment documents and considered that the resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget are adequate during the year under review. The Board has also reviewed the effectiveness of the Group's internal controls and considered that key areas of the Group's system of internal controls are reasonably implemented, which provide prevention of material misstatement or loss, safeguard the Group's assets, maintain appropriate accounting records and financial reporting, efficiency of operations and ensure compliance with the Listing Rules and all other applicable laws and regulations.

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

COMPANY SECRETARY

The Company Secretary, Mr. Lee Che Keung, is a full time employee of the Group and reports to the Chairman of the Board. He is responsible to the Board for ensuring that procedures are followed and that all applicable laws, rules and regulations are complied with. The Company Secretary supports the Board by ensuring good information flow within the Board and is also a source of advice to the Chairman and to the Board on corporate governance and the implementation of the CG Code. The biography of Mr. Lee is set out on page 11 of this Annual Report.

According to Rule 3.29 of the Listing Rules, Mr. Lee took not less than 15 hours of relevant professional training for the year ended 31 December 2018.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

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

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

The Company has set up a corporate website at http://www.fongs.com at which relevant information including the latest development of the Group will be announced. The website offers the latest information regarding various aspects of the Group to investors and the public. Shareholders and investors may also write directly to the Company's principal place of business in Hong Kong at Level 13, Tower 2, Kowloon Commercial Centre, 51 Kwai Cheong Road, Kwai Chung, Hong Kong.

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

During the year ended 31 December 2018, the Company held an annual general meeting on 25 May 2018. The Company's notice to shareholders for the annual general meeting was sent to shareholders at least 20 clear business days before such meeting. The Chairman of the Board and the external auditor had attended the annual general meeting held on 25 May 2018 to answer questions from the shareholders. The Chairman of the annual general meeting had explained the procedures for conducting a poll during the meeting.

SHAREHOLDERS' RIGHTS

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

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

Address: Level 13, Tower 2, Kowloon Commerce Centre,
51 Kwai Cheong Road, Kwai Chung, Hong Kong
(For the attention of the Board of Directors)

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

DIVIDEND POLICY

According to the dividend policy adopted by the Company on 27 March 2019, provided that the Group is profitable and without affecting the normal operations of the Group, the Company intends to declare and pay dividends to the shareholders of the Company. In deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account various factors, which include, but are not limited to:

(i) the Group's actual and expected financial performance;

(ii) the Group's expected working capital requirements, capital expenditure requirements and future expansion plans;

(iii) retained earnings and distributable reserves of the Company and each of the members of the Group;

(iv) the Group's liquidity position;

(v) the general economic conditions and other internal or external factors that may have an impact on the business or financial performance and position of the Group; and

(vi) any other factors that the Board deems relevant.

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

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

CHANGE OF COMPANY NAME AND STOCK SHORT NAME

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

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

On behalf of the Board

Ye Maoxin
Chairman

Hong Kong, 27 March 2019

DIRECTORS' REPORT

The Board presents its report and the audited consolidated financial statements for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company acts as an investment holding company.

The subsidiaries of the Company are principally engaged in the manufacture and sale of dyeing and finishing machines, trading of stainless steel supplies, manufacture and sale of stainless steel casting products and provision of environmental protection services. The activities of its principal subsidiaries are set out in Note 38 to the consolidated financial statements.

Further review and analysis of these business activities, including the risks and uncertainties facing the Group and likely future development in the Group's businesses, are set out in the Chairman's Statement and Management Discussion and Analysis sections on pages 3 to 4 and pages 12 to 23 of this Annual Report respectively. These review and analysis form part of this report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 65 to 66.

The Board recommended the payment of a final dividend of 2 HK cents per share, totalling approximately HK$22,004,000 in respect of the year to shareholders whose names appear on the register of members of the Company on 6 June 2019. The proposed final dividend for the year ended 31 December 2018 was approved at the Company's board meeting held on 27 March 2019. Details of the dividends for the year ended 31 December 2018 are set forth in Note 10 to the consolidated financial statements.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the annual general meeting of the Company to be held on Tuesday, 28 May 2019 ("2019 AGM"), the register of members of the Company will be closed from Monday, 27 May 2019 to Tuesday, 28 May 2019, both days inclusive, during which period no transfer of shares of the Company will be effected. In order to be eligible to attend and vote at the 2019 AGM, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Registrar, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 24 May 2019.

Subject to the approval of the proposed final dividend at the 2019 AGM, the register of members of the Company will be closed from Tuesday, 4 June 2019 to Thursday, 6 June 2019, both days inclusive, for the purpose of determining the entitlements of the shareholders to the proposed final dividend. In order to qualify for the proposed final dividend, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Registrar, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 3 June 2019. Dividend warrants will be despatched on Friday, 21 June 2019.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2018 were as follows:

	HK$'000
Contributed surplus	23,033
Retained profits	94,804
	117,837

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

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

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

PROPERTY, PLANT AND EQUIPMENT

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

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2018, the aggregate amount of revenue attributable to the Group's five largest customers represented less than 8% of the Group's total revenue.

The aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 18% of the Group's total purchases and the amount of purchases attributable to the Group's largest supplier was approximately 7% of the total purchases.

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

DIRECTORS AND SERVICE CONTRACTS

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

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

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

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

Mr. Fong Kwok Leung, Kevin has been re-designated from an Executive Director to a Non-executive Director of the Company with effect from 1 October 2016 due to his desire to devote more time to his own family business. The Company entered into a service contract with Mr. Fong for a term of two years commencing on 1 October 2016 and expiring on 30 September 2018. Upon expiry, his term of office has been extended to 30 September 2020 at a director's fee of HK$180,000 per annum, but such service contract is determinable by either party giving to the other party at least one month's prior written notice. In addition, Mr. Fong and the Company entered into a consultancy agreement without a fixed term of service on 15 October 2016 whereby Mr. Fong was appointed as a consultant of the Company with retrospective effect from 1 October 2016 for providing consultancy services to the Company in respect of the business development of the Group, but such consultancy agreement is determinable by either party giving to the other party at least one month's prior written notice. Mr. Fong is entitled to a monthly remuneration of HK$100,000 and the use of a private car provided by the Group under the consultancy agreement.

Mr. Ying Wei was appointed under a contract for a term of two years commencing on 1 September 2017 and expiring on 31 August 2019.

Dr. Yuen Ming Fai was appointed under a contract for a term of 2 years commencing on 1 September 2016 and expiring on 31 August 2018. Upon expiry, his term of office has been extended to 31 August 2020.

Mr. Li Jianxin was appointed under a contract for a term of 2 years commencing on 1 July 2016 and expiring on 30 June 2018. Upon expiry, his term of office has been extended to 30 June 2020.

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

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

In accordance with the Company's Bye-laws, Mr. Du Qianyi and Mr. Fong Kwok Leung, Kevin will retire from the Board by rotation at the forthcoming 2019 AGM. The retiring Directors are eligible for re-election and have agreed to offer themselves for re-election at the forthcoming 2019 AGM.

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

DIRECTORS' INTERESTS IN THE SHARES OF THE COMPANY

As at 31 December 2018, the interests of the Directors and their associates in the shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long position in shares of the Company

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

Note: Mr. Fong Kwok Leung, Kevin is a beneficiary of a discretionary trust which owns the entire issued share capital of the entire share capital of the following companies which in turn beneficially own an aggregate of 126,104,220 shares as follows:

(i) Bristol Investments Limited – 16,000,000 shares
(ii) Polar Bear Holdings Limited – 83,100,000 shares
(iii) Sheffield Holdings Company Limited – 27,004,220 shares

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

Save as disclosed above, none of the Directors, chief executive nor their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2018.

SHARE OPTIONS

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

Particulars of the Scheme and a summary of the movements of the share options granted under the Scheme during the year ended 31 December 2018 are set out in Note 33 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

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

ARRANGEMENTS TO PURCHASE SHARES OR DEBT SECURITIES

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

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2018, the Group had entered into the following connected transactions and continuing connected transactions which are exempted from independent shareholders' approval requirements, but are subject to the reporting and announcement requirements set out in Chapter 14A of the Listing Rules.

Connected transaction

Entrusted Loan Agreement

On 3 January 2018, Fong's National Engineering (Shenzhen) Co., Ltd.(立信染整機械(深圳)有限公司) (an indirect wholly-owned subsidiary of the Company) ("FNES") entered into an entrusted loan agreement with Hengtian Real Estate Company Limited(恒天地產有限公司)("Hengtian Real Estate") and Bank of China Limited, Buji, Shenzhen Branch(中國銀行股份有限公司深圳布吉支行)(the "Bank"), pursuant to which FNES (as the entrusting party and lender) agreed to provide an entrusted loan in the principal amount of RMB70 million for a term of 10 months at the interest rate of 11% per annum to Hengtian Real Estate (as the borrower) through the Bank (as the entrusted party and lending agent). For details of the transaction, please refer to the announcement of the Company dated 3 January 2018. The entrusted loan was fully repaid in one lump sum on 3 November 2018. The total interest received from Hengtian Real Estate during the loan period amounted to RMB6,134,172, net of value-added tax.

On 3 December 2018, FNES entered into a new entrusted loan agreement with Hengtian Real Estate and the Bank, pursuant to which FNES (as the entrusting party and lender) agreed to provide an entrusted loan in the principal amount of RMB40 million for a term of about seven months from 3 December 2018 to 25 June 2019 at the interest rate of 11% per annum to Hengtian Real Estate (as the borrower) through the Bank (as the entrusted party and lending agent). For details of the transaction, please refer to the announcement of the Company dated 3 December 2018.

Hengtian Real Estate is a company established in the PRC and owned as to 13.26% by FNES. To the best of the Directors' knowledge, information and belief after having made all reasonable enquires, Hengtian Real Estate is also owned as to 42.74% by China Hi-Tech Group Corporation(中國恒天集團有限公司), the controlling shareholder of the Company currently holding approximately 55.94% interest of the Company as at the date hereof and as to the remaining approximately 44% by third parties independent of the Company and its connected persons.

Continuing connected transactions

(i) Tenancy Agreements

On 30 December 2016, Fong's National Engineering Company, Limited ("FNECL"), an indirect wholly-owned subsidiary of the Company, entered into a tenancy agreement with Sou Lam Company Limited ("Sou Lam") for the use of a portion of a factory building by the Group as general office as well as for industrial or godown purposes having a total gross floor area of approximately 66,667 square feet at a monthly rental of HK$960,000 and monthly management fee of HK$104,686 (exclusive of government rates, government rent and other outgoings) for a term of three years commencing on 1 January 2017 and ending on 31 December 2019. Details of the transaction were set out in the announcement of the Company dated 30 December 2016. The total rental paid by the Group to Sou Lam for the year ended 31 December 2018 amounted to HK$11,520,000.

On 3 September 2018, FNECL and Sou Lam entered into a partial surrender agreement whereby a portion of the leased premises having a gross floor area of approximately 24,123 square feet would be surrendered on "as is basis" to Sou Lam on 28 February 2019 and FNECL should pay Sou Lam HK$2,043,300 being payment in lieu of reinstatement of the surrendered premises on or before 31 December 2018. As from 1 March 2019, the monthly rental would be reduced from HK$960,000 to HK$690,000 and the monthly management fee would be adjusted from HK$104,686 to HK$66,806. Details of the transaction were set out in the announcement of the Company dated 3 September 2018.

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

(ii) Procurement Agreement

On 29 December 2016, FNES as purchaser entered into a procurement agreement with Keyvalve (Shenzhen) Co., Ltd.（奇偉閥門（深圳）有限公司）("Keyvalve") as seller whereby FNES has agreed to purchase from Keyvalve certain categories of valves for its production of dyeing and finishing machines by issuing purchase orders from time to time to Keyvalve under the terms and conditions as stipulated therein during the period from 4 November 2016 to 31 December 2018 (both days inclusive). Details of the transaction were set out in the announcement of the Company dated 29 December 2016. The amount of valves purchased by FNES from Keyvalve during the year ended 31 December 2018 was RMB17,146,634 (equivalent to approximately HK$20,365,000).

On 28 December 2018, in view of the prospective expiry of the procurement agreement, the Group, through its indirect wholly-owned subsidiaries namely FNES, Fong's National Engineering (Guangdong) Co., Ltd.（立信染整機械（廣東）有限公司）and Monforts Fong's Textile Machinery (Zhongshan) Co., Ltd.（立信門富士紡織機械（中山）有限公司）as purchaser, entered into a new procurement agreement with Keyvalve as seller whereby the purchaser has agreed to purchase from Keyvalve certain categories of valves for its production of dyeing and finishing machines by issuing purchase orders from time to time to Keyvalve under the terms and conditions as stipulated therein during the period from 1 January 2019 to 31 December 2021 (both days inclusive). The annual caps for the contract price of the valves purchased by the purchaser from Keyvalve for the years ending 31 December 2019, 31 December 2020 and 31 December 2021 are RMB26 million, RMB28 million and RMB30 million respectively. Details of the transaction were set out in the announcement of the Company dated 28 December 2018.

To the best of the Directors' knowledge, information and belief after having made all reasonable enquires, Keyvalve is a wholly-foreign owned enterprise currently beneficially owned as to 50% equity interest by Mr. Fong Kwok Leung, Kevin (a Non-executive Director and a substantial shareholder of the Company).

(iii) Licences and Cooperation Agreement

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

The amount of engineering fee paid by the Group to AUTEFA during the year ended 31 December 2018 was HK$3,598,951.

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

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

The Board has received a letter of confirmation from the auditor stating that the above continuing connected transactions (i) have been approved by the Board; (ii) have been conducted in accordance with the relevant agreements governing the relevant transactions; and (iii) the aggregate amounts incurred in 2018 have not exceeded the annual cap disclosed in the previous announcements. The auditor issued its unqualified letter containing its findings and conclusions in respect of the transactions disclosed above in accordance with Rule 14A.56 of the Listing Rules. The Company has provided a copy of the said letter to the Stock Exchange.

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

MATERIAL RELATED PARTY TRANSACTIONS

During the year ended 31 December 2018, the Group entered into certain transactions with "related parties" as defined under the applicable accounting standards. Details of the material related party transactions are disclosed in Note 37 to the consolidated financial statements.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

Other than the connected transactions and continuing connected transactions as disclosed above, no other transactions, arrangements and contracts of significance in relation to which the Company, its ultimate holding company, or any of its subsidiaries or fellow subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year ended 31 December 2018 or at any time during that year.

PERMITTED INDEMNITY PROVISIONS

A permitted indemnity provision for the benefit of the Directors of the Company is currently in force and was in force throughout the year ended 31 December 2018. The Company has maintained liability insurance to provide appropriate cover for the Directors of the Company and its subsidiaries.

MANAGEMENT CONTRACTS

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

DISCLOSURE PURSUANT TO RULE 13.21 OF THE LISTING RULES

In accordance with the requirements under Rule 13.21 of the Listing Rules, the Board reported below details of loan facilities which exist at any time during the year ended 31 December 2018 and up to the date of this Annual Report and include covenants requiring specific performance obligations of the controlling shareholder of the Company.

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

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

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

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

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

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

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

(vii) On 9 August 2018, certain wholly-owned subsidiaries of the Company accepted the revised banking facilities offered by a bank up to an aggregate amount of HK$500 million. The banking facilities comprise an existing 3-year term loan of HK$200 million for financing the construction cost of buildings and facilities as well as purchase of production equipment in respect of the new Zhongshan factory premise of the Group; a new 5-year term loan of HK$170 million for financing the general working capital requirements (including refinancing any existing indebtedness) of the Group; and a new 5-year term loan of HK$130 million for financing the acquisition of the entire issued shares of PT Harvest Holdings Limited holding properties in Kowloon Commerce Centre. The terms and conditions of the banking facilities include, inter alia, a condition that it will be an event of default if China Hi-Tech Group Corporation（中國恒天集團有限公司）ceases to maintain not less than 51% of shareholding (whether directly or indirectly) of the Company throughout the life of the banking facilities.

Save as disclosed above, the Directors are not aware of any circumstances which would give rise to a disclosure obligation pursuant to the requirements under Rule 13.18 of the Listing Rules as at 31 December 2018 and as at the date of this Annual Report.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

As at 31 December 2018, the register maintained by the Company pursuant to Section 336 of the SFO shows that, other than the interests disclosed above in respect of certain Directors, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company as follows:

Long position in shares of the Company

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

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

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

Mr. Ye Maoxin and Mr. Du Qianyi are the directors of Newish Trading Limited.

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

Note B: Mr. Fong Sou Lam is the founder of a discretionary trust which owns the entire issued share capital of the following companies which in turn beneficially own an aggregate of 126,104,220 shares as follows:

(i) Bristol Investments Limited – 16,000,000 shares
(ii) Polar Bear Holdings Limited – 83,100,000 shares
(iii) Sheffield Holdings Company Limited – 27,004,220 shares

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

Save as disclosed above, as at 31 December 2018, the Company had not been notified of any person who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

DONATIONS

During the year, the Group made charitable and other donations amounting to HK$217,960.

EMOLUMENT POLICY

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

PRE-EMPTIVE RIGHTS

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

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, throughout the year ended 31 December 2018 and as at the date of this Annual Report, the Company has maintained a sufficient public float of not less than 25% of the Company's issued shares being held by the public as required under the Listing Rules.

AUDITOR

The consolidated financial statements for the year ended 31 December 2018 were audited by PKF Hong Kong Limited which would retire at the conclusion of the 2019 AGM and, being eligible, offer themselves for re-appointment. An ordinary resolution will be proposed to re-appoint PKF Hong Kong Limited as the independent auditor of the Company and to authorise the Board to fix their remuneration at the 2019 AGM.

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

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

CHANGE OF COMPANY NAME AND STOCK SHORT NAME

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

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

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

On behalf of the Board

Ji Xin
Director

Hong Kong, 27 March 2019

INDEPENDENT AUDITOR'S REPORT

大信梁學濂(香港)會計師事務所有限公司

PKF
Accountants &
business advisers

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

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

OPINION

We have audited the consolidated financial statements of CHTC Fong's International Company Limited and its subsidiaries (together the "Group") set out on pages 65 to 195, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

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

Key Audit Matter	How the matter was addressed in our audit procedures
As at 31 December 2018, the Group had goodwill of approximately HK$533,515,000 relating to the manufacture and sale of dyeing and finishing machines business segment. Management performed its annual impairment review and concluded that there was no impairment in respect of the goodwill. A significant risk of material misstatement may exist as a result of the application of management judgement and estimation in performing the impairment review, in particular, in relation to the forecasting of future cash flows, the growth rates used by management to extrapolate the cash flows after the first 5-year period and the selection of an appropriate discount rate.	Our procedures performed in relation to management's impairment assessment of goodwill included: – Assessing the value-in-use calculations methodology adopted by management; – Reconciling input data and relevant parameters to supporting evidence, such as approved financial budgets and considering the reasonableness of those budgets; – Assessing the reasonableness of key assumptions based on our understanding of the business and industry; – Re-calculating the valuation made by the management; – Considering the potential impact of reasonably possible upside/downside changes in these key assumptions; and – Determining whether indication of possible management bias exist.

IMPAIRMENT ASSESSMENT OF INTANGIBLE ASSETS

Refer to Notes 4 and 15 to the consolidated financial statements.

Key Audit Matter	How the matter was addressed in our audit procedures
As at 31 December 2018, included in intangible assets were concession rights to operate municipal sewage sludge treatment plant and operation rights to operate animal carcass processing facilities of approximately HK$1,333,000 and HK$40,336,000 respectively. For the year ended 31 December 2018, impairment loss of approximately HK$3,424,000 and HK$11,413,000 had been recognised on the concession rights and the operation rights respectively. We have identified the impairment assessment of intangible assets as a key audit matter because the estimations of the recoverable amounts are complex, subjective and highly judgmental, particularly in the assumptions and judgements made by management in arriving at the cash flow forecasts.	Our procedures performed in relation to management's impairment assessment of intangible assets included: – Obtaining an understanding of the Group's procedures and method of valuation, including significant assumptions made and management's assessment of estimation uncertainty; – Re-calculating the valuation made by the management; – Evaluating the independence and works performed by the independent external valuer engaged by the management to assist their valuation; – Evaluating whether the method of valuation and assumptions made are appropriate; – Testing the data used by the management in the valuation; – Considering the potential impact of reasonably possible upside/downside changes in these key assumptions; – Determining whether indication of possible management bias exist; and – Evaluating the recognition and measurement criteria used and disclosure made by management.

FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME MEASURED AT LEVEL 3 FAIR VALUE

Refer to Notes 4, 16 and 32(c) to the consolidated financial statements.

Key Audit Matter	How the matter was addressed out in our audit procedures
As at 31 December 2018, the Group had financial assets at fair value through other comprehensive income of approximately HK$158,264,000. The Group engaged an independent external valuer to apply valuation method to determine the fair value of these financial instruments. This valuation method included significant unobservable inputs, involved subjective judgements and assumptions. The sensitivity of the assumptions used may have material impact on the valuation of these financial instruments. We have identified the valuation of financial assets at fair value through other comprehensive income as a key audit matter because of the significant estimation uncertainty resulted from the use of unobservable inputs and the significant judgement made in selecting the valuation method.	Our procedures performed in relation to management's valuation of financial assets at fair value through other comprehensive income included: – Obtaining an understanding of the Group's procedures and method of valuation, including significant assumptions made and management's assessment of estimation uncertainty; – Re-calculating the valuation made by the management; – Evaluating the independence and works performed by the independent external valuer engaged by the management to assist their valuation; – Evaluating whether the method of valuation and assumptions made are appropriate; – Testing the data used by the management in the valuation; – Considering the potential impact of reasonably possible upside/downside changes in these key assumptions; – Determining whether indication of possible management bias exist; and – Evaluating the recognition and measurement criteria used and disclosure made by management.

VALUATION AND IMPAIRMENT OF INVENTORIES

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

Key Audit Matter	How the matter was addressed in our audit procedures
As at 31 December 2018, the Group had inventories of approximately HK$764,423,000. The inventory held at the year end covers a wide range of products and the demand for these inventories and the ability of the Group to sell these inventories in the future may be adversely affected by many factors including the global economic situation, changes in customer preferences, competitor activity including pricing and the introduction of new products and technology. Management estimates the net realisable value for inventories based primarily on the latest invoice prices and current market conditions, ageing analysis of the inventories and carrying out an inventory review on a product-by-product basis at the end of the reporting period and making provisions for slow moving and obsolete items.	Our procedures performed in relation to management's valuation and impairment assessment of inventories included: – Inspecting the ageing of the inventories, testing the accuracy of the ageing data, identifying any slow moving inventories, and critically assessing whether appropriate provisions had been made for slow moving and obsolete items; – Comparing most recent prices achieved on sales across the range of products to test whether these prices exceeded the carrying values of the inventories at year end; – Comparing the basis and assumptions used by management in calculating the inventories provision to those used in prior years and considering the possible effects of changes in market conditions; – Assessing the accuracy of historical provisions recorded by examining the utilisation or release of previously recorded provisions; and – Considering the adequacy of management's disclosures in relation to the carrying values of the inventories.

ASSESSMENT OF THE RECOVERABILITY OF TRADE RECEIVABLES

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

Key Audit Matter	How the matter was addressed in our audit procedures
As at 31 December 2018, the Group had gross trade receivables of approximately HK$317,260,000 (2017: HK$359,744,000) and provision for impairment loss of approximately HK$4,307,000 (2017: HK$8,719,000). In general, the average credit term granted by the Group to the customers is 60 days (2017: 60 days). Loss allowance for trade receivables is based on management's estimate of the lifetime expected credit losses to be incurred, which is estimated by taking into account the credit loss experience, ageing of overdue trade receivables, customers' repayment history and customers' financial position and an assessment of both the current and forecast general economic conditions, all of which involve a significant degree of management judgement. We identified assessing the recoverability of trade receivables as a key audit matter because the assessment of the recoverability of trade receivables and recognition of loss allowance are inherently subjective and requires significant management judgement, which increases the risk of error or potential management bias.	Our procedures performed in relation to management's assessment of the recoverability of trade receivables included: – Evaluating the design, implementation and operating effectiveness of key internal controls which govern credit control, debt collection and estimate of expected credit losses; – Checking, on a sample basis, the ageing profile of the trade receivables as at 31 December 2018 to the underlying financial records; – Assessing the reasonableness of management's loss allowance estimates by examining the information used by management to form such judgements, including testing the accuracy of the historical default data, evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and examining the actual losses recorded during the current financial year and assessing whether there was an indication of management bias when recognising loss allowance; and – Checking settlement from customers after the financial year end relating to trade receivables balance as at 31 December 2018, on a sample basis.

OTHER INFORMATION IN THE ANNUAL REPORT

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PKF Hong Kong Limited
Certified Public Accountants

Tan Yik Chung Wilson
Practising certificate number P05103

Hong Kong, 27 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Revenue	5	**3,472,497**	3,403,822
Cost of sales		**(2,369,420)**	(2,194,128)
Gross profit		**1,103,077**	1,209,694
Interest income		**9,577**	13,581
Other income	8	**26,060**	32,632
Other (losses) gains	8	**(11,837)**	22,946
Selling and distribution costs		**(299,628)**	(288,152)
Administrative and other expenses		**(611,593)**	(602,631)
Finance costs	6	**(42,401)**	(37,274)
Share of results of an associate	17	**(72)**	(4)
Impairment loss on goodwill		**(4,535)**	–
Impairment loss on intangible assets		**(14,837)**	–
Profit before tax		**153,811**	350,792
Income tax expense	7	**(29,189)**	(67,704)
Profit for the year	8	**124,622**	283,088
Other comprehensive (expense) income, net of tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation		**(68,776)**	90,446
Exchange difference reclassified to profit or loss upon deregistration of a subsidiary		**(920)**	(6,991)
Share of translation reserve of an associate		**(1,196)**	–
		(70,892)	83,455
Items that will not be reclassified to profit or loss:			
Remeasurement gain on defined benefit plan		**253**	1,092
Fair value loss on financial assets at fair value through other comprehensive income		**(13,713)**	–
		(13,460)	1,092
Other comprehensive (expense) income for the year		**(84,352)**	84,547
Total comprehensive income for the year		**40,270**	367,635

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Profit (loss) for the year attributable to:			
Owners of the Company		**141,017**	281,263
Non-controlling interests		**(16,395)**	1,825
		124,622	283,088
Total comprehensive (expense) income for the year attributable to:			
Owners of the Company		**56,665**	365,810
Non-controlling interests		**(16,395)**	1,825
		40,270	367,635
Earnings per share			
Basic	11(a)	**12.82 HK cents**	25.56 HK cents
Diluted	11(b)	**12.82 HK cents**	25.52 HK cents

The accompanying notes form part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment	12	**1,478,057**	956,735
Prepaid lease payments	13	**212,557**	226,101
Goodwill	14	**533,515**	538,050
Intangible assets	15	**244,004**	261,590
Financial assets at fair value through other comprehensive income	16	**158,264**	–
Available-for-sale financial assets	16	**–**	186,332
Investment in an associate	17	**28,450**	29,718
Deposits for acquisition of property, plant and equipment		**103,833**	47,484
Deposits for acquisition of leasehold land		**7,394**	7,702
Deferred tax assets	18	**28,101**	20,482
		2,794,175	2,274,194
Current assets			
Inventories	19	**764,423**	750,830
Trade and other receivables	20	**617,469**	664,125
Prepaid lease payments	13	**5,273**	5,473
Tax recoverable		**10,184**	3,290
Cash and cash equivalents	21	**586,799**	573,198
		1,984,148	1,996,916
Current liabilities			
Trade and other payables	22	**621,086**	959,972
Contract liabilities	23	**180,152**	–
Warranty provision	24	**16,191**	15,963
Tax liabilities		**19,930**	31,758
Bank borrowings	25	**1,894,522**	1,060,887
		2,731,881	2,068,580
Net current liabilities		**(747,733)**	(71,664)
Total assets less current liabilities		**2,046,442**	2,202,530

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Non-current liabilities			
Bank borrowings	25	–	100,000
Deferred revenue	26	**82,007**	40,115
Deferred tax liabilities	18	**59,097**	54,820
Other payable	22	**341,751**	356,004
		482,855	550,939
Net assets		**1,563,587**	1,651,591
Capital and reserves			
Total equity attributable to owners of the Company			
Share capital	27(b)	**55,011**	55,011
Share premium and reserves		**1,503,906**	1,575,518
		1,558,917	1,630,529
Non-controlling interests		**4,670**	21,062
Total equity		**1,563,587**	1,651,591

The consolidated financial statements on pages 65 to 195 were approved and authorised for issue by the Board of Directors on 27 March 2019 and are signed on its behalf by:

Ye Maoxin
Director

Ji Xin
Director

The accompanying notes form part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to owners of the Company											
	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Capital redemption reserve HK$'000	Fair value reserve (non-recycling) HK$'000	Translation reserve HK$'000	Retained profits HK$'000	Contributed surplus HK$'000 (Note)	Share option reserve HK$'000	Subtotal HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2017	55,145	157,261	(581)	2,370	–	(32,183)	1,117,298	25,582	9,202	1,334,094	–	1,334,094
Profit for the year	–	–	–	–	–	–	281,263	–	–	281,263	1,825	283,088
Exchange difference arising on translation	–	–	–	–	–	90,446	–	–	–	90,446	–	90,446
Exchange difference reclassified to profit or loss upon deregistration of a subsidiary	–	–	–	–	–	(6,991)	–	–	–	(6,991)	–	(6,991)
Remeasurement gain on defined benefit plan	–	–	–	–	–	–	1,092	–	–	1,092	–	1,092
Other comprehensive income for the year, net of tax	–	–	–	–	–	83,455	1,092	–	–	84,547	–	84,547
Total comprehensive income for the year	–	–	–	–	–	83,455	282,355	–	–	365,810	1,825	367,635
Non-controlling interests arising from business combination (Note 28)	–	–	–	–	–	–	–	–	–	–	19,237	19,237
Effects of share options (Note 33)	–	–	–	–	–	–	–	–	7,412	7,412	–	7,412
Repurchase and cancellation of shares (Note 27)	(134)	(5,139)	–	134	–	–	(134)	–	–	(5,273)	–	(5,273)
Final dividend for 2016 paid (Note 10)	–	–	–	–	–	–	(38,508)	–	–	(38,508)	–	(38,508)
Interim dividend for 2017 paid (Note 10)	–	–	–	–	–	–	(33,006)	–	–	(33,006)	–	(33,006)
At 31 December 2017	55,011	152,122	(581)	2,504	–	51,272	1,328,005	25,582	16,614	1,630,529	21,062	1,651,591

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to owners of the Company											
	Share capital HK$'000	**Share premium** HK$'000	**Capital reserve** HK$'000	**Capital redemption reserve** HK$'000	**Fair value reserve (non-recycling)** HK$'000	**Translation reserve** HK$'000	**Retained profits** HK$'000	**Contributed surplus** HK$'000 (Note)	**Share option reserve** HK$'000	**Subtotal** HK$'000	**Non-controlling interests** HK$'000	**Total** HK$'000
At 1 January 2018	55,011	152,122	(581)	2,504	–	51,272	1,328,005	25,582	16,614	1,630,529	21,062	1,651,591
Impact on initial application of HKFRS 9 (Note 3(b)(i))	–	–	–	–	(7,254)	–	–	–	–	(7,254)	–	(7,254)
Adjusted balances at 1 January 2018	55,011	152,122	(581)	2,504	(7,254)	51,272	1,328,005	25,582	16,614	1,623,275	21,062	1,644,337
Profit for the year	–	–	–	–	–	–	141,017	–	–	141,017	(16,395)	124,622
Exchange difference arising on translation	–	–	–	–	–	(68,776)	–	–	–	(68,776)	–	(68,776)
Exchange difference reclassified to profit or loss upon deregistration of a subsidiary	–	–	–	–	–	(920)	–	–	–	(920)	–	(920)
Share of reserve of an associate	–	–	–	–	–	(1,196)	–	–	–	(1,196)	–	(1,196)
Remeasurement gain on defined benefit plan	–	–	–	–	–	–	253	–	–	253	–	253
Fair value loss on financial assets at fair value through other comprehensive income	–	–	–	–	(13,713)	–	–	–	–	(13,713)	–	(13,713)
Other comprehensive (expense) income for the year, net of tax	–	–	–	–	(13,713)	(70,892)	253	–	–	(84,352)	–	(84,352)
Total comprehensive (expense) income for the year	–	–	–	–	(13,713)	(70,892)	141,270	–	–	56,665	(16,395)	40,270
Capital contribution from a non-controlling interest of a newly incorporated subsidiary	–	–	–	–	–	–	–	–	–	–	3	3
Release of reserves upon deregistration of a subsidiary	–	–	581	–	–	(9)	(572)	–	–	–	–	–
Transfer of share option reserve upon the lapse of share options	–	–	–	–	–	–	16,614	–	(16,614)	–	–	–
Final dividend for 2017 paid (Note 10)	–	–	–	–	–	–	(88,017)	–	–	(88,017)	–	(88,017)
Interim dividend for 2018 paid (Note 10)	–	–	–	–	–	–	(33,006)	–	–	(33,006)	–	(33,006)
At 31 December 2018	55,011	152,122	–	2,504	(20,967)	(19,629)	1,364,294	25,582	–	1.558.917	4,670	1,563,587

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

The accompanying notes form part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
OPERATING ACTIVITIES		
Profit before tax	**153,811**	350,792
Adjustments for:		
Interest expense	**34,107**	29,135
Interest income	**(9,577)**	(13,581)
Depreciation and amortisation	**65,960**	63,022
Reversal of allowance for doubtful debts, net	**(2,158)**	(414)
Allowance (reversal of allowance) for inventories, net	**7,731**	(628)
Share of results of an associate	**72**	4
Share-based payments	**–**	7,412
Gain on disposal of property, plant and equipment	**(385)**	(379)
Gain on deregistration of a subsidiary	**(920)**	(6,991)
Recognition of government grants	**(1,421)**	(3,506)
Warranty provision expense	**29,478**	21,609
Impairment loss on goodwill	**4,535**	–
Impairment loss on intangible assets	**14,837**	–
Operating cash flows before movements in working capital	**296,070**	446,475
Increase in inventories	**(350)**	(166,756)
Decrease (increase) in trade and other receivables	**92,717**	(184,061)
(Decrease) increase in trade and other payables	**(78,632)**	31,957
Decrease in contract liabilities	**(98,882)**	–
Utilisation of warranty provision	**(28,913)**	(22,691)
Cash generated from operations	**182,010**	104,924
Hong Kong Profits Tax paid	**(10,114)**	(8,429)
Overseas income tax and the PRC Corporate Income Tax paid	**(40,395)**	(42,630)
Overseas income tax and the PRC Corporate Income Tax refunded	**7**	30
NET CASH GENERATED FROM OPERATING ACTIVITIES	**131,508**	53,895

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
INVESTING ACTIVITIES		
Deposits paid for acquisition of property, plant and equipment	**(103,833)**	(47,484)
Loan advance to a related party	**(131,857)**	(90,152)
Repayment of loan received from a related party	**78,932**	94,504
Proceeds from disposal of property, plant and equipment	**2,474**	1,766
Payments for acquisition of subsidiaries, net of cash and cash equivalents acquired (Note 28)	**–**	(19,416)
Payments for acquisition of a subsidiary that is not a business (Note 29)	**(325,293)**	–
Payment for acquisition of an associate	**–**	(29,722)
Interest received	**9,577**	13,581
Purchases of property, plant and equipment	**(220,246)**	(273,412)
Purchases of intangible assets	**(11,417)**	–
Receipt of government grants	**47,034**	3,732
Receipt of deposit from urban renewal project	**–**	117,180
NET CASH USED IN INVESTING ACTIVITIES	**(654,629)**	(229,423)
FINANCING ACTIVITIES		
Repayment of bank borrowings	**(1,163,156)**	(1,558,840)
Dividends paid	**(121,023)**	(71,514)
Interest paid on bank borrowings	**(54,450)**	(35,235)
New bank borrowings raised	**1,896,791**	1,594,422
Non-controlling interest's capital contribution	**3**	–
Payment on repurchases of shares	**–**	(5,273)
NET CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES	**558,165**	(76,440)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**35,044**	(251,968)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**573,198**	790,259
Exchange (loss) gain on cash and cash equivalents	**(21,443)**	34,907
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**586,799**	573,198

The accompanying notes form part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL

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

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

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

Therefore, upon completion of the Proposed Reorganisation, CHTC will be directly owned by SINOMACH and the Company will therefore become a listed subsidiary of SINOMACH. It remains unchanged that CHTC is an intermediate controlling shareholder of the Company and SASAC is the ultimate controlling shareholder of the Company. It was noted that the Proposed Reorganisation has been approved by the Ministry of Commerce, the registration procedure of the equity transfer is currently in progress. The Company will closely monitor the development of the Proposed Reorganisation and make further disclosure in due course.

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

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

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

2 INITIAL APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND POSSIBLE IMPACT OF NEW AND AMENDMENTS TO HKFRSs ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

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

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
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 40	Transfers of Investment Property
Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

The Group had to change its accounting policies following the adoption of HKFRS 9 and HKFRS 15. For details, please refer to Note 3(b). The other amendments listed above did not have any significant impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

The following HKFRSs in issue at 31 December 2018 have not been applied in the preparation of the Group's consolidated financial statements for the year ended since they were not yet effective for the annual period beginning on 1 January 2018:

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[2]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]

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

2 INITIAL APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND POSSIBLE IMPACT OF NEW AND AMENDMENTS TO HKFRSs ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018 *(Continued)*

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of HKFRS 16 which may have an impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 16, the actual impact upon the initial adoption of this standard may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standard is initially applied in the Group's interim financial report for the six months ending 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report.

HKFRS 16 "Leases"

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases of its office premises, factories, godowns and residential units for its employees which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease.

2 INITIAL APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND POSSIBLE IMPACT OF NEW AND AMENDMENTS TO HKFRSs ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018 *(Continued)*

HKFRS 16 "Leases" *(Continued)*

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by HKFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

The Group plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. As disclosed in Note 35, at 31 December 2018, the Group's future minimum lease payments under non-cancellable operating leases amounted to HK$26,218,000 for its office premises, factories, godowns and residential units for its employees, which is payable between 1 and 5 years after the reporting date.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material.

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

3 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

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

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

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Changes in accounting policies

The HKICPA has issued a number of new and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's consolidated financial statements:

(i) HKFRS 9 "Financial Instruments"

(ii) HKFRS 15 "Revenue from Contracts with Customers"

(i) HKFRS 9 "Financial Instruments"

HKFRS 9 replaces HKAS 39 "Financial Instruments: Recognition and Measurement". It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

The following table summarises the impact of transition to HKFRS 9 on reserve at 1 January 2018:

	HK$'000
Fair value reserve (non-recycling)	
Decrease in fair value on remeasurement of financial assets at fair value through other comprehensive income ("FVOCI")	(7,254)
Net decrease in fair value reserve (non-recycling) at 1 January 2018	(7,254)

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Changes in accounting policies *(Continued)*

(i) HKFRS 9 "Financial Instruments" *(Continued)*

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

a. Classification of financial assets and financial liabilities

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at FVOCI and at fair value through profit or loss ("FVPL"). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

The following table shows the original measurement categories for each class of the Group's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9:

	HKAS 39 carrying amount at 31 December 2017 HK$'000	Reclassification HK$'000	Remeasurement HK$'000	HKFRS 9 carrying amount at 1 January 2018 HK$'000
Financial assets measured at FVOCI (non-recyclable)				
Unlisted equity securities – Note	–	186,332	(7,254)	179,078
	–	186,332	(7,254)	179,078
Financial assets classified as available-for-sale under HKAS 39				
Unlisted equity securities – Note	186,332	(186,332)	–	–
	186,332	(186,332)	–	–

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Changes in accounting policies *(Continued)*

(i) HKFRS 9 "Financial Instruments" *(Continued)*

a. Classification of financial assets and financial liabilities (Continued)

Note:

Under HKAS 39, unlisted equity securities not held for trading were classified as available-for-sale financial assets. These equity securities are classified as at FVPL under HKFRS 9, unless they are eligible for and designated at FVOCI by the Group. At 1 January 2018, the Group designated its investment at FVOCI, as the investment is held for strategic purposes (see Note 16).

The measurement categories for all financial liabilities remain the same.

b. Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises expected credited losses ("ECLs") earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables).

For further details on the Group's accounting policy for accounting for credit losses, see Notes 3(n)(i) and (ii).

The Group has concluded that there would be no material impact for the initial application of the new impairment requirements.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Changes in accounting policies *(Continued)*

(i) HKFRS 9 "Financial Instruments" *(Continued)*

c. Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

– Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained profits and reserve as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current year.

– The following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Group):

  – the determination of the business model within which a financial asset is held; and

  – the designation of investment in equity instruments not held for trading to be classified as at FVOCI (non-recycling).

– If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Changes in accounting policies *(Continued)*

(ii) HKFRS 15 "Revenue from Contracts with Customers"

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18 "Revenue", which covered revenue arising from sale of goods and rendering of services, and HKAS 11 "Construction Contracts", which specified the accounting for construction contracts.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the consolidated financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

There is no significant impact on the Group's financial position and financial result upon initial application at 1 January 2018. Comparative information continues to be reported under HKASs 11 and 18.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

a. *Timing of revenue recognition*

Previously, revenue arising from construction contracts and provision of services was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers. Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

B. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Changes in accounting policies *(Continued)*

(ii) HKFRS 15 "Revenue from Contracts with Customers" *(Continued)*

a. *Timing of revenue recognition (Continued)*

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of HKFRS 15 does not have a significant impact on when the Group recognises revenue from sale of goods and provision of services and this change in accounting policy had no material impact on opening balances as at 1 January 2018.

b. *Presentation of contract liabilities*

Under HKFRS 15, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue.

To reflect this change in presentation, the Group has made the following adjustment at 1 January 2018, as a result of the adoption of HKFRS 15:

"Receipts in advance" amounting to HK$279,034,000 which was previously included in "Trade and other payables" (Note 22) are now included under "Contract liabilities" (Note 23).

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Changes in accounting policies *(Continued)*

(ii) HKFRS 15 "Revenue from Contracts with Customers" *(Continued)*

c. *Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of HKFRS 15 on 1 January 2018*

The following tables summarise the estimated impact of adoption of HKFRS 15 on the Group's consolidated financial statements for the year ended 31 December 2018, by comparing the amounts reported under HKFRS 15 in these consolidated financial statements with estimates of the hypothetical amounts that would have been recognised under HKAS 18 and HKAS 11 if those superseded standards had continued to apply to 2018 instead of HKFRS 15. These tables show only those line items impacted by the adoption of HKFRS 15:

	Amounts reported in accordance with HKFRS 15 HK$'000	Hypothetical amounts under HKASs 18 and 11 HK$'000	Difference: Estimated impact of adoption of HKFRS 15 on 2018 HK$'000
Line items in the consolidated statement of financial position as at 31 December 2018 impacted by the adoption of HKFRS 15:			
Contract liabilities	(180,152)	–	(180,152)
Trade and other payables	(621,086)	(801,238)	180,152
Line items in the reconciliation of profit before income tax to cash generated from operations for the year ended 31 December 2018 impacted by the adoption of HKFRS 15:			
Decrease in contract liabilities	(98,882)	–	(98,882)
Decrease in trade and other payables	(78,632)	(177,514)	98,882

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Basis of consolidation

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

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Basis of consolidation *(Continued)*

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

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

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

Changes in the Group's interests in existing subsidiaries

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

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest, and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9/HKAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Business combinations

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

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Business combinations *(Continued)*

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

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

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

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date, and the resulting gain or loss, if any, is recognised in profit or loss or other comprehensive income, as appropriate. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income and measured under HKFRS 9/HKAS 39 would be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Business combinations *(Continued)*

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

(e) Property acquisitions and business combinations

Where a property is acquired, via corporate acquisitions or otherwise, management considers the substance of the assets and activities of the acquired entity in determining whether the acquisition represents the acquisition of a business. The basis of the judgement is set out in Note 4.

Where such an acquisition is not judged to be an acquisition of a business, it is not treated as a business combination. Rather, the cost to acquire the corporate entity or assets and liabilities is allocated between the identifiable assets and liabilities (of the entity) based on their relative values at the acquisition date. Accordingly, no goodwill or deferred taxation arises.

(f) Property, plant and equipment

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

(g) Prepaid lease payments

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

(h) Goodwill

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Intangible assets

Intellectual property rights

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

Trademarks and licenses

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

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

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

Concession rights and operation rights

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Intangible assets *(Continued)*

Research and development expenditure

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

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Service concession arrangements

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

Consideration received or receivable by the Group for the construction services

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

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

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

Construction or upgrade services

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

Operating services

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Service concession arrangements *(Continued)*

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

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

(k) Inventories

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

(l) Other investments in equity securities

The Group's policies for investments in equity securities, other than investments in subsidiaries and associates, are set out below.

Investments in equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at FVPL for which transaction costs are recognised directly in profit or loss.

For an explanation of how the Group determines fair value of financial instruments, see Note 32(c). These investments are subsequently accounted for as follows, depending on their classification.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Other investments in equity securities *(Continued)*

(A) Policy applicable from 1 January 2018

Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained profits. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income in accordance with the policy set out in Note 3(p).

(B) Policy applicable prior to 1 January 2018

Investments in securities held for trading were classified as financial assets measured at FVPL. Any attributable transaction costs were recognised in profit or loss as incurred. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Other investments in equity securities *(Continued)*

(B) Policy applicable prior to 1 January 2018 *(Continued)*

Available-for-sale financial assets are non-derivatives that are designated as available-for-sale or not classified as financial assets at FVPL and loan receivables. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in other comprehensive income/loss and accumulated separately in equity in the fair value reserve (recycling). Dividend income from equity investments was recognised in profit or loss in accordance with the policy set out in Note 3(p). When the investments were derecognised or impaired (see Note 3(n)(i) – policy applicable prior to 1 January 2018), the cumulative gain or loss recognised in equity was reclassified to profit or loss.

(m) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see Note 3(o)).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see Note 3(n)(i)).

(n) Credit losses and impairment of assets

(i) Credit losses from financial instruments

(A) Policy applicable from 1 January 2018

The Group recognises a loss allowance for ECLs on financial assets measured at amortised cost (including trade and other receivables and cash and cash equivalents).

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments *(Continued)*

(A) Policy applicable from 1 January 2018 (Continued)

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments *(Continued)*

(A) Policy applicable from 1 January 2018 (Continued)

Measurement of ECLs *(Continued)*

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. 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.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments *(Continued)*

(A) Policy applicable from 1 January 2018 (Continued)

Significant increases in credit risk *(Continued)*
In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments *(Continued)*

(A) Policy applicable from 1 January 2018 (Continued)

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments *(Continued)*

(A) Policy applicable from 1 January 2018 (Continued)

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an “incurred loss” model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. trade and other receivables and available-for-sale financial assets). Under the “incurred loss” model, an impairment loss was recognised only when there was objective evidence of impairment.

Objective evidence of impairment included:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments *(Continued)*

(B) Policy applicable prior to 1 January 2018 (Continued)

If any such evidence existed, an impairment loss was determined and recognised as follows:

– For trade and other receivables and other financial assets carried at amortised cost, impairment loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting was material. This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

When the recovery of a trade debtor or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments *(Continued)*

(B) Policy applicable prior to 1 January 2018 (Continued)

– For available-for-sale financial assets, the cumulative loss that had been recognised in the fair value reserve (recycling) was reclassified to profit or loss. The amount of the cumulative loss that was recognised in profit or loss was the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities were not reversed through profit or loss. Any subsequent increase in the fair value of such assets was recognised in other comprehensive income.

Impairment losses recognised in profit or loss in respect of available-for-sale debt securities were reversed if the subsequent increase in fair value could be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances were recognised in profit or loss.

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– intangible assets;

– goodwill; and

– investments in subsidiaries in the Company's statement of financial position.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Credit losses and impairment of assets *(Continued)*

(ii) Impairment of other non-current assets *(Continued)*

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECLs in accordance with the policy set out in Note 3(n)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see Note 3(m)).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see Note 3(p)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see Note 3(m)).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis. When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see Note 3(p).

(p) Revenue recognition

Policies applicable from 1 January 2018

Revenue is measured at the fair value of the consideration received and receivable, and represents amounts receivable for goods supplied or service performed, stated net of discounts and sales related taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

Manufacture and sale of dyeing and finishing machines

Revenue from the sale of products directly to the customers is recognised at a point in time when control of the inventory has been passed to the customers, which is primarily upon the acceptance of the products by the customers. The customers have full discretion over the products, and there is no unfulfilled obligation that could affect the customers' acceptance of the products.

Advance payment from customers on revenue recognition is recognised as contract liabilities in the consolidated statement of financial position (Note 23).

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Revenue recognition *(Continued)*

Policies applicable from 1 January 2018 *(Continued)*

The Group's obligation to repair or replace faulty products under the standard warranty terms, which cannot be purchased separately and serve as an assurance that the products sold comply with agreed-upon specifications at the time of sale, is recognised as a provision.

Trading of stainless steel supplies

Revenue from the sale of products directly to the customers is recognised at a point in time when control of the inventory has been passed to the customers, which is primarily upon the acceptance of the products by the customers. The customers have full discretion over the products, and there is no unfulfilled obligation that could affect the customers' acceptance of the products.

Manufacture and sale of stainless steel casting products

Revenue from the sale of products directly to the customers is recognised at a point in time when control of the inventory has been passed to the customers, which is primarily upon the acceptance of the products by the customers. The customers have full discretion over the products, and there is no unfulfilled obligation that could affect the customers' acceptance of the products.

Provision of environmental protection services

Revenue from the provision of construction services under a service concession construction contract is recognised over time, using an input method to measure progress towards complete satisfaction of the service, because the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The input method recognises revenue based on the proportion of the actual costs incurred relative to the estimated total costs for satisfaction of the construction services.

Operation or service revenue is recognised over time in the accounting period in which the control of the services are transferred to the customer because the customer simultaneously receives and consumes the benefits provided by the Group's performance as it performs. When the Group provides more than one service in a service concession arrangement, the consideration received is allocated by reference to the relative fair values of the services delivered.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Revenue recognition *(Continued)*

Policies applicable from 1 January 2018 *(Continued)*

Interest income

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost or FVOCI (recycling) that are not creditimpaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount less loss allowance) of the asset (see Note 3(n)(i)).

Dividend income

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

Policies applicable prior to 1 January 2018

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Revenue recognition *(Continued)*

Policies applicable prior to 1 January 2018 *(Continued)*

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Leasing

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

The Group as lessee

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

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

Leasehold land and building

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Foreign currencies

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Borrowing costs

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

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

(t) Government grants

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

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

As explained in Note 26, certain government grants obtained are treated as deferred revenue in the consolidated statement of financial position and credited to profit or loss in accordance with conditions set by the government body.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Retirement benefits costs

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

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

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

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

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

(v) Equity-settled share-based payment transactions

Share options granted to consultants

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Taxation

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

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Taxation *(Continued)*

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

(x) Provisions

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

(y) Related parties

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

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

(ii) has significant influence over the Group; or

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(y) Related parties *(Continued)*

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

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

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

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

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

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

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

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

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

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

4 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the Directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Classification between business combination and asset acquisition

During the year ended 31 December 2018, the Group entered into an equity transfer agreement with an independent third party for the acquisition of equity interests in a company. As at the date of acquisition, this company merely held commercial properties without business activities in Hong Kong. Therefore, the Directors of the Company consider that the acquisition was asset acquisition. Further details of the acquisition are given in Note 29 to the consolidated financial statements.

Income taxes

As at 31 December 2018, a deferred tax asset of approximately HK$8,807,000 (2017: approximately HK$2,084,000) in relation to unused tax losses of approximately HK$53,374,000 (2017: approximately HK$12,632,000) has been recognised in the Group's consolidated statement of financial position. No deferred tax asset has been recognised in respect of the tax losses of approximately HK$671,523,000 (2017: approximately HK$699,772,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are more or less than expected, a material recognition or reversal of deferred tax asset may arise, which would be recognised in profit or loss for the period in which such a recognition or reversal takes places.

Useful lives and impairment of property, plant and equipment

The Group's management determines the estimated useful lives of its property, plant and equipment based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated. The impairment loss for property, plant and equipment is recognised for the amount by which the carrying amount exceeds its recoverable amount. The carrying amount of property, plant and equipment at 31 December 2018 is approximately HK$1,478,057,000 (2017: approximately HK$956,735,000). More details are given in Note 12.

4 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Impairment of goodwill and other intangible assets

Determining whether goodwill and other intangible assets are impaired requires an estimation of future cash flows expected to arise from the products developed and services provided and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. The carrying amounts of goodwill and other intangible assets at 31 December 2018 are approximately HK$533,515,000 (2017: approximately HK$538,050,000) and approximately HK$244,004,000 (2017: approximately HK$261,590,000) respectively. During the year ended 31 December 2018, impairment losses of approximately HK$4,535,000 (2017: Nil) and approximately HK$14,837,000 (2017: Nil) have been recognised for goodwill and other intangible assets respectively. More details are given in Notes 14 and 15 respectively.

Allowances for inventories

The management reviews the condition of the inventories of the Group and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sale and use in production. The management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of each reporting period as well as ageing analysis of the inventory and makes allowance for obsolete items. If the market conditions were deteriorating and more obsolete and slow-moving inventory items being identified, additional allowances may be required. As at 31 December 2018, the carrying amount of inventories is approximately HK$764,423,000 (2017: approximately HK$750,830,000). More details are given in Note 19.

Impairment of trade receivables

The Group estimates the loss allowances for trade receivables by assessing the ECLs. This requires the use of estimates and judgements. ECLs are based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, and an assessment of both the current and forecast general economic conditions at the end of reporting period. Where the estimation is different from the original estimate, such difference will affect the carrying amounts of trade receivables and thus the impairment loss in the period in which such estimate is changed. The Group keeps assessing the ECLs of trade receivables during their expected lives. As at 31 December 2018, the carrying amount of trade receivables is approximately HK$312,953,000 (2017: approximately HK$351,025,000). More details are given in Note 20.

4 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Fair value measurements and valuation processes

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where observable market data are not available, the Group engages independent qualified valuers to perform the valuation and works closely with independent qualified valuers to establish the appropriate valuation techniques and inputs to the model.

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. The use of valuation models and assumptions in valuing these financial instruments is subjective and requires varying degrees of judgement.

Provision for warranties

The policy for provision of warranties of the Group is based on the management's best estimate of the Group's liabilities under a 12-month warranty period granted on the sale of dyeing and finishing machines based on past experience. The actual settlement may differ from the estimation made by the management. If the amounts are settled for an amount greater than management's estimation, a future charge to profit or loss will result. Likewise, if the amounts are settled for an amount that is less than estimation, a future credit to profit or loss will result. As at 31 December 2018, the carrying amount of warranty provision is approximately HK$16,191,000 (2017: approximately HK$15,963,000). The movement of the warranty provision for the year is set out in Note 24.

Fair value of identifiable assets and liabilities acquired through business combination

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

5 REVENUE AND SEGMENT INFORMATION

(a) Revenue

The Group is principally engaged in the manufacture and sale of dyeing and finishing machines, trading of stainless steel supplies, manufacture and sale of stainless steel casting products and provision of environmental protection services.

Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or service lines is as follows:

	2018 HK$'000	2017 HK$'000
Revenue from contracts with customers within the scope of HKFRS 15		
Sales of dyeing and finishing machines	**2,695,020**	2,669,616
Sales of stainless steel supplies	**262,273**	305,023
Sales of stainless steel casting products	**494,393**	425,737
Provision of environmental protection services	**20,811**	3,446
	3,472,497	3,403,822

Note:

The Group has initially applied HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18 and HKAS 11 (see Note 3(b)(ii)).

Disaggregation of revenue from contracts with customers by the timing of revenue recognition and by geographic markets is disclosed in Notes 5(b)(i) and 5(b)(iv) respectively.

(b) Segment reporting

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

1. Manufacture and sale of dyeing and finishing machines

2. Trading of stainless steel supplies

3. Manufacture and sale of stainless steel casting products

4. Provision of environmental protection services

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment reporting *(Continued)*

(i) Segment revenues and results

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

For the year ended 31 December 2018

	Manufacture and sale of dyeing and finishing machines HK$'000	Trading of stainless steel supplies HK$'000	Manufacture and sale of stainless steel casting products HK$'000	Provision of environmental protection services HK$'000	Total HK$'000
REVENUE					
Point in time	2,695,020	262,273	494,393	–	3,451,686
Over time	–	–	–	20,811	20,811
External sales	2,695,020	262,273	494,393	20,811	3,472,497
Inter-segment sales	701	260,200	30,075	–	290,976
Segment revenue	2,695,721	522,473	524,468	20,811	3,763,473
Elimination					(290,976)
Group revenue					3,472,497
Segment profit (loss)	121,363	17,972	80,678	(33,306)	186,707
Interest income					9,577
Finance costs					(42,401)
Share of results of an associate					(72)
Profit before tax					153,811

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment reporting *(Continued)*

(i) Segment revenues and results *(Continued)*

For the year ended 31 December 2017

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

Note:

The Group has initially applied HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18 and HKAS 11 (see Note 3(b)(ii)).

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

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

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment reporting *(Continued)*

(ii) Segment assets and liabilities

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

As at 31 December 2018

	Manufacture and sale of dyeing and finishing machines HK$'000	Trading of stainless steel supplies HK$'000	Manufacture and sale of stainless steel casting products HK$'000	Provision of environmental protection services HK$'000	Total HK$'000
ASSETS					
Segment assets	3,056,596	156,564	543,609	209,756	3,966,525
Unallocated corporate assets					811,798
Consolidated total assets					4,778,323
LIABILITIES					
Segment liabilities	992,662	27,602	137,175	83,748	1,241,187
Unallocated corporate liabilities					1,973,549
Consolidated total liabilities					3,214,736

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment reporting *(Continued)*

(ii) Segment assets and liabilities *(Continued)*

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

As at 31 December 2017

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

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

- all assets are allocated to operating segments other than financial assets at FVOCI (2017: available-for-sale financial assets), investment in an associate, deferred tax assets, tax recoverable as well as cash and cash equivalents; and

- all liabilities are allocated to operating segments other than tax liabilities, deferred tax liabilities and bank borrowings.

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment reporting *(Continued)*

(iii) Other segment information

For the year ended 31 December 2018

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

	Manufacture and sale of dyeing and finishing machines HK$'000	Trading of stainless steel supplies HK$'000	Manufacture and sale of stainless steel casting products HK$'000	Provision of environmental protection services HK$'000	Total HK$'000
Additions to non-current assets excluding investment in an associate, deferred tax assets and financial assets at FVOCI	584,855	105	27,349	11,873	624,182
Depreciation and amortisation	47,624	1,397	11,307	5,632	65,960
(Gain) loss on disposal of property, plant and equipment	(327)	88	(146)	–	(385)
Allowance for inventories, net	7,997	–	690	–	8,687
Reversal of allowance for doubtful debts, net	(28)	(1,759)	(371)	–	(2,158)

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment reporting *(Continued)*

(iii) Other segment information *(Continued)*

For the year ended 31 December 2017

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

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

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment reporting *(Continued)*

(iii) Other segment information *(Continued)*

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

	2018 **HK$'000**	2017 HK$'000
Earnings before interest, tax, depreciation and amortisation and share of results of an associate of business segments	**252,667**	437,511
Depreciation of property, plant and equipment	**(52,848)**	(53,774)
Amortisation of prepaid lease payments	**(5,413)**	(5,239)
Amortisation of intangible assets	**(7,699)**	(4,009)
Operating profit	**186,707**	374,489
Interest income	**9,577**	13,581
Finance costs	**(42,401)**	(37,274)
Share of results of an associate	**(72)**	(4)
Profit before tax	**153,811**	350,792

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment reporting *(Continued)*

(iii) Other segment information *(Continued)*

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

Segment assets are summarised as below:

	2018 HK$'000	2017 HK$'000
Segment assets as allocated by business segments	**3,966,525**	3,458,090
Unallocated assets:		
Financial assets at fair value through other comprehensive income	**158,264**	–
Available-for-sale financial assets	**–**	186,332
Investment in an associate	**28,450**	29,718
Deferred tax assets	**28,101**	20,482
Tax recoverable	**10,184**	3,290
Cash and cash equivalents	**586,799**	573,198
Total assets as per consolidated statement of financial position	**4,778,323**	4,271,110

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment reporting *(Continued)*

(iii) Other segment information *(Continued)*

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

Segment liabilities are summarised as below:

	2018	2017
	HK$'000	HK$'000
Segment liabilities as allocated by business segments	**1,241,187**	1,372,054
Unallocated liabilities:		
Tax liabilities	**19,930**	31,758
Deferred tax liabilities	**59,097**	54,820
Bank borrowings	**1,894,522**	1,160,887
Total liabilities as per consolidated statement of financial position	**3,214,736**	2,619,519

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment reporting *(Continued)*

(iv) Geographical information

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

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

	Revenue from external customers		Non-current assets	
	2018 **HK$'000**	2017 HK$'000	**2018** **HK$'000**	2017 HK$'000
The PRC	**1,354,621**	1,420,080	**2,076,875**	1,855,852
Hong Kong	**261,911**	301,812	**327,155**	6,414
Asia Pacific (other than the PRC and Hong Kong)	**970,080**	921,184	**78**	96
Europe	**506,195**	437,694	**173,052**	175,300
North and South America	**327,091**	210,160	**2,200**	–
Others	**52,599**	112,892	**–**	–
	3,472,497	3,403,822	**2,579,360**	2,037,662

Non-current assets excluded investment in an associate, deferred tax assets and financial assets at FVOCI (2017: available-for-sale financial assets). The Directors considered that the cost to develop the revenue by individual countries for "Asia Pacific", "Europe", "North and South America" and "Others" are excessive and revenue included in these areas attributed to each individual country is not material.

No revenue generated from any single customer amounted to 10% or more of the Group's revenue for the years ended 31 December 2018 and 2017.

6 FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Interest on borrowings	**54,400**	34,724
Less: Interest capitalised	**(20,293)**	(5,589)
	34,107	29,135
Bank charges	**8,294**	8,139
	42,401	37,274

Finance costs on funds borrowed generally are capitalised at a rate ranging from 2.25% to 3.91% (2017: 2.25% to 4.25%) per annum.

7 INCOME TAX EXPENSE

	2018 HK$'000	2017 HK$'000
Hong Kong Profits Tax:		
Current year	**11,018**	9,865
Over-provision in prior years	**(91)**	(270)
PRC Corporate Income tax:		
Current year	**22,964**	49,104
Over-provision in prior years	**(2,969)**	(5,825)
Overseas income tax:		
Current year	**3,243**	1,180
(Over) under-provision in prior years	**(1,522)**	1,036
	32,643	55,090
Deferred tax (Note 18):		
Current year	**(3,454)**	12,614
	29,189	67,704

7 INCOME TAX EXPENSE *(Continued)*

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

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

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

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

	2018 **HK$'000**	2017 HK$'000
Profit before tax	**153,811**	350,792
Tax at the Hong Kong Profits Tax rate of 16.5%	**25,379**	57,881
Tax effect of:		
– expenses that are not deductible for tax purpose	**19,008**	12,957
– income that are not taxable for tax purpose	**(13,365)**	(26,110)
– tax losses not recognised	**4,230**	15,750
– different tax rates of subsidiaries operating in other jurisdictions	**(438)**	(2,440)
– utilisation of tax losses previously not recognised	**(2,199)**	(3,055)
– other deferred tax temporary differences previously not recognised	**(2,046)**	(3,436)
Over provision in prior years, net	**(4,582)**	(5,059)
Withholding tax on distributed/undistributed earnings	**8,497**	19,400
Write-down of deferred tax assets	**–**	1,279
Tax concession	**(4,748)**	–
Others	**(547)**	537
Income tax expense for the year	**29,189**	67,704

8 PROFIT FOR THE YEAR

	2018 HK$'000	2017 HK$'000
Profit for the year has been arrived at after (crediting) charging:		
Other income:		
Income from scraps sale	**(1,593)**	(4,318)
Government grants	**(12,574)**	(7,372)
Write off of other payables	**(2,716)**	(17,852)
Others	**(9,177)**	(3,090)
Total other income	**(26,060)**	(32,632)
Other losses (gains):		
Gain on disposal of property, plant and equipment	**(385)**	(379)
Foreign exchange loss (gain), net	**13,142**	(15,576)
Gain on deregistration of a subsidiary	**(920)**	(6,991)
Total other losses (gains)	**11,837**	(22,946)
Amortisation of intangible assets	**7,699**	4,009
Amortisation of prepaid lease payments	**5,413**	5,239
Depreciation of property, plant and equipment	**52,848**	53,774
Total depreciation and amortisation	**65,960**	63,022
Allowance (reversal of allowance) for inventories (included in cost of sales)	**7,731**	(628)
Reversal of allowance for doubtful debts, net	**(2,158)**	(414)
Auditor's remuneration	**3,196**	3,329
Cost of inventories recognised as an expense	**1,526,127**	1,515,635
Cost of construction services	**4,670**	–
Research and development costs	**30,747**	45,638
Staff costs, including directors' emoluments		
Salaries, wages and other benefits	**707,142**	689,647
Retirement benefits scheme contributions	**51,172**	54,881
Total staff costs	**758,314**	744,528

9 DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

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

2018	Fees HK$'000	Salaries and other benefits HK$'000	Retirement benefits scheme contributions HK$'000	Total emoluments HK$'000
Executive Directors				
Ye Maoxin	–	–	–	–
Ji Xin	–	4,940	18	4,958
Du Qianyi	–	2,310	18	2,328
Non-executive Director				
Fong Kwok Leung, Kevin	180	1,200	–	1,380
Independent Non-executive Directors				
Li Jianxin	200	–	–	200
Ying Wei	200	–	–	200
Yuen Ming Fai	180	–	–	180
Total	760	8,450	36	9,246

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

(a) Directors' emoluments *(Continued)*

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

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

For the years ended 31 December 2018 and 2017, no Director waived any emoluments and no incentive was paid to any Directors as an induction to join the Company.

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

(b) Employees' emoluments

The five individuals whose emoluments were the highest in the Group for the year include two (2017: two) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2017: three) individuals during the year are as follows:

	2018	2017
	HK$'000	HK$'000
Salaries and other benefits	**7,654**	7,130
Retirement benefits scheme contribution	**336**	321
	7,990	7,451

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

Emolument bands	**Number of individual**	
	2018	2017
HK$		
2,000,001 – 2,500,000	**2**	2
2,500,001 – 3,000,000	**–**	1
3,000,001 – 3,500,000	**1**	–

(c) Senior management's emoluments

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

Emolument bands	**Number of individual**	
	2018	2017
HK$		
Below 1,000,000	**1**	1
1,000,001 – 1,500,000	**–**	–
1,500,001 – 2,000,000	**1**	2
2,000,001 – 2,500,000	**5**	3
2,500,001 – 3,000,000	**–**	1
3,000,001 – 3,500,000	**1**	–

10 DIVIDENDS

	2018 HK$'000	2017 HK$'000
Proposed final dividend:		
2 HK cents (2017: 8 HK cents) per share	**22,004**	88,017
Interim dividend:		
3 HK cents (2017: 3 HK cents) per share	**33,006**	33,006
	55,010	121,023

The final dividend in respect of the year ended 31 December 2018 of 2 HK cents (2017: 8 HK cents) per share has been proposed by the Directors and is subject to the approval at the forthcoming annual general meeting of the Company.

The interim dividend in respect of the year ended 31 December 2018 of 3 HK cents (2017: 3 HK cents) per share has been paid during the year.

11 EARNINGS PER SHARE

(a) Basic earnings per share

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

	2018 HK$'000	2017 HK$'000
Profit for the year attributable to owners of the Company for the purpose of calculation of basic earnings per share	**141,017**	281,263
	'000	'000
Weighted average number of ordinary shares:		
Issued ordinary shares at 1 January	**1,100,217**	1,102,892
Effect of repurchase of shares	**–**	(2,293)
Weighted average number of ordinary shares at 31 December	**1,100,217**	1,100,599

11 EARNINGS PER SHARE *(Continued)*

(b) Diluted earnings per share

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

	2018	2017
	HK$'000	HK$'000
Profit for the year attributable to owners of the Company for the purpose of calculation of diluted earnings per share	**141,017**	281,263
	'000	'000
Weighted average number of ordinary shares in issue for the purpose of calculation of basic earnings per share	**1,100,217**	1,100,599
Effect of diluted potential ordinary shares as a result of the share options granted (Note)	**–**	1,716
Weighted average number of ordinary shares in issue for the purpose of calculation of diluted earnings per share	**1,100,217**	1,102,315

Note:

No adjustment has been made to the basic earnings per share for the year ended 31 December 2018 in respect of dilution as the Group has no potential dilutive ordinary shares in issue during the year ended 31 December 2018.

12 PROPERTY, PLANT AND EQUIPMENT

	Freehold land HK$'000	Buildings HK$'000	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture and equipment HK$'000	Motor vehicles HK$'000	Moulds and tools HK$'000	Construction in progress HK$'000	Total HK$'000
COST										
At 1 January 2017	7,618	438,776	–	15,169	408,944	147,201	34,240	75,971	272,630	1,400,549
Currency realignment	1,101	29,456	–	827	25,901	13,106	1,435	4,896	18,062	94,784
Reclassification	–	–	–	–	5,408	(759)	–	–	(4,649)	–
Additions	–	–	–	72	10,185	8,331	3,384	3,385	259,059	284,416
Acquisition of subsidiaries (Note 28)	–	–	–	–	–	3,960	1,064	–	23,905	28,929
Disposals/write off	–	–	–	(247)	(6,636)	(3,505)	(2,234)	(427)	–	(13,049)
At 31 December 2017 and 1 January 2018	8,719	468,232	–	15,821	443,802	168,334	37,889	83,825	569,007	1,795,629
Currency realignment	(299)	(18,745)	–	(1,362)	(14,539)	(6,183)	(964)	(3,276)	(28,067)	(73,435)
Reclassification	–	1,120	–	–	4,047	34	35	715	(5,951)	–
Additions	–	315	894	371	5,021	34,878	1,860	4,481	240,203	288,023
Acquisition of a subsidiary that is not a business (Note 29)	–	–	324,742	–	–	–	–	–	–	324,742
Disposals/write off	–	–	–	(2,413)	(6,351)	(7,093)	(2,278)	(823)	–	(18,958)
At 31 December 2018	8,420	450,922	325,636	12,417	431,980	189,970	36,542	84,922	775,192	2,316,001
ACCUMULATED DEPRECIATION										
At 1 January 2017	–	252,658	–	13,441	281,948	108,183	29,268	54,554	–	740,052
Currency realignment	–	17,691	–	812	23,020	10,240	1,258	3,709	–	56,730
Provided for the year	–	9,953	–	779	22,506	10,193	2,563	7,780	–	53,774
Eliminated on disposals/write off	–	–	–	(235)	(5,918)	(2,915)	(2,194)	(400)	–	(11,662)
At 31 December 2017 and 1 January 2018	–	280,302	–	14,797	321,556	125,701	30,895	65,643	–	838,894
Currency realignment	–	(10,560)	–	(854)	(16,909)	(5,055)	(806)	(2,745)	–	(36,929)
Provided for the year	–	11,085	3,766	234	19,010	11,689	1,804	5,260	–	52,848
Eliminated on disposals/write off	–	–	–	(2,257)	(4,732)	(6,945)	(2,210)	(725)	–	(16,869)
At 31 December 2018	–	280,827	3,766	11,920	318,925	125,390	29,683	67,433	–	837,944
CARRYING VALUE										
At 31 December 2018	8,420	170,095	321,870	497	113,055	64,580	6,859	17,489	775,192	1,478,057
At 31 December 2017	8,719	187,930	–	1,024	122,246	42,633	6,994	18,182	569,007	956,735

12 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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

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

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

	2018 **HK$'000**	2017 HK$'000
Buildings on land under long-term leases located in the PRC	**555**	632
Buildings on land under medium-term leases located in the PRC	**163,096**	180,275
Freehold land and buildings in Europe	**14,864**	15,742
Leasehold land and buildings under medium-term lease located in Hong Kong	**321,870**	–
	500,385	196,649

None of the property, plant and equipment is pledged as at 31 December 2018 and 2017.

13 PREPAID LEASE PAYMENTS

	2018 HK$'000	2017 HK$'000
The Group's prepaid lease payments comprise:		
Leasehold land in the PRC:		
Long-term leases	**1,387**	1,471
Medium-term leases	**216,443**	230,103
	217,830	231,574
Analysed for reporting purposes as:		
Current asset	**5,273**	5,473
Non-current asset	**212,557**	226,101
	217,830	231,574

Movement in prepaid lease payments

	2018 HK$'000	2017 HK$'000
At beginning of the year	**231,574**	223,355
Currency realignment	**(8,331)**	13,458
Amortisation of prepaid lease payments	**(5,413)**	(5,239)
At end of the year	**217,830**	231,574

None of the prepaid lease payments is pledged as at 31 December 2018 and 2017.

14 GOODWILL

	2018 HK$'000	2017 HK$'000
At beginning of the year	**538,050**	533,515
Additions arising from business combination	**–**	4,535
Impairment loss recognised	**(4,535)**	–
At end of the year	**533,515**	538,050

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

	2018 HK$'000	2017 HK$'000
Dyeing and finishing machines	**533,515**	533,515
Environmental protection services	**4,535**	4,535
	538,050	538,050

The recoverable amount of the CGU related to dyeing and finishing machine is determined from value-in-use calculations. The key assumptions for the value-in-use calculations of the CGU are those regarding the discount rate and growth rate. The Group prepares cash flow forecasts derived from the most recent financial budgets of 5 years and extrapolates cash flows for the following five years with growth rate of 3% (2017: 3%) assuming the existing level of sales and production remaining the same and a discount rate of 11.06% (2017: 10.73%) per annum. Cash flows beyond the 5-year period are extrapolated using estimated growth rates which are consistent with prior year and the forecasts in same industry. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

15 INTANGIBLE ASSETS

	Intellectual property rights HK$'000	Trademarks and licenses HK$'000	Concession rights HK$'000	Operation rights HK$'000	Total HK$'000
COST					
At 1 January 2017	44,718	90,727	–	–	135,445
Currency realignment	1,197	–	–	–	1,197
Acquisition of subsidiaries (Note 28)	–	–	107,207	55,784	162,991
At 31 December 2017 and 1 January 2018	45,915	90,727	107,207	55,784	299,633
Currency realignment	(325)	–	(4,292)	(2,234)	(6,851)
Additions	–	–	11,417	–	11,417
At 31 December 2018	45,590	90,727	114,332	53,550	304,199
ACCUMULATED AMORTISATION					
At 1 January 2017	33,794	–	–	–	33,794
Currency realignment	240	–	–	–	240
Provided for the year	2,645	–	1,096	268	4,009
At 31 December 2017 and 1 January 2018	36,679	–	1,096	268	38,043
Currency realignment	(130)	–	(181)	(73)	(384)
Provided for the year	2,523	–	3,570	1,606	7,699
At 31 December 2018	39,072	–	4,485	1,801	45,358
ACCUMULATED IMPAIRMENT					
Provided for the year	–	–	3,424	11,413	14,837
At 31 December 2018	–	–	3,424	11,413	14,837
CARRYING VALUE					
At 31 December 2018	6,518	90,727	106,423	40,336	244,004
At 31 December 2017	9,236	90,727	106,111	55,516	261,590

Amortisation of approximately HK$7,699,000 (2017: approximately HK$4,009,000) is included in "administrative and other expenses" in profit or loss.

Impairment loss of approximately HK$14,837,000 (2017: Nil) is included in profit or loss.

15 INTANGIBLE ASSETS *(Continued)*

Intellectual property rights

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

Trademarks and licenses

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

Impairment test for trademarks and licenses with indefinite useful lives

The recoverable amounts of the trademarks and licenses are estimated based on value-in-use calculations by discounting future cash flows of the cash-generating unit for which the trademarks and licenses are allocated. This method considers cash flows of the subsidiaries (cash-generating unit) for the 5 years ending 31 December 2023 with subsequent transition to perpetuity. For the years following the detailed planning period, the assumed continual growth of 3% (2017: 3%) to perpetuity is used which complies with general expectations for the business. The present value of cash flows is calculated by discounting the cash flow using a pre-tax interest rate of 11.06% (2017: 10.73%) per annum.

Concession rights

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

At 31 December 2018, due to the uncertainty in the prospect of the operations, the Group has engaged an independent valuer to assess the recoverable amount of the concession rights of the municipal sewage sludge treatment plant determined from the value-in-use calculations by taking into account the cash flow forecasts that based on the most recent financial budgets for the period of the useful life of the municipal sewage sludge treatment plant approved by management using discount rate of approximately 11% which reflects current market assessments of the time value of money and the risks specific to the concession rights.

15 INTANGIBLE ASSETS *(Continued)*

Concession rights *(Continued)*

At 31 December 2018, the recoverable amount of the concession rights approximates to HK$1,333,000 which is lower than the carrying value by approximately HK$3,424,000. On this basis, an impairment loss of approximately HK$3,424,000 on the concession rights was recognised in profit or loss during the year ended 31 December 2018 (2017: Nil).

At 31 December 2018, in the opinion of the Directors, no indication of impairment was identified in respect of the concession rights of the kitchen wastes recycling treatment plant.

Operation rights

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

During the last quarter of the year 2018, due to environmental problem, the operation of the animal carcasses processing facilities was suspended and the collection and transportation of animal carcasses were stopped. The Group is now actively negotiating with the government in respect of collection and innocuous treatment of animal carcasses, seeking to reach a solution on resumption of operation so that the Group can continue its performance of concession agreement and normal operation to avoid causing losses to the Group.

At 31 December 2018, due to the aforesaid unfavourable business conditions, the Group has engaged an independent valuer to assess the recoverable amount of the operation rights of the animal carcass processing facilities determined from the value-in-use calculations by taking into account the cash flow forecasts that based on the most recent financial budgets for the period of the useful life of the animal carcass processing facilities approved by management using discount rate of approximately 11% which reflects current market assessments of the time value of money and the risks specific to the concession rights.

At 31 December 2018, the recoverable amount of the concession rights approximates to HK$40,336,000 which is lower than the carrying value by approximately HK$11,413,000. On this basis, an impairment loss of approximately HK$11,413,000 on the operation rights was recognised in profit or loss during the year ended 31 December 2018 (2017: Nil).

16 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Note	At 31 December 2018 HK$'000	At 1 January 2018 HK$'000	At 31 December 2017 HK$'000
Financial assets at fair value through other comprehensive income	(i), (ii)			
Unlisted equity securities		**158,264**	**179,078**	–
		158,264	**179,078**	–
Available-for-sale financial assets	(i), (ii),(iii)			
Unlisted equity securities		**–**	**–**	186,332
		–	**–**	186,332

Notes:

(i) The Group designated its investment at FVOCI (non-recycling) as the investment is held for strategic purposes. No dividends were received on this investment during the year (2017: Nil).

(ii) Available-for-sale financial assets were reclassified to equity securities designated at FVOCI (non-recycling) upon the initial application of HKFRS 9 at 1 January 2018 (see Note 3(b)(i)(a)).

(iii) The unlisted equity securities were measured at cost less impairment at 31 December 2017 as the Directors are of the opinion that its fair value cannot be measured reliably.

17 INVESTMENT IN AN ASSOCIATE

	2018 HK$'000	2017 HK$'000
At beginning of the year	**29,718**	–
Cost of unlisted investment in an associate	**–**	29,722
Post-acquisition loss and reserve for the year	**(1,268)**	(4)
At end of the year	**28,450**	29,718

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

Name of Company	Form of business structure	Place of incorporation/ operation	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by a subsidiary	Principal activities
Yantai Yelin Textile Technology Co., Ltd. 煙臺業林紡織科技有限公司 ("Yantai Yelin") (Note)	Incorporated	The PRC	25% (2017: 25%)	25% (2017: 25%)	Printing, dyeing and finishing of high-end fabrics business

Note:

Yantai Yelin was incorporated on 2 May 2017 by the Group and Yantai Yelin Textile Printing & Dyeing Co., Ltd.. As at 31 December 2018, the Group and Yantai Yelin Textile Printing & Dyeing Co., Ltd. paid a contribution of RMB25,000,000 and RMB7,350,000 respectively to Yantai Yelin. Yantai Yelin principally engages in the business of printing, dyeing and finishing of high-end fabrics.

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

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

	2018 HK$'000	2017 HK$'000
Gross amounts of the associate:		
Current assets	**83,816**	118,935
Non-current assets	**30,496**	32
Current liabilities	**(511)**	(93)
Total equity	**113,801**	118,874

17 INVESTMENT IN AN ASSOCIATE *(Continued)*

	2018 HK$'000	2017 HK$'000
Revenue	**14,174**	267
Loss for the year	**(287)**	(16)
Reconciled to the Group's interest in the associate:		
Gross amounts of net assets of the associate	**113,801**	118,874
Group's effective interest	**25%**	25%
Group's share of net assets of the associate	**28,450**	29,718
Carrying amount of the Group's interest in the associate	**28,450**	29,718

18 DEFERRED TAXATION

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

	2018 HK$'000	2017 HK$'000
Deferred tax assets	**28,101**	20,482
Deferred tax liabilities	**(59,097)**	(54,820)
	(30,996)	(34,338)

18 DEFERRED TAXATION *(Continued)*

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

	Accelerated tax depreciation HK$'000	Provisions HK$'000	Allowance for doubtful debts HK$'000	Tax losses HK$'000	Unrealised profit for inventories HK$'000	Distributable profit of PRC subsidiaries HK$'000	Defined benefit obligation HK$'000	Total HK$'000
At 1 January 2017	5,734	–	(5,198)	(4,428)	191	17,776	(1,039)	13,036
(Credit) charge to profit or loss (Note 7)	(161)	(5,778)	474	2,344	(191)	17,552	(1,626)	12,614
Charge to other comprehensive income	–	–	–	–	–	–	258	258
Acquisition of subsidiaries (Note 28)	8,816	–	–	–	–	–	–	8,816
Currency realignment	–	–	–	–	–	–	(386)	(386)
At 31 December 2017 and 1 January 2018	14,389	(5,778)	(4,724)	(2,084)	–	35,328	(2,793)	34,338
(Credit) charge to profit or loss (Note 7)	(83)	(1,527)	290	(5,331)	–	3,378	(181)	(3,454)
Charge to other comprehensive income	–	–	–	–	–	–	47	47
Acquisition of a subsidiary that is not a business (Note 29)	1,668	–	–	(1,392)	–	–	–	276
Currency realignment	(353)	231	–	–	–	(184)	95	(211)
At 31 December 2018	15,621	(7,074)	(4,434)	(8,807)	–	38,522	(2,832)	30,996

At the end of the reporting period, the Group had unused tax losses of approximately HK$724,897,000 (2017: approximately HK$712,404,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK$53,374,000 (2017: approximately HK$12,632,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of approximately HK$671,523,000 (2017: approximately HK$699,772,000) due to the unpredictability of future profit streams.

The Group has tax losses arising in Switzerland of approximately HK$28,439,000 (2017: approximately HK$35,289,000) that will expire in one to seven years for offsetting against future taxable profits. The Group also has tax losses arising in the PRC of approximately HK$113,003,000 (2017: approximately HK$125,884,000) that will expire in one to five years for offsetting against future taxable profits. Other losses may be carried forward indefinitely.

Under the Corporate Income Tax Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. A deferred tax liability of approximately HK$38,522,000 (2017: approximately HK$35,328,000) has been provided for in the consolidated financial statements in respect of such temporary difference.

19 INVENTORIES

	2018 HK$'000	2017 HK$'000
Raw materials	**486,160**	461,853
Work in progress	**158,067**	196,861
Finished goods	**120,196**	92,116
	764,423	750,830

The cost of inventories recognised as expenses and included in "cost of sales" amounted to approximately HK$1,526,127,000 (2017: approximately HK$1,515,635,000) (see Note 8). Allowance for inventories recognised during the year, as included in "cost of sales", amounted to approximately HK$7,731,000 (2017: reversal of allowance for inventories of approximately HK$628,000) (see Note 8).

20 TRADE AND OTHER RECEIVABLES

	2018 HK$'000	2017 HK$'000
Trade receivables	**317,260**	359,744
Less: Loss allowance	**(4,307)**	(8,719)
	312,953	351,025
Bills receivable	**79,895**	144,991
	392,848	496,016
Other receivables	**158,264**	117,051
Prepayments	**66,357**	51,058
Total trade and other receivables	**617,469**	664,125

The Group allows an average credit period of 60 days (2017: 60 days) to its trade customers.

20 TRADE AND OTHER RECEIVABLES *(Continued)*

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

	2018 **HK$'000**	2017 HK$'000
0 – 60 days	**292,705**	275,731
61 – 90 days	**2,912**	51,720
Over 90 days	**17,336**	23,574
	312,953	351,025

Movement in the loss allowance for trade receivables

	2018 **HK$'000**	2017 HK$'000
At beginning of the year	**8,719**	8,708
Impairment losses recognised on trade receivables	**26**	731
Amounts written off as uncollectible	**(2,130)**	–
Amounts recovered during the year	**(2,184)**	(1,145)
Currency realignment	**(124)**	425
At end of the year	**4,307**	8,719

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

20 TRADE AND OTHER RECEIVABLES *(Continued)*

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

	2018	2017
	HK$'000	HK$'000
HKD	**31,718**	40,171
USD	**165,191**	141,173
EUR	**93,167**	156,640
RMB	**102,613**	157,859
Others	**159**	173
	392,848	496,016

21 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents

Bank balances, with original maturity less than 3 months, carry interest at market rates which range from 0.01% to 1.4% (2017: 0.01% to 3.4%) per annum.

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

	2018	2017
	HK$'000	HK$'000
HKD	**73,459**	88,244
USD	**154,655**	56,790
EUR	**67,941**	60,763
RMB	**281,537**	357,798
INR	**4,251**	3,825
Others	**4,956**	5,778
	586,799	573,198

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

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

(b) Reconciliation of liabilities arising from financing activities

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

	Interest payable included in other payables HK$'000	Bank borrowings HK$'000	Total HK$'000
At 1 January 2017	736	1,089,638	1,090,374
Changes from financing cash flows:			
New bank borrowings raised	–	1,594,422	1,594,422
Repayment of bank borrowings	–	(1,558,840)	(1,558,840)
Acquisition of subsidiaries (Note 28)	–	35,667	35,667
Interest paid	(35,235)	–	(35,235)
Total changes from financing cash flows	(35,235)	71,249	36,014
Other changes:			
Interest expenses	29,135	–	29,135
Interest capitalised	5,589	–	5,589
Total other changes	34,724	–	34,724
At 31 December 2017	225	1,160,887	1,161,112

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

(b) Reconciliation of liabilities arising from financing activities *(Continued)*

	Interest payable included in other payables HK$'000	Bank borrowings HK$'000	Total HK$'000
At 1 January 2018	225	1,160,887	1,161,112
Changes from financing cash flows:			
New bank borrowings raised	–	1,896,791	1,896,791
Repayment of bank borrowings	–	(1,163,156)	(1,163,156)
Interest paid	(54,450)	–	(54,450)
Total changes from financing cash flows	(54,450)	733,635	679,185
Other changes:			
Interest expenses	34,107	–	34,107
Interest capitalised	20,293	–	20,293
Total other changes	54,400	–	54,400
At 31 December 2018	175	1,894,522	1,894,697

Note: Borrowings consist of bank loans, trust receipts loans and discounted bills with recourse as disclosed in Note 25.

22 TRADE AND OTHER PAYABLES

	At 31 December 2018 HK$'000	At 1 January 2018 HK$'000	At 31 December 2017 HK$'000
Trade payables	**230,772**	**255,915**	255,915
Receipts in advance (Note ii)	**–**	**–**	279,034
Amount due to ultimate holding company (Note iii)	**5,250**	**4,518**	4,518
Other payables and accrued charges	**726,815**	**776,509**	776,509
	962,837	**1,036,942**	1,315,976
Amount due after one year included under non-current liabilities (Note iv)	**(341,751)**	**(356,004)**	(356,004)
	621,086	**680,938**	959,972

Notes:

(i) The Group has initially applied HKFRS 15 using the cumulative effect method and adjusted the opening balance at 1 January 2018.

(ii) Upon the adoption of HKFRS 15, the amount previously included as "Receipts in advance" under "Trade and other payables" (Note 22) was reclassified to "Contract liabilities" (Note 23) (see Note 3(b)(ii)(b)).

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

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

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

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

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

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

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

22 TRADE AND OTHER PAYABLES *(Continued)*

Notes: *(Continued)*

(iv) *(Continued)*

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

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

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

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

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

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

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

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

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

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

	2018 **HK$'000**	2017 HK$'000
0 – 90 days	**196,174**	213,368
91 – 120 days	**2,275**	15,617
Over 120 days	**32,323**	26,930
	230,772	255,915

22 TRADE AND OTHER PAYABLES *(Continued)*

The average credit period on purchase of goods is 90 days (2017: 90 days). The Group has financial risk management policies in place to ensure that all payables are within the credit time frame.

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

	2018	2017
	HK$'000	HK$'000
HKD	**13,673**	15,582
USD	**15,504**	23,090
EUR	**49,466**	68,116
RMB	**151,630**	147,538
CHF	**127**	249
Others	**372**	1,340
	230,772	255,915

23 CONTRACT LIABILITIES

	At 31 December 2018	**At 1 January 2018**	**At 31 December 2017**
	HK$'000	**HK$'000**	HK$'000
Receipts in advance	**180,152**	**279,034**	–
	180,152	**279,034**	–

Notes:

(i) The Group has initially applied HKFRS 15 using the cumulative effect method and adjusted the opening balance at 1 January 2018.

(ii) Upon the adoption of HKFRS 15, amount previously included as "Receipts in advance" under "Trade and other payables" (Note 22) was reclassified to "Contract liabilities" (see Note 3(b)(ii)(b)).

(iii) Revenue of approximately HK$278,956,000 recognised for the year ended 31 December 2018 was related to carried forward contract liabilities that were satisfied in the prior year.

24 WARRANTY PROVISION

	2018 HK$'000	2017 HK$'000
At beginning of the year	**15,963**	16,287
Provision for the year	**29,478**	21,609
Utilisation of provision	**(28,913)**	(22,691)
Currency realignment	**(337)**	758
At end of the year	**16,191**	15,963

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

25 BANK BORROWINGS

	2018 HK$'000	2017 HK$'000
Unsecured bank borrowings comprise the following:		
– Bank loans	**1,827,346**	1,085,676
– Trust receipts loans	**67,176**	75,211
	1,894,522	1,160,887
Analysed for reporting purpose:		
– Non-current	**–**	100,000
– Current	**1,894,522**	1,060,887
	1,894,522	1,160,887

25 BANK BORROWINGS *(Continued)*

The contractual maturity dates of the bank borrowings are as follows:

	2018	2017
	HK$'000	HK$'000
Carrying amounts repayable*:		
Within one year	**167,176**	125,211
More than one year, but not exceeding two years	**–**	30,000
More than two years, but not exceeding five years	**–**	70,000
	167,176	225,211
Carrying amounts of bank borrowings contain a repayment on demand clause that are repayable (shown under current liabilities)*:		
Within one year	**959,418**	373,330
More than one year, but not exceeding two years	**381,571**	379,703
More than two years, but not exceeding five years	**386,357**	182,643
	1,727,346	935,676
	1,894,522	1,160,887
Less: Amounts due within one year shown under current liabilities	**(1,894,522)**	(1,060,887)
Amounts shown under non-current liabilities	**–**	100,000

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

25 BANK BORROWINGS *(Continued)*

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

	2018	2017
	%	%
Unsecured bank loans and trust receipts loans	**3.54**	2.80

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

	2018	2017
	HK$'000	HK$'000
HKD	**1,827,346**	1,085,676
USD	**67,176**	75,211
	1,894,522	1,160,887

26 DEFERRED REVENUE

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

	2018	2017
	HK$'000	HK$'000
At beginning of the year	**40,115**	25,757
Received during the year	**47,034**	3,732
Recognised as other income during the year	**(1,421)**	(3,506)
Acquisition of subsidiaries (Note 28)	**–**	12,441
Currency realignment	**(3,721)**	1,691
At end of the year	**82,007**	40,115

27 SHARE CAPITAL AND RESERVES

a. Movements in components of equity

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

b. Share capital of the Company

	2018		2017	
	Number of shares	HK$'000	Number of shares	HK$'000
Authorised:				
Ordinary shares of HK$0.05 each	**2,000,000,000**	**100,000**	2,000,000,000	100,000
Issued and fully paid:				
At 1 January	**1,100,216,570**	**55,011**	1,102,892,570	55,145
Repurchase and cancellation of shares (Note)	**–**	**–**	(2,676,000)	(134)
At 31 December	**1,100,216,570**	**55,011**	1,100,216,570	55,011

Note:

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

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

28 BUSINESS COMBINATION

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

28 BUSINESS COMBINATION *(Continued)*

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

	2017 HK$'000
Property, plant and equipment (Note 12)	28,929
Intangible assets (Note 15)	162,991
Deferred tax assets (Note 18)	4,223
Inventories	281
Trade and other receivables	32,470
Cash and cash equivalents	326
Trade and other payables	(128,815)
Bank borrowings	(35,667)
Deferred revenue (Note 26)	(12,441)
Deferred tax liabilities (Note 18)	(13,039)
	39,258
Non-controlling interests	(19,237)
Net assets acquired	20,021
Consideration transferred:	
Satisfied by cash consideration	19,742
Consideration payable included in other payables and accruals	4,814
Consideration transferred	24,556
Goodwill arising on acquisition:	
Consideration for acquisition	24,556
Less: Fair value of identifiable net assets acquired	(20,021)
Goodwill arising on acquisition	4,535
Net cash outflow arising on acquisition:	
Cash consideration paid	19,742
Less: Cash and cash equivalents acquired	(326)
Net cash outflow arising on acquisition	19,416

28 BUSINESS COMBINATION *(Continued)*

Acquisition-related costs are considered immaterial.

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

The newly acquired business contributed a revenue of approximately HK$3,446,000 to the Group and contributed a profit of approximately HK$3,725,000 to the Group for the period between the date of acquisition and 31 December 2017.

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

29. ACQUISITION OF A SUBSIDIARY THAT IS NOT A BUSINESS

On 23 August 2018, the Group completed the acquisition of the entire interest in PT Harvest Holdings Limited ("PT Harvest"), at a total consideration of approximately HK$325,293,000. PT Harvest is principally engaged in property investment in Hong Kong.

The acquisition has been accounted for by the Group as acquisition of assets as the entity acquired by the Group does not constitute a business.

The net assets acquired by the Group during the year are as follows:

	2018 HK$'000
Property, plant and equipment (Note 12)	324,742
Other receivables	827
Deferred tax liabilities (Note 18)	(276)
	325,293
Consideration transferred:	
Satisfied by cash consideration	325,293
Net cash outflow arising on acquisition:	
Cash consideration paid	325,293
Net cash outflow arising on acquisition	325,293

30 SERVICE CONCESSION ARRANGEMENTS

During the year ended 31 December 2017, the Group completed the acquisition of 51% equity interest in the CSCE Group at a consideration of RMB20,655,000 (equivalent to approximately HK$24,556,000). The CSCE Group entered into several service concession arrangements with local governments (the "Grantor") to construct and operate the kitchen wastes recycling treatment plant and municipal sewage sludge treatment plant during the concession period, which is normally for 30 years of operation. The Group is responsible for construction and maintenance of the plants during the concession period. At the end of the concession period, the Group needs to transfer the plants to the Grantor at nil consideration. Service concession construction revenue recorded during the year represents the revenue recognised during the construction stage of the service concession period. The same amount of cost is recorded since substantially all construction activities are sub-contracted. During the year ended 31 December 2018, revenue and cost of service concession of approximately HK$4,670,000 (2017: Nil) and approximately HK$4,670,000 (2017: Nil) have been recognised in profit or loss respectively.

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

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

31 CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which includes bank borrowings disclosed in Note 25 less cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and retained earnings.

Certain bank borrowings of the Group include covenants that require the maintenance of certain financial ratios. As at 31 December 2018, no financial ratio covenant was breached.

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

32 FINANCIAL INSTRUMENTS

a. Categories of financial instruments

		Financial assets	
	Amortised cost HK$'000	Financial assets at fair value through other comprehensive income HK$'000	Total HK$'000
2018			
Financial assets at fair value through other comprehensive income	–	158,264	158,264
Trade and other receivables	530,611	–	530,611
Cash and cash equivalents	586,799	–	586,799
	1,117,410	158,264	1,275,674

32 FINANCIAL INSTRUMENTS *(Continued)*

a. Categories of financial instruments *(Continued)*

	Financial liabilities	
	Financial liabilities at amortised cost	**Total**
	HK$'000	**HK$'000**
2018		
Bank borrowings	**1,894,522**	**1,894,522**
Trade and other payables	**621,086**	**621,086**
	2,515,608	**2,515,608**

		Financial assets	
	Loans and receivables	Available-for-sale financial assets	Total
	HK$'000	HK$'000	HK$'000
2017			
Available-for-sale financial assets	–	186,332	186,332
Trade and other receivables	572,613	–	572,613
Cash and cash equivalents	573,198	–	573,198
	1,145,811	186,332	1,332,143

32 FINANCIAL INSTRUMENTS *(Continued)*

a. Categories of financial instruments *(Continued)*

	Financial liabilities	
	Financial liabilities at amortised cost	Total
	HK$'000	HK$'000
2017		
Bank borrowings	1,160,887	1,160,887
Trade and other payables (excluding receipts in advance)	680,938	680,938
	1,841,825	1,841,825

32 FINANCIAL INSTRUMENTS *(Continued)*

b. Financial risk management objectives and policies

The Group's major financial instruments include financial assets at FVOCI (2017: available-for-sale financial assets), trade and other receivables, bank balances, trade and other payables and bank borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk (currency risk)

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

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

	Liabilities		Assets	
	2018	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000
USD	**104,966**	107,208	**307,910**	198,158
HKD	**190**	–	**32,364**	15,705
EUR	**14,832**	31,676	**19,059**	30,648
RMB	**1,932**	35	**13,111**	6,826

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

32 FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk (currency risk) *(Continued)*

The following table details the Group's sensitivity to a 5% increase and decrease in the relevant functional currencies against the foreign currencies. 5% is the sensitivity rate which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive (negative) number below indicates an increase (decrease) in post-tax profit (2017: an increase (decrease) in post-tax profit) where respective functional currencies weakening 5% against the relevant foreign currencies. For a 5% strengthen of respective functional currencies against the relevant foreign currencies, there would be an equal and opposite impact on the post-tax profit (2017: profit).

	USD		HKD		EUR		RMB	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
Increase (decrease) in profit for the year*	**6,870**	2,175	**1,343**	656	**176**	(50)	**467**	284

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

Market risk (interest rate risk)

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

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

32 FINANCIAL INSTRUMENTS *(Continued)*

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

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

Sensitivity analysis

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

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2018 would decrease/increase by approximately HK$5,479,000 (2017: approximately HK$2,463,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank balances and bank borrowings.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables, bills receivable and other receivables and deposits with banks. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. As at 31 December 2018, the Group does not provide any guarantees which would expose the Group to credit risk.

32 FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk *(Continued)*

(i) Trade receivables

Individual credit evaluations are performed on all customers requiring credit terms. These evaluations focus on the customer's past history of making payments and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. The Group has large number of customers and in the opinion of the Directors, there was no concentration of credit risk. As at 31 December 2018, 6% (2017: 5%) of the total trade receivables were concentrated in one customer, and 19% (2017: 15%) of the total trade receivables were concentrated in five customers of the Group.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix.

As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

32 FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk *(Continued)*

(i) Trade receivables (Continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2018:

	Expected loss rate %	Gross carrying amount HK$'000	Loss allowance HK$'000
Current (not past due)	0%	242,362	–
1-30 days past due	0% – 27%	43,045	34
31-60 days past due	0% – 50%	10,184	945
61-180 days past due	19% – 100%	21,669	3,328
		317,260	4,307

Expected loss rates are based on actual loss experience over the past 3 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

32 FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk *(Continued)*

(i) Trade receivables (Continued)

Comparative information under HKAS 39

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see Note 3(n)(i)(B) – policy applicable prior to 1 January 2018). The aging analysis of trade receivables that were not considered to be impaired was as follows:

	2017 HK$'000
Neither past due nor impaired	263,749
Overdue by:	
1 – 30 days	60,877
31 – 60 days	14,091
Over 60 days	12,308
	351,025

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable. The Group did not hold any collateral over these balances.

Movement in the loss allowance account in respect of trade receivables during the year is disclosed in Note 20.

There was no material impact on trade receivables for the initial application of the new impairment requirements under HKFRS 9 compared with under HKAS 39.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in Note 20.

32 FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk *(Continued)*

(ii) Bills receivables

The credit risk on bill receivables are limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

(iii) Other receivables

To manage the risk arising from other receivables, the Group only transacts with reputable parties that have no default history and have a strong capacity to meet its contractual cash flow obligations in the near term. The credit risk on other receivables are limited because the counterparties are individuals with high internal credit ratings assessed by the management.

The Group measures the loss allowance equal to 12-month ECLs of other receivables. For those balances expected to have significant increase in credit risk since initial recognition, the Group applies lifetime ECLs based on aging for classes with different credit risk characteristics and exposures. The 12-month ECLs calculated by the Group is not significant and there has been no significant increase in credit risk since initial recognition.

(iv) Deposits with banks

The Group expects that there is no significant credit risk associated with cash deposits at banks since they are substantially deposited at state-owned banks and other medium or large-sized listed banks with high credit ratings assigned by international credit-rating agencies. Management does not expect that there will be any significant losses from non-performance by these counterparties.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position after deducting any impairment allowance.

Liquidity risk

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

32 FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk *(Continued)*

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

Liquidity tables

	Weighted average interest rate %	On demand or within 1 year HK$'000	1 – 2 years HK$'000	2 – 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
2018						
Non-derivative financial liabilities						
Trade and other payables	–	621,086	–	–	621,086	621,086
Bank borrowings						
– variable rate	3.54	1,895,881	–	–	1,895,881	1,894,522
		2,516,967	–	–	2,516,967	2,515,608
2017						
Non-derivative financial liabilities						
Trade and other payables	–	680,938	–	–	680,938	680,938
Bank borrowings						
– variable rate	2.80	1,061,766	33,425	70,088	1,165,279	1,160,887
		1,742,704	33,425	70,088	1,846,217	1,841,825

32 FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk *(Continued)*

Liquidity tables (Continued)

Bank loans with a repayment on demand clause are included in the "on demand or within 1 year" time band in the above maturity analysis. As at 31 December 2018 and 2017, the aggregate undiscounted principal amounts of these bank loans amounted to approximately HK$1,727,346,000 and approximately HK$935,676,000 respectively. Taking into account the Group's financial position, the Directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The Directors believe that such bank loans will be repaid within 3 years after the reporting date in accordance with the scheduled repayment dates set out in the loan agreements as set out in this table below:

	Weighted average interest rate	On demand or within 1 year	1 – 2 years	2 – 5 years	Total undiscounted cash flows	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2018						
Bank borrowings						
– variable rate	3.61	970,155	443,148	398,150	1,811,453	1,727,346
2017						
Bank borrowings						
– variable rate	2.78	394,376	393,703	193,231	981,310	935,676

At that time, the aggregate principal and interest cash outflows will amount to approximately HK$1,811,453,000 (2017: approximately HK$981,310,000).

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

32 FINANCIAL INSTRUMENTS *(Continued)*

c. Fair value estimation

(i) Financial instruments carried at fair value

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, "Fair Value Measurement". The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

– Level 1 valuations: fair values measured using Level 1 inputs, i.e. unadjusted quoted prices in active markets for identical assets and liabilities at the measurement date

– Level 2 valuations: fair values measured using Level 2 inputs, i.e. observable inputs which fair to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

– Level 3 valuations: fair values measured using significant unobservable inputs

		Fair value measurement as at 31 December 2018 categorised into		
	Fair value at 31.12.2018	**Level 1**	**Level 2**	**Level 3**
	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets at FVOCI	158,264	–	–	158,264

Information about Level 3 fair value measurements is as follows:

	Valuation technique	**Significant unobservable input**	**Percentage**
Financial assets at FVOCI	Market comparable companies	Discount for lack of marketability	21

32 FINANCIAL INSTRUMENTS *(Continued)*

c. Fair value estimation *(Continued)*

(i) Financial instruments carried at fair value *(Continued)*

The fair value of unlisted financial assets at FVOCI was determined using the price to book ratio (P/B ratio) of comparable listed companies adjusted by lack of marketability discount.

The fair value measurement is negatively correlated to the discount for lack of marketability. As at 31 December 2018, it was estimated that with all other variables held constant, a decrease/increase in discount for lack of marketability by 5% would have decreased/increased the Group's other comprehensive expense by approximately HK$2,494,000 (2017: N/A).

The movements during the year ended 31 December 2018 in the balance of these Level 3 fair value measurements are as follows:

	2018 **HK$'000**
Unlisted financial assets at FVOCI:	
Impact on initial application of HKFRS 9 (Note 3(b)(i)(a))	**179,078**
	179,078
Change in fair value recognised in other comprehensive expense	**(13,713)**
Currency realignment	**(7,101)**
At 31 December	**158,264**

During the years ended 31 December 2018 and 2017, there were no transfers between financial instruments in Level 1 and Level 2, or transfers into or out of Level 3.

(ii) Fair value of financial instruments carried at other than fair value

The carrying amounts of the Group's financial instruments carried at amortised cost were not materially different from their fair values as at 31 December 2018 and 2017.

33 SHARE OPTION SCHEME

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

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

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

33 SHARE OPTION SCHEME *(Continued)*

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

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

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

A summary of the movements of the share options, which were granted under the Scheme during the years ended 31 December 2017 and 2018, were as follows:

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

	Number of share options								
	As at 1 January 2018	Granted	Exercised	Lapsed	As at 31 December 2018	% of issued share capital	Date of grant	Exercise price (Note ii) HK$	Note
Grantee (Note i):									
Qi Yuan Investment (Hong Kong) Limited	27,500,000	–	–	(27,500,000)	–	–	22 April 2015	1.95	(iii)
Qi Yuan Investment (Hong Kong) Limited	27,500,000	–	–	(27,500,000)	–	–	22 April 2015	2.50	(iii)
Total	55,000,000	–	–	(55,000,000)	–	–			

33 SHARE OPTION SCHEME *(Continued)*

Notes:

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

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

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

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

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

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

No share option expense has been recognised in profit or loss for the year ended 31 December 2018 (2017: approximately HK$7,412,000) and no corresponding amount of which has been credited to share option reserve (2017: approximately HK$7,412,000).

34 CAPITAL COMMITMENTS

	2018 HK$'000	2017 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of the acquisition of:		
Property, plant and equipment	**111,868**	54,549
Leasehold land	**108,690**	113,223
	220,558	167,772

35 OPERATING LEASES

Minimum lease payments paid under operating leases for rented premises during the year amounted to approximately HK$20,255,000 (2017: approximately HK$18,667,000).

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

	2018 HK$'000	2017 HK$'000
Within one year	**15,475**	17,607
In the second to fifth year inclusive	**10,743**	24,881
	26,218	42,488

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

36 RETIREMENT BENEFITS SCHEME

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

Schemes in Hong Kong

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

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

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

The aggregate employers' contributions which have been dealt with in profit or loss of the Group amounted to approximately HK$4,069,000 (2017: approximately HK$3,934,000).

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

36 RETIREMENT BENEFITS SCHEME *(Continued)*

Scheme in the PRC

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

The total cost charged to profit or loss for the scheme in the PRC amounted to approximately HK$36,864,000 (2017: approximately HK$38,639,000).

Scheme in Germany

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

The total cost charged to profit or loss for the scheme in Germany amounted to approximately HK$6,726,000 (2017: approximately HK$9,113,000).

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

For the year ended 31 December 2018, the defined benefit plan is valued using the projected unit credit method in accordance with HKAS 19, which was prepared by a qualified actuary, the fair value of the defined benefit obligation is approximately HK$29,223,000 (2017: approximately HK$33,252,000). During the year, the service costs and interest expenses of approximately HK$503,000 (2017: approximately HK$472,000) and approximately HK$420,000 (2017: approximately HK$352,000) respectively were recognised in profit or loss, the remeasurement gain of approximately HK$300,000 (2017: gain of approximately HK$1,350,000) was recognised in other comprehensive income.

36 RETIREMENT BENEFITS SCHEME *(Continued)*

Scheme in Switzerland

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

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

The total cost charged to profit or loss for the Plan in Switzerland amounted to approximately HK$92,000 (2017: approximately HK$99,000).

Scheme in Austria

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

The total cost charged to profit or loss for the scheme in Austria amounted to approximately HK$3,306,000 (2017: approximately HK$2,987,000).

37 RELATED PARTY DISCLOSURES

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

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

	2018 **HK$'000**	2017 HK$'000
Related parties in which a close member of a Director of the Company has control		
Rental paid	**12,120**	12,120
Release fee paid	**2,043**	–
Related parties in which a Director of the Company has significant influence		
Purchase of materials	**20,365**	17,967
Sales of goods	**2,716**	–
Fellow subsidiaries		
Sales of goods	**1,618**	18,627
Interest income received	**7,521**	9,366
Commission paid	**59**	–
Research and development costs	**3,599**	1,259
Purchase of materials	**38**	571
Ultimate holding company		
Other income received	**246**	79

37 RELATED PARTY DISCLOSURES *(Continued)*

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

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

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

	2018 **HK$'000**	2017 HK$'000
Within one year	**8,820**	11,520
In the second to fifth year inclusive	**–**	11,520
	8,820	23,040

Compensation of key management personnel

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

	2018 **HK$'000**	2017 HK$'000
Short-term benefits	**40,168**	39,788
Post-employment benefits	**1,212**	1,171
	41,380	40,959

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

37 RELATED PARTY DISCLOSURES *(Continued)*

Government-related entities operated in the PRC

The Group has entered into various transactions, including deposits placements, bank borrowings and other general banking facilities, with certain banks and financial institutions which are state-controlled entities in its ordinary course of business. About 31% (2017: 34%) of its bank deposits and bank borrowings are with government-related entities. In view of the nature of those banking transactions, the Directors of the Company are of the opinion that separate disclosure would not be meaningful.

38 PARTICULARS OF PRINCIPAL SUBSIDIARIES

Name of Company	Place of incorporation or registration/ operations	Nominal value of issued capital/ registered capital	Equity interest attributable to the Company Direct 2018	Direct 2017	Indirect 2018	Indirect 2017	Principal activities
Fong's Manufacturers Company Limited	British Virgin Islands	US$10,000	**100%**	100%	**–**	–	Investment holding
Falmer Investments Ltd.	British Virgin Islands/ Hong Kong	US$1	**–**	–	**100%**	100%	Research and development
Fong's National Engineering Company, Limited	Hong Kong	Ordinary – HK$100 Deferred – HK$8,000,000 (Note i)	**–**	–	**100%**	100%	Trading of dyeing and finishing machines
Fong's National Engineering (Shenzhen) Co., Ltd.* 立信染整機械(深圳)有限公司	The PRC	US$22,500,000	**–**	–	**100%**	100%	Manufacture and trading of dyeing and finishing machines
Fong's Steels Supplies Company Limited	Hong Kong	HK$10,000	**–**	–	**100%**	100%	Trading of stainless steel supplies
Leefull Metal (Shenzhen) Co., Ltd.* 立豐行金屬材料(深圳)有限公司	The PRC	RMB2,500,000	**–**	–	**100%**	100%	Trading of stainless steel supplies
Goller (HK) Limited	Hong Kong	HK$1	**–**	–	**100%**	100%	Trading of textile machinery

38 PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of Company	Place of incorporation or registration/ operations	Nominal value of issued capital/ registered capital	Equity interest attributable to the Company Direct 2018	Direct 2017	Indirect 2018	Indirect 2017	Principal activities
Tycon Alloy Industries (Hong Kong) Co., Ltd.	Hong Kong	HK$10,000	**–**	–	**100%**	100%	Trading of stainless steels casting products
Tycon Alloy Industries (Shenzhen) Co., Ltd.* 泰鋼合金(深圳)有限公司	The PRC	US$16,550,000	**–**	–	**100%**	100%	Manufacture and trading of stainless steels casting products
Fong's Europe GmbH	Germany	EUR1,900,000	**–**	–	**100%**	100%	Manufacture and trading of textile machinery and technical parts
CHTC International Environment Investment Limited (formerly known as "Fong's Water Technology Company Limited") (Note ii)	Hong Kong	HK$1,000,000	**–**	–	**100%**	100%	Providing services on recycling of wastewater
Fong's National Dyeing and Finishing Machinery (Macao Commercial Offshore) Co., Ltd.	Macau	MOP100,000	**–**	–	**100%**	100%	Trading of textile machinery
Fong's National Engineering (Guangdong) Co., Ltd.* 立信染整機械(廣東)有限公司	The PRC	US$39,000,000	**–**	–	**100%**	100%	Not yet commenced business
Fong's Steels (Zhongshan) Co., Ltd* 立信鋼材(中山)有限公司	The PRC	US$100,000	**–**	–	**100%**	100%	Not yet commenced business
Tycon Alloy Industries (Zhongshan) Co., Ltd.* 泰鋼合金(中山)有限公司	The PRC	US$25,000,000	**–**	–	**100%**	100%	Not yet commenced business

38 PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of Company	Place of incorporation or registration/ operations	Nominal value of issued capital/ registered capital	Equity interest attributable to the Company Direct 2018	2017	Indirect 2018	2017	Principal activities
Monforts Fong's Textile Machinery Co., Limited	Hong Kong	HK$18,400,000	–	–	100%	100%	Manufacture and trading of textile machinery
Fong's Projects Holding Limited	British Virgin Islands	US$1,000	–	–	100%	100%	Investment holding
Monforts Fong's Textile Machinery (Macao Commercial Offshore) Co., Ltd.	Macau	MOP100,000	–	–	100%	100%	Manufacture and trading of textile machinery
Monforts Fong's Textile Machinery (Zhongshan) Co., Ltd.* 立信門富士紡織機械（中山）有限公司	The PRC	US$26,500,000	–	–	100%	100%	Manufacture and trading of textile machinery
A. Monforts Textilmaschinen GmbH & Co KG**	Germany	N/A	–	–	100%	N/A	Manufacture and trading of textile machinery
Beijing CSCE Environmental Engineering Technology Co., Ltd. 北京中科潔能環境工程技術有限公司 (Note iii)	The PRC	RMB30,000,000	–	–	51%	51%	Investment holding and consultancy service
Taian China Science Environmental Engineering Co., Ltd. 泰安中科環保工程有限公司 (Note iii)	The PRC	RMB60,000,000	–	–	51%	51%	Providing services on kitchen wastes recycling and innocuous treatment
Taian CSCE Environmental Engineering Technology Co., Ltd. 泰安中科潔能環境工程技術有限公司 (Note iii)	The PRC	RMB10,000,000	–	–	51%	51%	Providing services on animal carcasses innocuous treatment
PT Harvest Holdings Limited (Note iv)	Hong Kong	HK$10,000	–	–	100%	–	Property investment

* A wholly foreign-owned enterprise in the PRC.

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

38 PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Notes:

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

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

(iii) On 27 October 2017, the Company acquired 51% equity interest in Beijing CSCE Environmental Engineering Technology Co., Ltd. and its subsidiaries. Please refer to Note 28 for details.

(iv) On 23 August 2018, the Company acquired the entire interest in PT Harvest Holdings Limited. Please refer to Note 29 for details.

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

38 PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

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

Principal activities	Principal place of business	Number of subsidiaries 2018	Number of subsidiaries 2017
Manufacture and sale of dyeing and finishing machines	British Virgin Islands	**6**	7
	Chile	**1**	1
	Germany	**1**	2
	Hong Kong	**15**	16
	India	**1**	1
	Luxembourg	**1**	1
	Switzerland	**1**	1
	The PRC	**5**	4
		31	33
Trading of stainless steel supplies	Hong Kong	**1**	1
		1	1
Manufacture and sale of stainless steel casting products	Hong Kong	**2**	2
	The United States of America	**2**	1
		4	3
Provision of environmental protection services	The PRC	**3**	3
		3	3

38 PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

The following table lists out the information relating to the subsidiaries of the Group which have non-controlling interests as at 31 December 2018. The summarised financial information presented below represents the amounts before any inter-company elimination.

	2018		2017
	Tycon Alloy USA LLC HK$'000	CSCE Group HK$'000	CSCE Group HK$'000
Non-controlling interests percentage	40%	49%	49%
Current assets	13,991	39,911	41,686
Non-current assets	1,420	174,016	196,531
Current liabilities	(19,142)	(174,862)	(169,835)
Non-current liabilities	–	(26,489)	(25,399)
Net (liabilities) assets	(3,731)	12,576	42,983
Carrying amount of non-controlling interests	(1,492)	6,162	21,062

	Year ended 31 December 2018		For the period from 27 October 2017 to 31 December 2017
	Tycon Alloy USA LLC HK$'000	CSCE Group HK$'000	CSCE Group HK$'000
Revenue	937	20,811	3,446
(Loss) profit for the year	(3,739)	(30,408)	3,725
(Loss) profit allocated to non-controlling interests	(1,495)	(14,900)	1,825
Cash flows (used in) generated from operating activities	(3,494)	(9,708)	4,684
Cash flows used in investing activities	(2,311)	(19,201)	(1,463)
Cash flows generated from financing activities	17,071	22,619	7,097

39 INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2018	2017
	HK$'000	HK$'000
Unlisted investments in subsidiaries	**36,585**	36,585
Cash and cash equivalents	**2,650**	1,143
Amounts due from subsidiaries	**289,798**	360,678
Other receivables	**407**	1,245
Total assets	**329,440**	399,651
Current liabilities	**(1,966)**	(1,392)
Net assets	**327,474**	398,259
Share capital (Note 27(b))	**55,011**	55,011
Reserves	**272,463**	343,248
Total equity (Note a)	**327,474**	398,259

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

Note:

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

	Share capital HK$'000	**Share premium** HK$'000	**Capital redemption reserve** HK$'000	**Retained profits** HK$'000	**Contributed surplus** HK$'000	**Share option reserve** HK$'000	**Total** HK$'000
At 1 January 2017	55,145	157,261	2,370	180,488	23,033	9,202	427,499
Profit and total comprehensive income for the year	–	–	–	40,135	–	–	40,135
Effects of share options (Note 33)	–	–	–	–	–	7,412	7,412
Repurchase and cancellation of shares (Note 27)	(134)	(5,139)	134	(134)	–	–	(5,273)
Final dividend for 2016 paid (Note 10)	–	–	–	(38,508)	–	–	(38,508)
Interim dividend for 2017 paid (Note 10)	–	–	–	(33,006)	–	–	(33,006)
At 31 December 2017 and 1 January 2018	55,011	152,122	2,504	148,975	23,033	16,614	398,259
Profit and total comprehensive income for the year	–	–	–	50,238	–	–	50,238
Transfer of share option reserve upon the lapse of share options	–	–	–	16,614	–	(16,614)	–
Final dividend for 2017 paid (Note 10)	–	–	–	(88,017)	–	–	(88,017)
Interim dividend for 2018 paid (Note 10)	–	–	–	(33,006)	–	–	(33,006)
At 31 December 2018	55,011	152,122	2,504	94,804	23,033	–	327,474

FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2014 HK$'000	2015 HK$'000	2016 HK$'000	2017 HK$'000	**2018** **HK$'000**
Revenue	3,415,269	3,223,012	3,125,687	3,403,822	**3,472,497**
Profit before tax	151,275	211,334	151,113	350,792	**153,811**
Income tax expense	(33,753)	(45,488)	(59,824)	(67,704)	**(29,189)**
Profit for the year	117,522	165,846	91,289	283,088	**124,622**
Profit (loss) attributable to:					
Owners of the Company	117,901	166,029	91,289	281,263	**141,017**
Non-controlling interests	(379)	(183)	–	1,825	**(16,395)**
	117,522	165,846	91,289	283,088	**124,622**

ASSETS AND LIABILITIES

	As at 31 December				
	2014 HK$'000	2015 HK$'000	2016 HK$'000	2017 HK$'000	**2018** **HK$'000**
Total assets	3,323,473	3,238,879	3,522,422	4,271,110	**4,778,323**
Total liabilities	(2,033,061)	(1,866,449)	(2,188,328)	(2,619,519)	**(3,214,736)**
	1,290,412	1,372,430	1,334,094	1,651,591	**1,563,587**
Equity attributable to owners of the Company	1,290,076	1,372,430	1,334,094	1,630,529	**1,558,917**
Non-controlling interests	336	–	–	21,062	**4,670**
	1,290,412	1,372,430	1,334,094	1,651,591	**1,563,587**