英達公路再生科技(集團)有限公司
Freetech Road Recycling Technology (Holdings) Limited

(Incorporated in the Cayman Islands with limited liability)
（於開曼群島註冊成立的有限公司）
Stock Code 股份代號：6888

公路醫生®

2018
Annual Report 年報

CONTENTS

This Annual Report is printed on environmentally friendly paper

CORPORATE INFORMATION

BOARD OF DIRECTORS

Chairman
Mr. Sze Wai Pan *(Chief Executive Officer)*

Executive Directors
Ms. Sze Wan Nga
Mr. Zhang Yifu
Mr. Chan Kai King

Non-executive Directors
Dr. Chan Yan Chong
Mr. Wang Lei

Independent Non-executive Directors
Ms. Yeung Sum
Mr. Tang Koon Yiu Thomas
Dr. Lau Ching Kwong

Audit Committee
Ms. Yeung Sum *(Chairman)*
Mr. Tang Koon Yiu Thomas
Dr. Lau Ching Kwong

Nomination Committee
Mr. Sze Wai Pan *(Chairman)*
Mr. Tang Koon Yiu Thomas
Dr. Lau Ching Kwong

Remuneration Committee
Mr. Tang Koon Yiu Thomas *(Chairman)*
Ms. Yeung Sum
Ms. Sze Wan Nga

Authorised Representatives
Ms. Sze Wan Nga
Mr. Lim Eng Sun

Company Secretary
Mr. Lim Eng Sun

Registered Office
Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

Group Headquarters and Principal Place of Business in Hong Kong
29/F, Chinachem Century Tower
178 Gloucester Road, Wanchai
Hong Kong

PRC Headquarters
9 Hengfei Road
Nanjing Technology
Development Zone
Nanjing City, Jiangsu Province, PRC

Hong Kong Branch Share Registrar and Transfer Office
Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East, Hong Kong

Cayman Islands Share Register and Transfer Office
Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, PO Box 1586
Grand Cayman KY1-1110
Cayman Islands

Auditor
Deloitte Touche Tohmatsu
Certified Public Accountants

Principal Bankers
China Construction Bank (Asia) Corporation Limited
Bank of Beijing

Company Website Address
www.freetech-holdings.hk

FINANCIAL AND OPERATING HIGHLIGHTS

RESULTS

	Year ended 31 December		
	2018 HK$'000	2017 HK$'000	Increase/ (decrease)
Revenue	**522,433**	475,528	9.9%
Gross profit	**102,099**	113,539	(10.1%)
Loss attributable to owners of the Company	**(139,130)**	(265,004)	(47.5%)
Loss per share (Basic) (HK cents)	**(13.11)**	(24.96)	(47.5%)

FINANCIAL POSITION

	31 December		
	2018 HK$'000	2017 HK$'000	Increase/ (decrease)
Time deposits, pledged bank deposits, structured bank deposits and bank balances and cash	**192,439**	260,568	(26.1%)
Bank borrowings	**123,012**	153,754	(20.0%)
Equity attributable to owners of the Company	**702,679**	902,561	(22.1%)

KEY FINANCIAL RATIOS

Gross profit margin	**19.5%**	23.9%	(18.4%)
Net loss margin	**(27.6%)**	(60.6%)	(54.5%)
Return on assets	**(11.7%)**	(19.3%)	(39.4%)
Current ratio	**1.5**	1.9	(21.1%)

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors (the "Board"), I am pleased to present the annual report of Freetech Road Recycling Technology (Holdings) Limited (the "Group") for the financial year ended 31 December 2018.

PERFORMANCE

The year of 2018 is the commencing year for the People's Republic of China's (the "PRC") full implementation of the principles of the 19th National Congress of the Communist Party and also a crucial year for the implementation of "National 13th Five-Year Plan". Some of the important policy documents on environmental protection had come into effect in 2018, such as "Reform Program of the Ecological Environmental Protection Tax Law" and "Opinions on Strengthening the Protection of the Ecological Environment in all aspects and firmly winning the battle of the Preventing and Controlling Environmental Pollution", which is a significant move to step up with reforms of the ecological civilization regime and drive green development. While more municipal road maintenance projects were conducted by Tianjin Expressway Maintenance Limited (天津市高速公路養護有限公司) ("Tianjin Expressway Maintenance"), a non-wholly owned subsidiary of the Group, during the year, which resulted the revenue of non-"Hot-in-Place" projects increased. There was a decrease in total serviced area of "Hot-in-Place" projects due to haze pollution problems near the end of 2018 and the prohibition by the Bureau of Ecology and Environment of the PRC local government of the performance of construction work including road maintenance work, and some of the asphalt pavement maintenance ("APM") service projects were delayed to 2019. Overall, the APM service segment recorded an increase in revenue. In addition, the APM equipment segment also recorded an increase in revenue, contributed by the launching of the new APM product, namely Truck Mounted Attenuator, into the market at the end of 2017, as well as the increase in the number of the standard series equipment sold in Hong Kong, Malaysia and Taiwan.

In 2018, the Group's operating revenue was approximately HK$522.4 million, representing an increase of approximately 9.9% as compared to 2017. Since there was a decrease in the recognition for impairment of trade receivables and contract assets while less significant impairment losses were recognised on the property, plant and equipment in 2018 than 2017, the loss attributable to owners of the Company decreased from approximately HK$265.0 million in 2017 to approximately HK$139.1 million in 2018 .

OUTLOOK

The year of 2019 will be a crucial year for the building of ecological civilization by the PRC government. Since the recycling of road materials and asphalt is the key to promote the development of ecological civilization in transportation, road maintenance has become a priority of the supply-side structural reforms in the transport industry. The road maintenance industry in the PRC has entered a golden era of environmentally friendly maintenance technologies. The price of aggregates has been rising around the country due to the strict control on environmental protection. During the PRC State Council Executive Meeting on 30 January 2019, President Li has emphasized that "the overdue debts of central enterprises to private enterprises must be cleared by the end of the year". Against this backdrop, it is expected that the Group's green maintenance technology which recycles pavement materials by 100% will be promoted and applied even more widely and the trade receivables status of the Group will also be improved.

At present, the total mileage for expressway in the PRC was the longest in the world and the highway mileage was the second longest in the world. Under the guidance of "maintenance priority" in management and maintenance for highway, the overall growth of the APM industry in the PRC remains sustainable and the existing penetration rate of recycling technology (including the Group's "Hot-in-Place" recycling technology) is still minimal and has significant potential for expansion. In particular, in order to inspect the quality and condition of the road maintenance work in all provinces, the Ministry of Transport will perform road inspections on highways, which are carried out once every five years, in the second half of 2020, which will drive the growth of the demand for domestic road maintenance projects and road maintenance equipment in the market, thus offering the Group a huge potential market. As for the municipal road maintenance market, the shortage of sand and graves will inevitably affect municipal engineering projects, which will benefit our "Hot-in-Place" recycling technology. In addition, Truck Mounted Attenuator (TMA) developed by the Group recorded a continuously increase in terms of market share and recognized by the market since its launch. With the commence of construction of giant flagship project "Global Highway Technology Research and Development Centre", the technology research and development of the Group will continue to develop in an orderly manner.

While further expanding in the international asphalt pavement maintenance market, the Group will seek business opportunities in other business areas. With the successful holding of the " Silk Road Technology, Education and Culture International Forum (Nanjing Summit) (絲路科技教育文化國際論壇(南京峰會))", the Group's reputation has been strengthened, and a good corporate image has been established, which facilitated to speed up the market development. In the future, the Group will consolidate its position in the domestic market on the one hand and expand globally on the other hand. The Group has sold its modular and standard series equipment to overseas markets such as the Republic of Korea and Macau and, the Group will continue to seek opportunities to expand to "One Belt One Road" countries and other overseas regions, such as the United States, India and Singapore. At the same time, the Group has made active efforts to diversify its business and stretch its presence on the industry chain by exploring big data development applications.

Looking ahead, witnessing the huge market demand and opportunities, the Group will remain committed to its vision of becoming a "Road Doctor", contributing to the community, and creating better returns for its shareholders.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to thank all our colleagues and staff for their hard work. I would also like to extend my gratitude to all our business partners, customers and shareholders for their strong support.

Chairman
Mr. Sze Wai Pan
28 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The year of 2018 is the commencing year for the People's Republic of China's (the "PRC") full implementation of the principles of the 19th National Congress of the Communist Party and also a crucial year for the implementation of "National 13th Five-Year Plan". Some of the important policy documents on environmental protection had come into effect in 2018, such as "Reform Program of the Ecological Environmental Protection Tax Law" and "Opinions on Strengthening the Protection of the Ecological Environment in all aspects and firmly winning the battle of the Preventing and Controlling Environmental Pollution", which is a significant move to step up with reforms of the ecological civilization regime and drive green development. While more municipal road maintenance projects were conducted by Tianjin Expressway Maintenance Limited (天津市高速公路養護有限公司) ("Tianjin Expressway Maintenance"), a non-wholly owned subsidiary of the Group, during the year, which resulted the revenue of non-"Hot-in-Place" projects increased. There was a decrease in total serviced area of "Hot-in-Place" projects due to haze pollution problems near the end of 2018 and the prohibition by the Bureau of Ecology and Environment of the PRC local government of the performance of construction work including road maintenance work, and some of the asphalt pavement maintenance ("APM") service projects were delayed to 2019. Overall, the APM service segment recorded an increase in revenue. In addition, the APM equipment segment also recorded an increase in revenue, contributed by the launching of the new APM product, namely Truck Mounted Attenuator, into the market at the end of 2017, as well as the increase in the number of the standard series equipment sold in Hong Kong, Malaysia and Taiwan. Despite the growth in revenue, the management of the Company has prudently recognised significant amount of impairment of trade receivables and contract assets in light of the deleveraging campaign being continuingly implemented by the PRC authorities in the year of 2018 and the tightened cash flow occurring at the local government level in the PRC, which dragged down the collection of certain long outstanding trade receivables and contract assets of the Group. On the other hand, due to the unsatisfactory business performance of certain subsidiaries of the Company and joint ventures of the Group, a significant amount of impairment losses had been recognised on the property, plant and equipment of these subsidiaries and joint ventures in 2017, but not in 2018.

In 2018, the Group's operating revenue was approximately HK$522.4 million, representing an increase of approximately 9.9% as compared to 2017. Since there was a decrease in the recognition for impairment of trade receivables and contract assets, while less significant impairment losses were recognised on the property, plant and equipment in 2018 than 2017, the total loss attributable to owners of the Company was approximately HK$139.1 million, representing a decrease of approximately 47.5% as compared to total loss attributable to owners of the Company of approximately HK$265.0 million for the year ended 31 December 2017. As at 31 December 2018, the Group maintained a healthy financial position as it had cash on hand in the sum of approximately HK$192.4 million.

Asphalt Pavement Maintenance Services

During the year under review, we remained a leading service provider in the PRC market using "Hot-in-Place" recycling technology in the provision of APM services. There was an increase in the revenue of non-"Hot-in-Place" projects involved in traditional APM method contributed by Tianjin Expressway Maintenance. However, the total serviced area of "Hot-in-Place" projects decreased by 12.8% from 3.9 million square meters in 2017 to 3.4 million square meters in 2018, mainly due to haze pollution problems near the end of 2018 and the prohibition by the Bureau of Ecology and Environment of the PRC local government of the performance of construction work which including road maintenance work. This resulted some of the APM services projects delayed to 2019. APM services segment of the Group recorded revenue of approximately HK$468.0 million, representing an increase of 8.4% as against 2017.

APM Equipment

During the year under review, our APM equipment segment generated a revenue of HK$54.4 million, representing an increase of 23.9% as against 2017. This was contributed by the new APM product (i.e. Truck Mounted Attenuator) launched into the market at the end of 2017 and the increase in the number of the standard series equipment sold in Hong Kong, Malaysia and Taiwan. In addition, the revenue derived from repair and maintenance increased by 86.8% as against the corresponding period for 2017 primarily because upgrade services (i.e. change of new chassis or other major components) were provided to the standard equipment which had been sold more than 10 years ago. The management of the Company believes that the Group has maintained its position as the leading APM equipment provider in the PRC market.

Research and Development

To maintain our leading position in the use of "Hot-in-Place" recycling technology in the APM industry, the Group continued to invest in technological innovation.

New Patents

The Group continued to pay efforts and invest significant resources in our research and development. As of 31 December 2018, we had registered 148 patents (2017: 131), of which 17 were invention patents (2017: 16), 113 were utility model patents (2017: 98) and 18 were design patents (2017: 17), and we had 18 pending patent applications, of which 7 are invention patents, 9 are utility model patents and 2 are design patent (2017: 27 pending patent applications, of which 10 are invention patents, 16 are utility model patents and 1 is design patent). As at 31 December 2018, the Group's patents including 18 expired patents, of which 13 were utility model patents and 5 were design patents.

During the year under review, the Group consistently enhanced its investment in research and development, and further strengthened its research and development capabilities so as to overcome certain technological limitations in the APM service industry.

In 2017, a complete new product, namely Truck Mounted Attenuator (TMA) was developed. During the year under review, we enhanced the features of TMA. TMA is a vehicle with an impact attenuator mounted at the back to absorb force from a colliding vehicle so as to minimize risk of damage or casualties, which is particularly important to the workers and drivers safety. TMA is not only equipped with safety devices, but is also integrated with other features which enable it to perform other daily maintenance works. The PRC now owns the biggest road network in the world, and therefore we expect TMA will contribute significant revenue to our equipment sales business sector.

The PRC national standard of "Technical Specifications for Urban Road Asphalt Pavement Hot-in-Place Recycling" was officially published and implemented during the year under review, which was drafted and edited by the Group. It proves, once again, that the Group is a leading developer of technical standards in the field of Hot-in-Place recycling technology. The Group will develop its "Hot-in-Place" recycling technology in the urban road market based on this standard.

Others

With strong research and development capabilities, the Group is able to adopt the most advanced technologies in the APM industry, provides customised solutions to its clients and maintains its competitive edges and leading status in the APM industry by using the recycling technology.

OUTLOOK

In 2019, the PRC government will be celebrating the 70th anniversary of the founding of the PRC and it will be a crucial year for the building of ecological civilization by the PRC government. In addition, it will continue to thoroughly fulfill the requirements put forth at the National Conference on Ecological and Environmental Protection and seek to win the critical battle for the prevention and treatment of pollution, such that the quality of the ecological environment in the PRC will be further improved. During the PRC State Council Executive Meeting on 30 January 2019, President Li has emphasized that "the overdue debts of central enterprises to private enterprises must be cleared by the end of the year". With our patented Hot-in-Place recycling technology and other new products, the Group will benefit from the increasing demand for APM and the favourable environment in the PRC, especially those using the recycling technologies.

First, as at 31 December 2017, the total mileage for expressway in the PRC was the longest in the world and the highway mileage was the second longest in the world. The overall growth of the APM industry in the PRC remains sustainable and the existing penetration rate of recycling technology (including the Group's "Hot-in-Place" recycling technology) is still minimal and has significant potential for expansion. In addition, the Ministry of Transport will perform road inspections on highways in the second half of 2020 to inspect the quality and condition of the road maintenance work. Therefore, it offers us the largest road maintenance market and huge room to grow. Secondly, subsequent to the Company's sale of a modular series equipment to a customer in the Republic of Korea and standard series equipment to customers in Macau, Malaysia and Taiwan, the Company will continue to explore the overseas business opportunities and strategic cooperation with other companies, such as some listed companies and large-scale or state-owned enterprises. Third, on 28 December 2018, the Group and Harcan Engineering Co., Ltd. (a wholly-owned subsidiary of China Nuclear Engineering & Construction Corporation Limited, a large state-owned enterprise) entered into a cooperation agreement, pursuant to which the parties agreed to share their resources such as overseas business information on the strategic level to explore overseas business opportunities. The Group is making an effort to promote its overseas business opportunities in the countries along the "One Belt One Road" and four Asian tigers. In light of these, the Group is well positioned to benefit from the government's policies and the positive development prospects in the environmental protection sector.

As a leading provider of the "Hot-in-Place" recycling technology in the APM sector and a provider of one-stop solution covering "testing, planning, equipment and construction", the Group will leverage on its competitive advantages and implement favourable policies to achieve a healthy growth in its business. The Group plans to enhance its market position, enter into new markets and enlarge its share in existing markets by the following means: first, it will increase market penetration, particularly in cities where the use of "Hot-in- Place" recycling technology is currently relatively limited; secondly, it will increase its investment on its testing and planning department by devoting more equipment and staff so as to enhance its one-stop solution; thirdly, it will focus on the cities which will hold major events to gain and complete projects of high awareness; fourthly, it will grasp the opportunities in the wave of state-owned enterprise reforms to acquire more maintenance companies in the express highway sector; fifthly, it will appoint more local APM service providers as its franchisees; sixthly, it will further optimize its techniques and technologies to lower the construction costs; seventhly, it will leverage on its state-owned partners' overseas channels to expand the international APM equipment and services market.

In addition, the investment property acquired by the Group in December 2016, which will be a new base of the global technology research and development centre of the Group, does not only enable the Group to enhance its research and development capabilities, but also has good potential as a long term investment.

Looking into the future, the Group holds confidence in its business prospects and will strive to provide higher returns for its shareholders with the principle of "Efficient use of technology to create multi-win situations" ("善用科技，共創多贏").

FINANCIAL PERFORMANCE REVIEW

The Group consists of two main business segments: the APM service segment, where we provide APM services under our registered trademark 公路醫生® (Road Doctor) to repair damaged asphalt pavement surfaces, and the APM equipment segment, where we manufacture and sell a wide range of APM equipment.

The following table is a description of the Group's operating activities during the year under review, with comparisons to those of 2017.

1. Revenue

a. APM Services

	Year ended 31 December				
	2018		2017		
	HK$'000	**Area serviced (square meters '000)**	HK$'000	Area serviced (square meters '000)	Increase/ (decrease)
Revenue (net of VAT)					
"Hot-in-Place" Projects	**265,755**	**3,443**	267,734	3,951	(0.7%)
Non-"Hot-in-Place" Projects	**202,253**	**–**	163,872	–	23.4%
Total	**468,008**		431,606		8.4%

	Year ended 31 December				
	2018		2017		Increase/
	HK$'000	**Margin**	HK$'000	Margin	(decrease)
Gross profit					
"Hot-in-Place" Projects	**62,807**	**23.6%**	81,849	30.6%	(23.3%)
Non-"Hot-in-Place" Projects	**16,421**	**8.1%**	11,446	7.0%	43.5%
Total	**79,228**	**16.9%**	93,295	21.6%	(15.1%)

Revenue for this segment increased in the year of 2018 compared to 2017 due to the increase in the revenue of non-"Hot-in-Place" projects contributed by Tianjin Expressway Maintenance and involved in traditional APM method. As a result of more municipal road maintenance projects being conducted by Tianjin Expressway Maintenance during the year, the revenue of non-"Hot-in-Place" projects increased by 23.4%. The total serviced area of "Hot-in-Place" projects decreased by 12.8% from 3.9 million square meters in 2017 to 3.4 million square meters in 2018 was mainly due to haze pollution problems near the end of 2018 and the Bureau of Ecology and Environment of the PRC local government prohibiting the performance of construction work including road maintenance work, which resulted in some of the APM services projects delayed to 2019. The gross profit margin of "Hot-in-Place" projects decreased from 30.6% in 2017 to 23.6% in 2018 due to the Group's marketing strategy to offer lower gross profit margin on high profile projects and new markets.

b. APM Equipment

	Year ended 31 December				
	2018		2017		Increase/
	HK$'000	Units/sets	HK$'000	Units/sets	(decrease)
Revenue (net of VAT)					
Standard series	48,722	48	40,869	39	19.2%
Modular series	–	–	–	–	–
Repair and maintenance	5,703	N/A	3,053	N/A	86.8%
Total	54,425		43,922		23.9%

	Year ended 31 December				
	2018		2017		Increase/
	HK$'000	Margin	HK$'000	Margin	(decrease)
Gross profit					
Standard series	18,517	38.0%	17,886	43.8%	3.5%
Modular series	–	N/A	–	N/A	–
Repair and maintenance	4,354	76.3%	2,358	77.2%	84.6%
Total	22,871	42.0%	20,244	46.1%	13.0%

Revenue for the APM equipment segment for 2018 increased by approximately 23.9% as compared to 2017. This increase was attributable to the revenue contributed by the new product (Truck Mounted Attenuator) launched into the market at the end of 2017 and the increase in the number of the standard series equipment sold in Hong Kong, Malaysia and Taiwan. The revenue of repair and maintenance increased by 86.8% as against the corresponding period for 2017, primarily because, other than the revenue generated from routine repair and maintenance services, more upgrade services (i.e. change of new chassis or other major components) were provided to the standard equipment which had been sold 10 years ago.

Overall gross profit margin for this segment decreased from approximately 46.1% in 2017 to approximately 42.0% in 2018 due to the decline in the revenue generated from higher gross profit margin standard series equipment.

2. Other Gains and Losses

Other gains and losses for the year under review significantly decreased by approximately HK$104.7 million, from approximately HK$112.1 million in 2017 to approximately HK$7.4 million in 2018, primarily due to the net effect of (i) the increase in the recognition of loss on disposal of property, plant and equipment; and (ii) the recognition of significant amount of impairment loss on property, plant and equipment in 2017 as a result of unsatisfactory business performance of certain subsidiaries of the Company.

3. Impairment Losses, Net of Reversal

Impairment losses for the year under review decreased by approximately HK$21.9 million, from approximately HK$157.9 million in 2017 to approximately HK$136.0 million in 2018, primarily due to the effect of the decrease in impairment of trade receivables and contract assets.

4. Change in Fair Value of Investment Property

The Group's investment property was revalued as at 31 December 2018 on an open market basis by an independent property valuer. During the year under review, the fair value change of investment property decreased by approximately HK$21.3 million from approximately HK$42.4 million in 2017 to approximately HK$21.1 million in 2018.

5. Selling and Distribution Costs

Selling and distribution costs for the year under review decreased by approximately 11.0% or approximately HK$2.2 million, from approximately HK$20.0 million in 2017 to approximately HK$17.8 million in 2018, primarily due to the decrease in travelling and entertainment expenses incurred after cost control had been implemented.

6. Administrative Expenses

Administrative expenses decreased by approximately 17.6%, or approximately HK$16.8 million, from approximately HK$95.2 million in 2017 to approximately HK$78.4 million in 2018, primarily due to the decrease in depreciation expense after the recognition of significant amount of impairment loss on property, plant and equipment in 2017 as a result of unsatisfactory business performance of certain subsidiaries of the Company.

7. Share of Profits and Losses of Joint Ventures

The Group's share of losses from joint ventures decreased by approximately HK$27.1 million, from approximately HK$31.3 million in 2017 to approximately HK$4.2 million in 2018 primarily due to the recognition of impairment losses on the property, plant and equipment of certain joint ventures as a result of unsatisfactory business performance of these joint ventures in 2017.

8. Finance Costs

Finance costs increased by approximately HK$1.3 million, from approximately HK$6.1 million in 2017 to approximately HK$7.4 million in 2018, primarily due to the increase in the interest rate of the bank borrowings of the Group.

9. Taxation

Income tax expenses decreased by approximately HK$2.7 million, from approximately HK$15.8 million in 2017 to approximately HK$13.1 million in 2018, mainly due to the decrease in deferred tax expense arising from changes in fair value of investment property.

10. Loss

Loss attributable to owners of the Company amounted to HK$139.1 million for the year ended 31 December 2018 compared with the loss attributable to owners of the Company of approximately HK$265.0 million for the year ended 31 December 2017, primarily due to the net effect of (i) decrease in the gross profit margin of "Hot-in-Place" projects as a result of the Group's marketing strategy to offer lower gross profit margin on high profile project and new market; (ii) the decrease in impairment of trade receivables and contract assets; (iii) the significant decrease in the recognition of impairment loss on property, plant and equipment; (iv) the decrease in changes in fair value of investment property; and (v) the decrease in share of losses from joint ventures.

11. Financial Position

As at 31 December 2018, the total equity of the Group amounted to approximately HK$729.4 million (2017: HK$978.8 million). Decrease in the total equity of the Group was due to the net effect of (i) loss attributable to owners of the Company for the year ended 31 December 2018; (ii) changes in foreign currency translation reserve as a result of the depreciation of RMB against Hong Kong dollar as the assets and liabilities of the Group are denominated in RMB, but for the purpose of presenting consolidated financial statements, these assets and liabilities are translated into Hong Kong dollars; and (iii) the impact of the initial application of new accounting standards as at 1 January 2018 (for details of the impact, please refer to note 2 to the consolidated financial statements).

The Group's net current assets as at 31 December 2018 amounted to approximately HK$239.7 million (2017: HK$433.5 million). The current ratio, which is the amount of the current assets divided by the amount of the current liabilities as at 31 December 2018, was 1.5 (31 December 2017: 1.9). The decrease in the net current assets and current ratio was mainly due to the recognition of impairment of trade receivables and decrease in cash and bank deposit balances for the purchase of property, plant and equipment, and the repayment of bank borrowings.

12. Liquidity and Financial Resources and Capital Structure

As at 31 December 2018, the Group's bank balances and cash, time deposits, pledged bank deposits and structured bank deposits amounted to approximately HK$192.4 million (2017: HK$260.6 million). The decrease was primarily due to the effect of net cash used in operating activities, purchase of property, plant and equipment and repayment of bank borrowings. As at 31 December 2018, the bank borrowings of the Group amounted to HK$123.0 million (2017: HK$153.8 million). As at 31 December 2017 and 2018, the Group was in a net cash position.

The deleveraging campaign continuingly implemented by the PRC authorities in the year of 2018 and the tightened cash flow occurring at the local government level in the PRC dragged down the collection of certain long outstanding trade receivables and contract assets of the Group. Thus, the trade receivables and contract assets balances were HK$850.4 million (2017: HK$843.8 million) as of 31 December 2018. As at the latest practicable date, third party customers had settled trade receivables amounting to approximately HK$144.1 million (RMB126.5 million).

Though the Group does not have any collateral over most of the receivables, the management considers that there is no recoverability problem as the remaining amounts are due from the local PRC government authorities. The Group has credit policy and internal control procedures in place to review and collect the outstanding trade receivables of the Group. In order to minimise the risk of placing heavy reliance on obtaining project from the local PRC government and to further diversify the overall credit risk, the Group will widen its customer base. For those customers whose credit terms are extended by the Group, the Group has policies in place to evaluate the credit risk for these customers, taking into account of its repayment ability and long term relationship with the Group.

As at 31 December 2018, the Group's liquidity position remained strong and the management of the Company believes that this will enable the Group to expand in accordance with their plans. The Group strives to efficiently use its financial resources and adopts a prudent financial policy in order to maintain a healthy capital ratio and support its business expansion requirements.

13. Interest-Bearing Bank Borrowings

As at 31 December 2018, the Group had total debt of HK$123.0 million (2017: HK$153.8 million) which was unsecured interest- bearing bank borrowings.

As at 31 December 2018, bank balance of approximately HK$24.4 million (2017: HK$5.7 million) was pledged to secure general banking facilities granted to the Group.

The maturity profile of the interest-bearing bank borrowings as at 31 December 2017 and 2018 were repayable within one year or on demand.

14. Use of Proceeds Raised from Initial Public Offering ("IPO")

The Group received approximately HK$687.0 million net proceeds, after deducting underwriting fees and other related expenses, from the Company's IPO. These net proceeds were applied in the year ended 31 December 2018 in the manner as stated in the prospectus of the Company dated 14 June 2013, as follows:

		Net Proceeds	
	Available HK$ million	**Utilised** HK$ million	**Unutilised** HK$ million
Investment in research and development activities	137.4	137.4	–
Establishing joint ventures and expanding APM service teams	137.4	98.6	38.8
Manufacturing APM equipment and expanding our APM service teams	103.1	103.1	–
Acquisitions of other APM service providers	103.0	53.6	49.4
Constructing new production facility	68.7	68.7	–
Establishing sales offices in new markets and marketing expenses	68.7	68.7	–
General corporate purposes and working capital requirements	68.7	68.7	–
	687.0	598.8	88.2

The unutilised net proceeds have been deposited into short term deposits with licensed banks and authorised financial institutions in Hong Kong and the PRC.

15. Material Acquisitions and Disposals

Save as disclosed in this Annual Report, during the year under review, there were no material acquisitions or disposals of any subsidiaries, associates or joint ventures.

16. Capital Commitments and Contingent Liabilities

The Group's capital commitments as at 31 December 2018 are set out in note 38 to the financial statements. As at 31 December 2018, the Group did not have any material contingent liabilities.

17. Financial Risk Management

The Group's business is exposed to a variety of financial risks, such as interest rate risk, foreign currency risk and credit risk.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank borrowings with a floating interest rate. As at 31 December 2018, 18.5% and 81.5% (2017: 88.3% and 11.7%) of the Group's bank borrowings are at fixed interest rate and floating interest rate, respectively. The Group has not used any interest rate swaps to hedge its interest rate risk.

The Group collects most of its revenue in RMB and most of its expenditures as well as capital expenditures are also denominated in RMB. The Group's exposure to foreign currency risk arises mainly from certain bank deposits and interest-bearing bank borrowings denominated in foreign currency of the relevant group entities. As at 31 December 2018, certain time deposit, bank balances and cash, pledged bank deposits and structured bank deposits of approximately HK$178,237,000 (2017: HK$234,311,000) are denominated in RMB, the remaining balances are mainly denominated in Hong Kong dollars. As at 31 December 2018, the Group's bank borrowings denominated in RMB amounted to HK$123,012,000 (equivalent to RMB108,000,000) (2017: HK$153,754,000 (equivalent to RMB128,000,000)). The Group has not hedged its foreign currency risk. The changes in foreign currency translation reserve during the year under review was the result of the depreciation of RMB against Hong Kong dollar as the assets and liabilities of the Group are denominated in RMB, but for the purpose of presenting consolidated financial statements, these assets and liabilities are translated into Hong Kong dollars.

The Group has policies in place to evaluate credit risk when accepting new business and to limit its credit exposure to individual customers.

18. Employees and Remuneration

As at 31 December 2018, the Group had a total of 572 full time employees (2017: 598). The Group provides competitive remuneration packages to retain its employees including discretionary bonus schemes, medical insurance and other allowances and benefits in kind as well as mandatory provident fund schemes for employees in Hong Kong and state-managed retirement benefit schemes for employees in the PRC.

19. Environmental Policy

The Group initiates and strives to minimize our environmental impact by using its unique technology to repair the damaged asphalt payment surfaces and able to achieve 100% recycling damaged pavement materials. The Group operates in an environmental-friendly manner to promote and achieve sustainable development. Its environmental policies and measures reflect its commitment to minimising the environmental impact of its operations. During the year under review, the Group complies with the relevant environmental regulations and rules and possess all necessary permission and approval from the PRC regulators.

20. Compliance with Relevant Laws and Regulations

The Group's operations are carried out by the Company's subsidiaries in the PRC and Hong Kong. Our operations are regulated by PRC and Hong Kong law. During the year under review and up to date of this report, we have complied with the relevant laws and regulations that have significant impact in the PRC and Hong Kong.

21. Relationships with Stakeholders

The Group recognizes that employees, customers, suppliers, research partners, government and other public bodies are keys to its sustainable development. The Group is committed to establishing a close and caring relationship with its employees, providing quality services and products to its customers and enhancing cooperation with its business partners. The Group provides a fair and safe workplace, promotes diversity to our staff, provides competitive remuneration and benefits and career development opportunities based on their merits and performance. The Group also puts ongoing efforts to provide adequate trainings and development resources to the employees so that they can keep abreast of the latest development of the market and industry and, at the same time, improve their ability, performance and self-fulfillment in their positions.

The Group understands that it is important to maintain good relationship with customers and provide highest standard of services and products which satisfy the needs and requirements of the customers. The Group enhances the relationship by continuous interaction with customers to gain insight on the changing market demand. The Group has also established procedures to handle customers' feedbacks and complaints to ensure customers' opinions are dealt with in a prompt and timely manner.

The Group maintains sound business relationship with suppliers, research partners, government and other public bodies through business visits, group discussion and seminars. These activities would allow the Group to better understand the stakeholders' views to develop the Group's sustainable development.

22. Principal Risks and Uncertainties

Certain principal risks and uncertainties facing the Group may affect its business, operating results and its financial conditions, including:

(i) Industry risk in the PRC

The Group generates a substantial portion of revenue from the PRC local government through selling of APM equipment and providing of APM services. Our APM equipment and services are used in the road maintenance sector and the development of our business depends on the sustained growth of this sector in the PRC. The volatility on the local government spending, business investment and inflation in the PRC which may affect our revenue and profitability.

If the PRC economy does not grow at the expected rate or the PRC local government's spending for road maintenance work declines, this could lead to less expected business and maintenance activity. In order to diversify the risk, the Group will widen its customer base.

The Group will focus on managing the existing unsatisfactory business performance of subsidiaries and joint ventures to seize the current business opportunity. In addition, the Group will appoint some local experienced APM services providers as its potential joint venture partner.

(ii) Financial credit risk

The Group is subject to the risk that trade receivables may not be collected in a timely manner and some of our customers may delay payment of the outstanding balances after due dates due to various reasons beyond our control, such as slow settlement from local government funding. There is credit risk exposure that allowance for impairment of trade receivables may increase due to above reasons. In order to minimise the risk, the Group continues to enhance and strengthen the credit control and collection policies.

(iii) Environmental and regulations compliance risks

The PRC governments has introduced and imposed stricter measures on the industrial sector in relation to environmental protection, such as low-carbon requirements. The Group has environmental compliance policy and procedures in place to ensure the discharge of pollutants and wastes and other activities are in compliance with the relevant laws and regulations. Due to increase concern over the deteriorating environment in the PRC, in order to comply with the increasingly stringent laws and regulations, the Group may incur additional costs to update the environment protection devices and take more measures and assign more personnel to make sure the compliance with such laws and regulations.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Mr. Sze Wai Pan	*Chairman, Chief Executive Officer and Executive Director*
Ms. Sze Wan Nga	*Executive Director*
Mr. Zhang Yifu	*Executive Director*
Mr. Chan Kai King	*Executive Director*
Dr. Chan Yan Chong	*Non-executive Director*
Mr. Wang Lei	*Non-executive Director*
Ms. Yeung Sum	*Independent Non-executive Director*
Mr. Tang Koon Yiu Thomas	*Independent Non-executive Director*
Dr. Lau Ching Kwong	*Independent Non-executive Director*

DIRECTORS — BIOGRAPHIES

Mr. Sze Wai Pan ("Mr. Sze"), aged 53, is the founder of our Group and one of our executive directors. He is the Chairman, chief executive officer, chief engineer and a member of the nomination committee of the Company. He is responsible for overall research and development activities, overall corporate strategies planning and business development of the Group. He is a director of all our major PRC operating subsidiaries of our Group. Mr. Sze obtained a master's degree in science (with distinction) from The University of Warwick, the United Kingdom in July 1991, and a master's degree in arts from the City Polytechnic of Hong Kong (currently known as City University of Hong Kong) in December 1994. He has been a member of Nanjing Political Consultative Conference (南京市政治協商會議) since January 2008. Mr. Sze received a Nanjing Science and Technology Achievement Award (南京市科技功臣獎) from the Nanjing Municipal Government in May 2009 in recognition of his achievement in the APM industry and was nominated for the Young to Middle-aged Expert with Outstanding Contributions in Jiangsu Province for 2012 (2012江蘇省有突出貢獻中青年專家) from the Nanjing Municipal Bureau of Human Resources and Social Security (南京市人力資源和社會保障局) in February 2013. Further, Mr. Sze is an inventor of all our 148 registered patents and an inventor of our Hot-in-Place technology. Mr. Sze has over 20 years of experience in engineering, overall corporate strategies, planning and business development of our Group. Mr. Sze is the brother of Ms. Sze Wan Nga.

Ms. Sze Wan Nga ("Ms. Sze"), aged 45, was appointed as an executive director and a member of remuneration committee of the Company in June 2011 and June 2013, respectively. She joined our Group in September 2000. She is also a director of several major PRC operating subsidiaries of our Group. Ms. Sze obtained the Master of Business Administration degree from Hong Kong Baptist University in November 2004, and a Bachelor of Combined Science degree from Hong Kong Baptist University in November 1995, majoring in applied physics. She has over 16 years of experience in executive management and is primarily responsible for finance and overall operation of our Group. Ms. Sze is the sister of Mr. Sze.

Mr. Zhang Yifu ("Mr. Zhang"), aged 65, was appointed as an executive director of the Company in August 2012. He joined our Group in October 2001. Mr. Zhang is the head of the APM service quality department, APM service project business department and research centre of a major operating subsidiary of the Group since January 2011, May 2005 and February 2009, respectively. He was recognised as a senior engineer by Personnel Department of Shaanxi Province (陝西省人事廳) in 1998. Mr. Zhang obtained his bachelor's degree in 1977 from Xi'an Road College (西安公路學院) (now known as Chang An University (長安大學) in highway construction and mechanical engineering. Mr. Zhang has over 30 years of experience in the mechanical engineering and is primarily responsible for the quality control and research and development relating to our APM services.

Mr. Chan Kai King ("Mr. Chan"), aged 51, was appointed as an executive director of the Company in August 2012. He joined our Group in September 2000. Mr. Chan became the head of the engineering and mechanical design institute of a major operating subsidiary of our Group in May 2005. Mr. Chan received a master's degree in mechanical engineering in October 2011 from Hong Kong Polytechnic University and a bachelor's degree in manufacturing engineering in December 1994 from the City Polytechnic of Hong Kong (currently known as City University of Hong Kong). Mr. Chan has over 10 years of experience in the mechanical engineering industry and is primarily responsible for the research and development of products and technology of our Group.

Dr. Chan Yan Chong ("Dr. Chan"), aged 67, was appointed as a non-executive director of the Company in October 2016. He graduated from Nanyang University in Singapore with a degree in Mathematics. Then he obtained a Master degree in Operational Research at Lancaster University and Doctorate in Management Sciences at Manchester University. Dr. Chan worked as programme director for the master of business administration programme and associate professor in the Department of Management Sciences at City University of Hong Kong. He is currently a director of Au Chan Investment Limited. In 2001, Dr. Chan won the best commercial application research award from City University of Hong Kong. In 2007, Dr. Chan was awarded the Medal of Honor (M.H.) from the Government of Hong Kong S.A.R., and Nanyang Alumnus Award from Nanyang Technological University, and obtained the International Financial Awards of Excellence for his Distinguished Financial Research by Chinese Institute of Certified Financial Planners. He has published 50 professional books and more than 5,000 articles, and is also a feature column writer for many newspapers and magazines. Dr. Chan is currently an independent non-executive director of Shanghai Jiaoda Withub Information Industrial Company Limited* (上海交大慧谷信息產業股份有限公司) (Stock Code: 8205), the shares of which are listed on the GEM of the Stock Exchange.

Mr. Wang Lei, aged 42, was appointed as a non-executive director of the Company in December 2013. He has been with CICC Jia Cheng Investment Management Co. Ltd. (中金佳成投資管理有限公司), a wholly-owned subsidiary of China International Capital Corporation Limited (中國國際金融股份有限公司), since 2009 and is now an executive director. He obtained a master's degree in business administration in 2005 from Saïd Business School, University of Oxford. Mr. Wang has over 12 years of experience in investment banking and private equity.

Ms. Yeung Sum ("Ms. Yeung"), aged 45, joined in August 2012 as an independent non-executive director of the Company. She is also a member of the audit committee and remuneration committee of the Company. Ms. Yeung worked in Ernst & Young between January 1995 and April 2012 where she was subsequently promoted as a partner in January 2006, mainly responsible for risk management and internal control services. Ms. Yeung obtained a bachelor of commerce majoring in finance and accounting from University of Auckland in May 1995. She has been a certified public accountant certified by the American Institute of Certified Public Accountants since April 2006, and a certified internal auditor awarded by the Institute of Internal Auditors since November 2002. Ms. Yeung has around 18 years of experience in finance and risk management.

* *For identification purpose only*

Mr. Tang Koon Yiu Thomas ("Mr. Tang"), aged 71, joined in August 2012 as an independent non-executive director of the Company. He is also a member of audit committee, nomination committee and remuneration committee of the Company. Mr. Tang has been the vice chairman of Greater China Leapfrog Teaching Foundation Limited and is mainly responsible for the development of strategic initiatives, partnerships in the promotion of innovative technologies and methodologies for the improvement of teaching efficiency in schools. Between March 2003 and February 2005, Mr. Tang was the chairman and managing director of Elec & Eltek International Holdings Limited (依利安達國際控股集團) (a company previously listed on the Stock Exchange, the listing of which was withdrawn in March 2005) and Elec & Eltek International Company Limited (a company currently listed on the mainboard of the Singapore Exchange Securities Trading Limited). Between January 1997 and March 2003, Mr. Tang was the chief executive of Hong Kong Productivity Council (香港生產力促進局). Mr. Tang obtained a master's degree in science, majoring in industrial engineering and administration from Cranfield Institute of Technology (currently known as Cranfield University) in May 1976. Mr. Tang has extensive experience in technologies and various industries.

Dr. Lau Ching Kwong ("Dr. Lau"), aged 76, joined in August 2012 as an independent non-executive director of the Company. He is also a member of the audit committee and the nomination committee of the Company. Dr. Lau has been an executive director of transportation of AECOM Asia Co. Ltd (艾奕康有限公司) since June 2003, mainly focusing on consulting work for infrastructure constructions in the PRC. Dr. Lau worked in the Hong Kong Government for over thirty years, mainly responsible for the design and construction of public works, and he served many roles including the chief engineer of Tsing Ma Bridge, the deputy director of Highways Department (路政署), the director of Civil Engineering and Development Department (土木工程署), respectively. Dr. Lau obtained a doctorate degree in engineering from Tsinghua University (清華大學) in June 1998, a master's degree majoring in bridge engineering in December 1970 from the University of Surrey, and a diploma in building in July 1963 from Hong Kong Technical College (now known as Hong Kong Polytechnic University). Dr. Lau is a first class registered structural engineer recognised by the National Administration Board of Engineering Registration (Structural) of the PRC (全國註冊工程師管理委員會(結構)) in March 2002. He is a council member of China Civil Engineering Society (中國土木工程學會) since 2002 and a standing committee member since December 2008. Dr. Lau has over 40 years of experience in civil engineering.

SENIOR MANAGEMENT — BIOGRAPHIES

Mr. Jiang Yong He ("Mr. Jiang"), aged 59, joined our Group in September 2000 as technical manager. He was appointed as the assistant president of major operating subsidiaries of our Group and the head of APM service project business department of a major operating subsidiary of our Group in January 2011. He has over 20 years of experience in mechanical engineering and is primarily responsible for the management of APM service projects, and also responsible for formulating the APM service business strategy of our Group. Mr. Jiang graduated from Central South Mining and Metallurgy College (中南礦冶學院), which is now known as Central South University (中南大學), with a bachelor's degree in July 1982, majoring in mining equipment.

Mr. Huang Liang Zhong ("Mr. Huang"), aged 56, joined our Group in September 2000 as production manager. Mr. Huang was appointed as the assistant president of major operating subsidiaries of our Group since January 2011. He has over 20 years of experience in mechanical engineering and is primarily responsible for manufacturing and human resources of our Group. Mr. Huang graduated from Xi'an Road College (西安公路學院) (now known as Chang An University (長安大學)) with a bachelor's degree in July 1984, majoring in road construction equipment.

Mr. Lim Eng Sun ("Mr. Lim"), aged 42, is the chief financial officer and company secretary of our Company. Mr. Lim joined our Group in December 2011 as financial controller of our Group and is primarily responsible for the finance and accounting affairs of our Group. He has over nine years of experience in finance and accounting. Prior to joining our Group, between October 2006 and May 2011, Mr. Lim worked in Ernst & Young as a senior accountant and then a manager, mainly responsible for providing supervision of audit engagement. Mr. Lim received a bachelor of business degree in November 2001 and a master's of business law in November 2005 from Monash University. Since July 2006, Mr. Lim has been an associate member of the Hong Kong Institute of Certified Public Accountants.

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

1. COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board is committed to achieving high standards of corporate governance to safeguard the interests of the Company's shareholders and to enhance corporate value and accountability. The Company has applied the principles and complied with the applicable 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 code provision A.2.1 as more particularly described below.

Code Provision A.2.1 of the CG Code provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Board considers that the Company is still in its growing stage and it would be beneficial to the Group for Mr. Sze Wai Pan ("Mr. Sze") to assume both roles as the chairman and chief executive officer of the Company, since the two roles tend to reinforce each other and are mutually enhancing in respect of the Group's continual growth and development. When the Group has developed to a more sizeable organization, the Board will consider splitting the two roles to be assumed by two individuals. With the strong business experience of the directors, they do not expect any issues would arise due to the combined role of Mr. Sze. The Group also has in place an internal control system to perform a check and balance function. There are also three independent non-executive directors on the Board offering strong, independent and differing perspectives. The Board is therefore of the view that there are adequate balance-of-power safeguards in place to enable the Company to make and implement decisions promptly and effectively.

2. MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code throughout the year.

The Company has also established written guidelines on no less exacting terms than the Model Code for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company (the "Employee Written Guidelines").

No incident of non-compliance with the Employees Written Guidelines was noted by the Company during the year.

3. BOARD OF DIRECTORS

The Board currently comprises a total of 9 members, with 4 executive directors, 2 non-executive directors and 3 independent non-executive directors:

Executive Directors:

Mr. Sze Wai Pan *(Chairman and Chief Executive Officer)*
Ms. Sze Wan Nga
Mr. Zhang Yifu
Mr. Chan Kai King

Non-executive Directors:

Dr. Chan Yan Chong
Mr. Wang Lei

Independent non-executive Directors:

Ms. Yeung Sum
Mr. Tang Koon Yiu Thomas
Dr. Lau Ching Kwong

The list of directors (by category) is also disclosed in all corporate communications issued by the Company from time to time pursuant to the Listing Rules.

The biography details of the directors of the Company are set out under the section headed "Board of Directors and Senior Management" in this annual report and save as disclosed therein, there is no material relationship among members of the Board.

Chairman and Chief Executive Officer

According to code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. As explained under the above paragraph headed "Compliance with the Corporate Governance Code", the Board considers it would be beneficial to the Group for Mr. Sze to assume both roles as the chairman and chief executive officer of the Company, since the two roles tend to reinforce each other and are mutually enhancing in respect of the Group's continual growth and development. When the Group has developed to a more sizeable organization, the Board will consider splitting the two roles to be assumed by two individuals.

The role of chairman provides leadership for the Board and is also responsible for overseeing effective functioning of the Board and application of good corporate governance practices and procedures. Whereas the role of chief executive officer focuses on implementing objectives, policies and strategies approved and delegated by the Board.

Independent Non-executive Directors

During the year ended 31 December 2018, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors representing one-third of the Board. These independent non-executive directors are seasoned individuals from diversified backgrounds and industries and one member has appropriate accounting and related financial management expertise.

The independent non-executive directors serve the relevant function of bringing independent judgement and advice on the overall management of the Company. They take the lead where potential conflicts of interests arise.

The Company has received an annual confirmation of independence from each of the independent non-executive directors. The Company is of the view that all of the independent non-executive directors meet the guidelines for assessing independence as set out in the Listing Rules and considers them to be independent.

Non-executive Directors, Appointment and Re-election of Directors

The procedures and process of appointment, re-election and removal of directors are laid down in the Company's Articles of Association. The Nomination Committee is responsible for reviewing Board composition, monitoring the appointment of directors and assessing the independence of independent non-executive directors.

Code provision A.4.1 of the CG Code stipulates that non-executive directors shall be appointed for a specific term, subject to re-election, whereas code provision A.4.2 states that all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

The non-executive directors of the Company are appointed for a specific term of two years, and are subject to retirement by rotation once every three years. Each of the independent non-executive directors of the Company is appointed for a specific term of two years and is subject to retirement by rotation once every three years.

In accordance with the Company's articles of association, all directors of the Company are subject to retirement by rotation at least every three years and any new director appointed to fill a casual vacancy shall submit himself/herself for re-election by shareholders at the first general meeting of the Company after appointment.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance. The Board has delegated to the chief executive officer, and through him, to the senior management, for executing the Board's strategy and implementing its policies through the day-to-day management and operation of the Group.

The Board determines which functions are reserved to the Board and which are delegated to the senior management. It delegates appropriate aspects of its management and administrative functions to senior management. The delegated functions and responsibilities are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the aforesaid officers.

The Board reserves for its decision 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, announcements of interim and final results and payment of dividends.

Directors' Continuous Professional Development

During the year, to develop and refresh their knowledge and skills, all directors have participated in appropriate continuous professional development training which covered updates on laws, rules and regulations and also directors' duties and responsibilities. The following sets out the training of each of the directors received during the year:

	Attending seminars/ Briefings	Reading materials
Executive Directors:		
Mr. Sze Wai Pan	✓	✓
Ms. Sze Wan Nga	✓	✓
Mr. Zhang Yifu	✓	✓
Mr. Chan Kai King	✓	✓
Non-executive Directors:		
Dr. Chan Yan Chong	✓	✓
Mr. Wang Lei	✓	✓
Independent Non-executive Directors:		
Ms. Yeung Sum	✓	✓
Mr. Tang Koon Yiu Thomas	✓	✓
Dr. Lau Ching Kwong	✓	✓

4. BOARD COMMITTEES

The Board has established a remuneration committee, a nomination committee and an audit committee. They are each established with specific written terms of reference which deal clearly with their respective authority and responsibilities.

There was satisfactory attendance for meetings of the board committees during the year. The minutes of the committee meetings are circulated to all members of the Board unless a conflict of interest arises. The committees are required to report back to the Board on key findings, recommendations and decisions.

Remuneration Committee

The purpose of the committee is to make recommendations to the Board on the remuneration policy and structure for all directors and senior management of the Group and the remuneration of all directors of each member of the Group.

The committee is responsible for making recommendations to the Board on the establishment of a formal and transparent procedure for developing remuneration policy in respect of all directors and senior management and for determining remuneration packages of individual executive directors and senior management. It also makes recommendations to the Board on the remuneration of non-executive directors (including independent non- executive directors).

The committee consults the chairman and the chief executive officer about remuneration proposals for other executive directors.

The Group's remuneration policy seeks to provide fair market remuneration in a form and value to attract, retain and motivate high quality staff. Remuneration packages are set at levels to ensure comparability and competitiveness with other companies in the industry and market competing for a similar talent pool. Emoluments are also based on an individual's knowledge, skill, time commitment, responsibilities and performance and by reference to the Group's profits and performance.

Members of the committee are:

Mr. Tang Koon Yiu Thomas	*(Independent non-executive director)*	*(Chairman)*
Ms. Yeung Sum	*(Independent non-executive director)*	
Ms. Sze Wan Nga	*(Executive director)*	

The Remuneration Committee met twice during the year under review to review and made recommendation to the Board on the remuneration policy and structure of the Company, and the remuneration packages of all directors and senior management and other related matters.

Details of directors' remuneration are set out in note 13 to the financial statements. Details of five highest paid employees are set out in note 13 to the financial statements. In addition, the remuneration of the three (2017: three) senior management fell within the band of less than HK$1,000,000 and none of the (2017: none) senior management fell within the band of HK$1,000,001 to HK$1,500,000 for the year under review.

Nomination Committee

The purpose of the nomination committee is to lead the process for Board appointments and for identifying and nominating for the approval of the Board candidates for appointment to the Board.

The committee is responsible for reviewing the structure, size and composition (including skills, knowledge and experience) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy, identifying individuals suitably qualified to become members of the Board and selecting or making recommendations to the Board on the selection of individuals nominated for directorships. The committee is also responsible for assessing the independence of independent non-executive directors and making recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the vice chairman and the chief executive officer of the Company.

In assessing the Board composition, the nomination committee would take various aspects set out in the Board Diversity Policy, including but not limited to gender, age, cultural and education background, professional qualifications, skills, knowledge and industry and regional experience. The nomination committee would discuss and agree on measurable objectives for achieving diversity on the Board, consults the chairman of the Board about his proposals relating to the process for Board appointments and for identifying and nominating candidates as members of the Board.

The criteria for the committee to select and recommend a candidate for directorship include the candidate's skills, knowledge, experience and integrity and whether he/she can demonstrate a standard of competence commensurate with his/her position as a director of the Company.

Members of the committee are:

Mr. Sze Wai Pan	*(Chief executive officer)*	*(Chairman)*
Mr. Tang Koon Yiu Thomas	*(Independent non-executive director)*	
Dr. Lau Ching Kwong	*(Independent non-executive director)*	

Audit Committee

The purpose of the committee is to establish formal and transparent arrangements to consider how the Board applies financial reporting and internal control principles and maintains an appropriate relationship with the Company's external auditors.

The committee is responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditors, and approving the remuneration and terms of engagement of the external auditors, and considering any questions of its resignation or dismissal.

The committee reports to the Board any suspected fraud and irregularities, failures of internal control or suspected infringement of laws, rules and regulations which come to its attention and are of sufficient importance to warrant the attention of the Board.

Members of the committee are:

Ms. Yeung Sum	*(Independent non-executive director)*	*(Chairman)*
Mr. Tang Koon Yiu Thomas	*(Independent non-executive director)*	
Dr. Lau Ching Kwong	*(Independent non-executive director)*	

The members of the committee possess appropriate professional qualifications and/or experience in financial matters.

The committee meets as and when required to perform its responsibilities, and at least twice in each financial year of the Company. Two meetings were held during the year under review. The committee reviewed, together with senior management and the external auditors, the financial statements for the six months ended 30 June 2018 and for the year ended 31 December 2018, the accounting principles and practices adopted by the Company, statutory compliance, other financial reporting matters, internal control and risk management systems and continuing connected transactions of the Company.

The committee has recommended to the Board (which endorsed the recommendation) that, subject to shareholders' approval at the forthcoming annual general meeting, Deloitte Touche Tohmatsu be re-appointed as the Company's external auditors for 2019.

5. ATTENDANCE RECORDS OF DIRECTORS AND COMMITTEE MEMBERS

	Number of meetings held during the year attended			
	Board	Remuneration committee	Nomination committee	Audit committee
Executive Directors:				
Mr. Sze Wai Pan	4/4		2/2	
Ms. Sze Wan Nga	4/4	2/2		
Mr. Zhang Yifu	4/4			
Mr. Chan Kai King	4/4			
Non-executive Directors:				
Dr. Chan Yan Chong	3/4			
Mr. Wang Lei	4/4			
Independent Non-executive Directors:				
Ms. Yeung Sum	4/4	2/2		2/2
Mr. Tang Koon Yiu Thomas	4/4	2/2	2/2	2/2
Dr. Lau Ching Kwong	4/4		2/2	2/2

6. CORPORATE GOVERNANCE FUNCTIONS

The Board has the following responsibilities:

(a) to develop and review the Company's policies and practices on corporate governance; and to review the compliance with the CG Code and disclosures in the corporate governance report;

(b) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(c) to review and monitor the training and continuous professional development of the directors and senior management; and

(d) to develop, review and monitor the code of conduct applicable to the directors and employees.

7. FINANCIAL REPORTING

The directors of the Company acknowledge their responsibilities for preparing the financial statements for the Group. The directors are regularly provided with updates on the Company's businesses, potential investments, financial objectives, plans and actions. The external auditors of the Company, Deloitte Touche Tohmatsu, have also stated their reporting responsibility in the section headed "Independent Auditor's Report" of this report.

The Board aims at presenting a balanced, clear and comprehensive assessment of the Group's performance, position and prospects. Management provides such explanation and information to the directors to enable the Board to make informed assessments of the financial and other matters put before the Board for approval.

The Board considers that, through a review made by the audit committee, the resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function are adequate.

8. INTERNAL CONTROLS

The Board has overall responsibility for maintaining a sound and effective internal control system and for reviewing its effectiveness, particularly in respect of controls on financial, operational, compliance and risk management, to safeguard shareholders' investment and the Group's assets. During the year under review, through discussions with our management and the internal audit team, the Board has conducted assessments and reviews of the effectiveness of the Group's internal control system, including, among others, financial control, operational and compliance controls and risk management functions.

The internal audit team formulates the internal audit plan of the Group based on the strategic objectives analysis, business flow analysis, risk assessment and performance evaluation under the authority of the Board and the guidance of the Audit Committee. It reports to the Audit Committee and the Board for its findings and recommendations on internal control. The internal control system is designed to provide reasonable, but not absolute, assurance. The system aims to eliminate, or otherwise manage, risks of failure in achieving the Company's objectives.

During the year under review, the internal audit team continuously optimised job responsibilities and functions of different departments according to the audit plan. The Board, through the Audit Committee and internal audit team, conducted a review of the effectiveness of the internal control system of the Group, including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function. Based on information furnished to it and on its own observations, the Board is satisfied with present internal control systems of the Group and considers them effective and adequate. During the year under review and up to the date of this annual report, nothing has been found which requires substantial improvement.

9. COMPANY SECRETARY

The company secretary of the Company confirmed that he has complied with all training requirements of the Listing Rules during the year under review.

10. AUDITORS' REMUNERATION

For the year, Deloitte Touche Tohmatsu charged the Group HK$1,770,000 for the provision of audit services, and other certified public accountant firms charged HK$734,000 for the provision of audit services to the Company's subsidiaries located in Hong Kong and China.

11. SHAREHOLDERS' RIGHTS

Procedures for Shareholders to Convene an Extraordinary General Meeting

Pursuant to Article 58 of the Company's Articles of Association, an extraordinary general meeting shall be called by the Board on the written resolution of any one or more shareholders of the Company, provided that such shareholder(s) held at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company. Such meeting shall be called for the transaction of any business specified in the written requisition to the Board or the company secretary of the Company; and shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for Putting Forward Proposals at General Meetings

There are no statutory provisions granting the right to shareholders to put forward or move new resolutions at general meetings under the Cayman Islands Companies Law or the Articles of Association of the Company. Shareholders who wish to move a resolution may request the Company to convene a general meeting following the procedures set out in the preceding paragraph.

Procedures for Directing Shareholders' Enquiries to the Board

Shareholders may at any time send their enquiries and concerns with sufficient contact details to the Board to the following:

Address:	29/F., Chinachem Century Tower, 178 Gloucester Road, Wanchai, Hong Kong
Fax:	2363 7987
Email:	enquiry@freetech-holdings.hk

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) to the above address, except for the registered office of the Company, and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

12. COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

To enhance transparency, the Company endeavours to maintain open dialogue with shareholders of the Company through a wide array of channels such as annual general meetings and other general meetings. Shareholders of the Company are encouraged to participate in these meetings.

The Company also recognizes the importance of transparency and timely disclosure of corporate information, which will enable shareholders and investors to make the best investment decisions.

General meetings of the Company provide a forum for communication between the Board and the shareholders. The Chairman of the Board as well as chairman of the Nomination Committee, Remuneration Committee and Audit Committee or, in their absence, other members of the respective committees and, where applicable, the chairman of the independent Board committee, are available to answer questions at shareholder meetings.

To promote effective communication, the Company maintains a website at http://www.freetech-holdings.hk/, where up-to-date information and updates on the Company's business operations and developments, financial information and other information are available for public access.

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Group and of the Company for the year ended 31 December 2018.

1. PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries are set out in note 44 to the financial statements. During the year under review, there were no significant changes in the nature of the Group's principal activities.

Detailed business review, including further discussions of the risks and uncertainties that the Group might face, likely future development of the Group's business, and analysis on the financial key performance indicators, are set out in the Chairman's Statement on pages 4 to 5 and the Management Discussion and Analysis on pages 6 to 18. These discussions form part of this Report of the Directors.

2. SEGMENT INFORMATION

An analysis of the Group's revenue and contribution to results by principal operating activities and the Group's revenue and non-current assets by geographical area of operations for the year ended 31 December 2018 is set out in note 5 and note 6 to the financial statements. The Group's revenue from external customers is derived substantially from its operations in the PRC, and the non-current assets of the Group are substantially located in the PRC.

3. RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2018 and the state of affairs of the Group and of the Company at that date are set out in the financial statements on pages 49 to 151.

Directors of the Company did not recommend the payment of interim dividend for the six months ended 30 June 2018.

The directors do not recommend the payment of any dividend for the year ended 31 December 2018. As at the date of this report, there was no arrangement with any shareholder of the Company under which he/she/it has waived or agreed to waive any dividends.

4. FIVE YEARS FINANCIAL INFORMATION

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the past five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out on page 152. This summary does not form part of the audited financial statements.

5. PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 16 to the financial statements.

6. BANK BORROWINGS

Particulars of the bank borrowings of the Group as at 31 December 2018 are set out in note 32 to the financial statements.

7. SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 33 to the financial statements.

8. PRE-EMPTIVE RIGHTS

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

9. PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

10. RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 45 to the financial statements and in the consolidated statement of changes in equity, respectively.

11. DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company's reserves available for distribution, calculated in accordance with the Companies Law of the Cayman Islands amounted to approximately HK$592.2 million (2017: HK$787.2 million), of which none (2017: none) was proposed as a final dividend for the year. Under the laws of Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

12. MAJOR CUSTOMERS AND MAJOR SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 49.0% of the total sales for the year and sales to the largest customer included therein amounted to approximately 24.6%. Purchases from the Group's five largest suppliers accounted for approximately 28.6% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 8.2%.

None of the directors or any of their close associates or any shareholders (which, to the best of the knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

13. CHARITABLE DONATION

Charitable donation made by the Group during the year under review amounted to HK$36,000.

14. DIRECTORS

The directors of the Company during the year and up to the date of this report are as follows:

Executive Directors:

Mr. Sze Wai Pan
Ms. Sze Wan Nga
Mr. Zhang Yifu
Mr. Chan Kai King

Non-executive Directors:

Dr. Chan Yan Chong
Mr. Wang Lei

Independent Non-executive Directors:

Ms. Yeung Sum
Mr. Tang Koon Yiu Thomas
Dr. Lau Ching Kwong

Pursuant to Article 84(1) of the Articles of Association of the Company, Mr. Sze Wai Pan, Mr. Wang Lei and Dr. Lau Ching Kwong are subject to retirement by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

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

15. DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract for an initial term of three years commencing from 7 June 2013, which has been automatically renewed for a consecutive term of three years on 7 June 2016, and is subject to termination by either party giving not less than three months' written notice.

Mr. Wang Lei has entered into a letter of appointment for an initial term of one year commencing on 31 October 2013. Mr. Wang Lei has entered into renewal contract with the Company on 31 October 2014, 31 October 2016 and 31 October 2018 for a term of 2 years each, and is subject to termination by either party giving not less than three months' written notice. Dr. Chan Yan Chong has entered into a letter of appointment for an initial term of two years commencing on 23 December 2016. Dr. Chan Yan Chong has entered into renewal contract with the Company on 23 December 2018, for a term of 2 years, and is subject to termination by either party giving not less than three months' written notice.

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

16. DIRECTORS' INTERESTS IN CONTRACTS

No transaction, arrangement or contract of significance in relation to the business of the Group to which the Company, its holding company or any of their respective subsidiaries was a party and in which a director or an entity connected with the director had a material interest, whether directly or indirectly, subsisted at the end of, or at any time during the year under review.

17. DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2018, the interests and short positions of the directors and the chief executive of the Company in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

(i) Long Positions in the Shares of the Company

	Personal Interests					
Name of director	Number of shares held	Number of awarded share held	Number of underlying shares held under equity derivatives	Corporate Interests	Total	Approximate percentage of existing issued share capital of the Company
Mr. Sze Wai Pan ("Mr. Sze")	–	–	–	529,625,260[1]	529,625,260	49.08%
Ms. Sze Wan Nga ("Ms. Sze")	–	–	100,000	29,640,000[2]	29,740,000	2.76%
Mr. Zhang Yifu	2,300,000	166,667	100,000	–	2,566,667	0.24%
Mr. Chan Kai King	2,300,000	166,667	100,000	–	2,566,667	0.24%
Ms. Yeung Sum	–	–	50,000	–	50,000	0.00%
Mr. Tang Koon Yiu Thomas	–	–	50,000	–	50,000	0.00%
Dr. Lau Ching Kwong	–	–	50,000	–	50,000	0.00%
Dr. Chan Yan Chong	50,000	–	–	–	50,000	0.00%

Notes:

1. Mr. Sze is the beneficial owner of all the issued share capital of Freetech (Cayman) Ltd. ("Freetech Cayman"), Freetech (BVI) Limited ("Sze BVI") and Freetech Technology Limited ("Freetech Technology") and therefore is deemed to be interested in a total of 529,625,260 shares of the Company held by Freetech Cayman, Sze BVI and Freetech Technology. Mr. Sze is the director of Freetech Cayman, Sze BVI and Freetech Technology.

2. Ms. Sze is the beneficial owner of all the issued share capital of Intelligent Executive Limited ("Intelligent Executive") and therefore is deemed to be interested in 29,640,000 shares of the Company held by Intelligent Executive. Ms. Sze is the director of Intelligent Executive, Freetech Cayman, Sze BVI and Freetech Technology.

(ii) Long Position in the Shares of Associated Corporation of the Company

Name of director	Name of associated corporation	Capacity	Number of shares held in associated corporation	Percentage of existing issued share capital of the associated corporations
Mr. Sze	Freetech Cayman	Beneficial owner	1,162,956	100%
Mr. Sze	Sze BVI	Beneficial owner	1	100%
Mr. Sze	Freetech Technology	Beneficial owner	100	100%
Ms. Sze	Intelligent Executive	Beneficial owner	10,000	100%

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

18. INTEREST AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2018, so far as is known to the directors of the Company, the following persons or corporations (other than directors or the chief executive of the Company) had interests and short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO or as otherwise notified to the Company:

Name of shareholder	Capacity	Number of shares or underlying shares held in the Company	Approximate percentage of existing issued share capital of the Company
Freetech Technology[1]	Interest in controlled corporation	529,625,260	49.08%
Sze BVI[1]	Interest in controlled corporation	529,625,260	49.08%
Freetech Cayman[1]	Beneficial owner	529,625,260	49.08%
China International Capital Corporation Limited[2]	Interest in controlled corporation	58,219,200	5.40%
CICC Growth Capital Fund GP, L.P.[2]	Interest in controlled corporation	58,219,200	5.40%
CICC Growth Capital Fund I, L. P.[2]	Interest in controlled corporation	58,219,200	5.40%
Future Blossom Investment Limited[2]	Beneficial owner	58,219,200	5.40%

Notes:

1. The relationship between Freetech Technology, Sze BVI, Freetech Cayman and Mr. Sze is disclosed under the section heading "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares" above.

2. Future Blossom Investment Limited is wholly owned by CICC Growth Capital Fund I, L.P. The general partner of CICC Growth Capital Fund I, L.P. is CICC Growth Capital Fund GP, L.P., which is indirectly wholly owned by China International Capital Corporation Limited. Hence, each of CICC Growth Capital Fund I, L.P., CICC Growth Capital Fund GP, L.P. and China International Capital Corporation Limited is deemed to be interested in the shares held by Future Blossom Investment Limited.

Save as disclosed above, as at 31 December 2018, the directors of the Company are not aware of any other persons (other than the directors of the Company whose interests are set out in the section "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares" above) who held any interests or short positions in the shares, or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

19. SHARE OPTION SCHEME

A share option scheme was adopted by the Company on 7 June 2013 (the "Share Option Scheme") to provide incentives to eligible participants (including employees, executives or officers, directors including non-executive directors and independent non-executive directors, direct or indirect shareholders, business or joint venture partners, advisers, consultants, suppliers, customers and agents of the Company or any of its subsidiaries) for their contribution to the long term growth of the Group and to enable the Company to attract and retain high caliber employees.

Movement of the share options under the Share Option Scheme for the year ended 31 December 2018 are as follows:

Name of participants	Options held at 1 January 2018	Granted during the year	Forfeited during the year	Options held at 31 December 2018	Date of Grant	Exercise period	Exercise price per share	Weighted average share price immediately preceding the exercise date
Directors								
Sze Wan Nga	100,000	–	–	100,000	16/10/2014	16/10/2017–15/10/2019	HK$2.75	N/A
Zhang Yifu	100,000	–	–	100,000	16/10/2014	16/10/2017–15/10/2019	HK$2.75	N/A
Chan Kai King	100,000	–	–	100,000	16/10/2014	16/10/2017–15/10/2019	HK$2.75	N/A
Yeung Sum	50,000	–	–	50,000	16/10/2014	16/10/2017–15/10/2019	HK$2.75	N/A
Tang Koon Yiu Thomas	50,000	–	–	50,000	16/10/2014	16/10/2017–15/10/2019	HK$2.75	N/A
Lau Ching Kwong	50,000	–	–	50,000	16/10/2014	16/10/2017–15/10/2019	HK$2.75	N/A
Continuous contract employees								
In aggregate	1,790,000	–	(260,000)	1,530,000	16/10/2014	16/10/2017–15/10/2019	HK$2.75	N/A
	2,240,000	–	(260,000)	1,980,000				

Further details of the Share Option Scheme are disclosed in note 34 to the financial statements.

20. SHARE AWARD SCHEME

On 7 May 2014, the Company adopted the share award scheme (the "Share Award Scheme") under which shares of the Company (the "Awarded Shares") may be awarded to selected employees (including executive directors) of the Group (the "Selected Employees") pursuant to the terms of the scheme rules and trust deed of the Share Award Scheme. The Share Award Scheme became effective on the adoption date and, unless otherwise terminated or amended, will remain in force for a term of 10 years commencing on the adoption date.

In connection with the implementation of the Share Award Scheme, the Board may from time to time cause to be paid certain funds to the trustee for the purchase of the shares of the Company and instruct the trustee to purchase such shares on The Stock Exchange of Hong Kong Limited and to hold them in trust for the benefit of the employees on and subject to the terms and conditions of the scheme rules and the trust deed of the Share Award Scheme. The trustee shall not exercise any voting right attached in respect of any Awarded Shares held in trust by it under the Share Award Scheme (including but not limited to the returned shares, any bonus shares or scrip shares derived therefrom).

Subject to the provisions of the Share Award Scheme, the Board may, from time to time, grant such number of Awarded Shares to any Selected Employee at no consideration on and subject to such terms and conditions as it may in its absolute discretion determine.

The aggregate number of the Awarded Shares permitted to be awarded under the Share Award Scheme throughout the duration of the Share Award Scheme is limited to 3% of the issued share capital of the Company from time to time. The maximum number of the Awarded Shares which may be awarded to a Selected Employee shall not exceed 1% of the issued share capital of the Company from time to time.

When a Selected Employee has satisfied all vesting conditions, which might include service and/or performance conditions, specified by the Board at the time of making the award and become entitled to the shares of the Company forming the subject of the award, the trustee shall transfer the relevant Awarded Shares to that employee at no consideration. The selected employee however is not entitled to receive any income or distribution, such as dividend derived from the unvested Awarded Shares allocated to him/her. During the year under review, no Awarded Shares were granted to eligible persons under the Share Award Scheme.

Further details of the Share Award Scheme are disclosed in note 35 to the financial statements.

21. DEED OF NON-COMPETITION

The controlling shareholders of the Company, being Freetech Cayman, Sze BVI, Freetech Technology and Mr. Sze (together, the "Controlling Shareholders"), have confirmed to the Company of their compliance with the terms of the non-competition undertaking provided to the Company under a deed of non-competition dated 7 June 2013 (the "Deed"). The independent non-executive directors of the Company have reviewed the confirmation given by the Controlling Shareholders and confirmed that all the undertaking under the Deed have been complied with by the Controlling Shareholders and duly enforced during the year ended 31 December 2018 and up to the date of the Annual Report. None of the new opportunities in any business, which is or may be in competition with the business of any member of the Company and its subsidiaries, that have been referred from any of our Controlling Shareholders under the Deed has been rejected by the Company during the year ended 31 December 2018 and up to the date of the Annual Report.

22. CONNECTED TRANSACTIONS

Reference is made to the announcements of the Company dated 31 August 2015, 14 March 2018, 29 March 2018, 9 May 2018, 6 June 2018 and 1 November 2018, in relation to, among others, the continuing connected transactions between the Group and Tianjin Expressway Group Company Limited* (天津高速公路集團有限公司) ("Tianjin Expressway Group") and its wholly-owned subsidiaries and associates. During the year under review, Tianjin Expressway Maintenance Company Limited* (天津市高速公路養護有限公司) ("Tianjin Expressway Maintenance") is owned as to 55% and 45% by Freetech Smart Road Recycling Engineering Investment Limited (a non-wholly owned subsidiary of the Company) and Tianjin Expressway Group, respectively. As Tianjin Expressway Group is a substantial shareholder of Tianjin Expressway Maintenance, Tianjin Expressway Group and its subsidiaries and associates are connected persons of the Company at the subsidiary level. On 14 March 2018, 29 March 2018, 9 May 2018, 6 June 2018 and 1 November 2018, Tianjin Expressway Maintenance and Tianjin Expressway Group and its wholly-owned subsidiaries and associates finalised and entered into certain services agreements in relation to the renewal of the ongoing transactions of the Group conducted on a regular and continuing basis. Details of the continuing connected transactions are as set out below:

Connected person	Services period	Actual transaction amount during the year (RMB'000)	(HK$'000)	Basis for determining the consideration	Terms of the relevant service agreement
Tianjin Expressway Group	1 April 2018–1 April 2019	79,430	94,054	Note (1)	Note (2)
Tianjin Expressway Group	10 May 2018–19 September 2018	12,273	14,532	Note (1)	Note (3)
Tianjin Expressway Group	10 May 2018 – 19 September 2018	16,878	19,985	Note (1)	Note (3)
Tianjin Xinzan Expressway Co. Ltd. * (天津新展高速公路有限公司)	15 March 2018 – 14 March 2019	1,481	1,754	Note (1)	Note (4)
Tianjin Tian'ang Expressway Co. Ltd.* (天津天昂高速公路有限公司)	April 2018 – October 2018	1,173	1,389	Note (1)	Note (5)
Tianjin Tian'ang Expressway Co. Ltd.* (天津天昂高速公路有限公司)	1 May 2018 – 31 May 2018	423	501	Note (1)	Note (5)
Tianjin Tian'ang Expressway Co. Ltd.* (天津天昂高速公路有限公司)	7 June 2018 – 31 August 2018	12,582	14,899	Note (1)	Note (6)
Tianjin Tian'ang Expressway Co. Ltd.* (天津天昂高速公路有限公司)	11 June 2018 – 2 July 2018	415	491	Note (1)	Note (5)
Tianjin Tian'ang Expressway Co. Ltd.* (天津天昂高速公路有限公司)	15 November 2018 – 14 August 2019	77	91	Note (1)	Note (5)
Tianjin Tian'ang Expressway Co. Ltd.* (天津天昂高速公路有限公司)	5 November 2018 – 4 June 2019	182	216	Note (1)	Note (7)
Tianjin Jinfu Expressway Co. Ltd.* (天津津富高速公路有限公司)	1 June 2018 – 30 June 2018	361	427	Note (1)	Note (4)
Tianjin Tianlang Expressway Co. Ltd.* (天津天朗高速公路有限公司)	5 November 2018 – 31 March 2019	2,310	2,735	Note (1)	Note (8)
Tianjin Expressway Management and Development Co. Ltd.* (天津市高速公路經營開發有限公司)	2 November 2018 – 2 December 2018	2,009	2,379	Note (1)	Note (9)
Tianjin Tianyong Expressway Co. Ltd.* (天津天永高速公路有限公司)	5 November 2018 – 20 December 2018	4,181	4,951	Note (1)	Note (10)

* for identification purpose only

Notes:

(1) The consideration was determined with reference to the pricing guidelines issued by the local government of Tianjin, the consideration of the historical transactions, the market price of raw materials costs and similar services rendered, and the duration and location of the projects. The details of the pricing mechanism are set out below:

The pricing guidelines issued by the local government of Tianjin set out the price references for labour, certain raw materials and machine used in maintenance services projects similar to the projects under the continuing connected transactions. Although the pricing guidelines are not mandatory and there is no requirement for Tianjin Expressway Maintenance to follow the pricing guidelines, Tianjin Expressway Maintenance uses the pricing guidelines for reference only. Furthermore, Tianjin Expressway Maintenance would adjust the labour costs and estimate the raw material costs set out in the pricing guidelines by comparing them with the prevailing market prices of labour costs and raw materials and subject to any recent or anticipated changes in the market that are of the Group's knowledge.

Under the continuing connected transactions, based on the Group's knowledge and extensive experience in the road maintenance and construction sector, the Group was of the view that there were no changes or anticipated changes that could have significantly affected the relevant consideration. Furthermore, the purchasing team of Tianjin Expressway Maintenance conducted market research on the prevailing market prices of raw materials and obtained 8-20 quotes from other raw materials suppliers in Tianjin in determining the consideration.

The consideration was further determined on a cost-plus basis with certain percentage of the profit margin depending on the types of the services provided. Such percentage of the profit margin was determined based on the historical transaction experience of Tianjin Expressway Maintenance which included the recent 20 transactions of daily damages maintenance works performed by the Group.

(2) Provision of daily and damages maintenance services by Tianjin Expressway Maintenance and the consideration shall be paid in the following manners: 30% prepayment upon starting services and thereafter quarterly settlement based on actual volume. The prepayment shall net off against the quarterly settlement.

(3) Provision of renovation maintenance services by Tianjin Expressway Maintenance and the consideration shall be paid in the following manners: 20% of the consideration as prepayment shall be paid upon starting services, 77% of the consideration shall be paid upon completion of the services. The remaining 3% of the consideration shall be paid after 2 years from completion of the provision of the services as warranty deposit.

(4) Provision of daily and damages maintenance/renovation maintenance services by Tianjin Expressway Maintenance and the consideration shall be paid by monthly settlement.

(5) Provision of daily and damages maintenance services by Tianjin Expressway Maintenance and the consideration shall be paid upon completion of the services.

(6) Provision of renovation maintenance services by Tianjin Expressway Maintenance and the consideration shall be paid in the following manners: 10% of the consideration as prepayment shall be paid upon signing of the service agreement, 87% of the consideration shall be paid as progress payment based on the actual volume of the services rendered. The remaining 3% of the consideration shall be paid after 2 years from completion of the provision of the services as warranty deposit.

(7) Provision of daily services by Tianjin Expressway Maintenance and the consideration shall be paid in the following manners: 50% of the consideration shall be paid on 22 November 2018; and the remaining 50% of the consideration shall be paid upon completion of the services rendered.

(8) Provision of daily services by Tianjin Expressway Maintenance and the consideration shall be paid in the following manners: 30% of the consideration as prepayment shall be paid upon signing of the service agreement and 70% of the consideration shall be paid as progress payment based on the actual volume of the services rendered.

(9) Provision of renovation maintenance services by Tianjin Expressway Maintenance and the consideration shall be paid in the following manners: 97% of the consideration shall be paid upon completion of the services rendered, the remaining 3% of the consideration shall be paid after 2 years as warranty deposit.

(10) Provision of renovation maintenance services by Tianjin Expressway Maintenance and the consideration shall be paid in the following manners: 10% of the consideration as prepayment shall be paid upon starting services, 85% of the consideration shall be paid upon completion of the services rendered and the remaining 5% of the consideration shall be paid after 2 years as warranty deposit.

The independent non-executive directors of the Company have, for the purpose of Rule 14A.55 of the Listing Rules, reviewed the continuing connected transactions set out above and have confirmed that these continuing connected transactions have been entered into by the Group (i) in the ordinary and usual course of its business; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) in accordance with the terms of the agreements governing such transactions that are fair and reasonable and in the interest of the Company's shareholders as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the Company's auditors were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transaction under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have not qualified their report in respect of the continuing connected transactions disclosed above by the Group and that they confirmed all the matters as set out in Rule 14.55 of the Listing Rules in respect of the above continuing connected transactions. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

The directors confirmed that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

23. RELATED PARTY TRANSACTIONS

The details of the related party transactions are set out in note 43 to the financial statements. Save for those set out in the above section headed "Connected Transactions" in the Report of the Directors, none of the related party transactions constitute connected transactions under Chapter 14A of the Listing Rules.

24. SUFFICIENCY OF PUBLIC FLOAT

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

25. AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises three independent non-executive directors.

The audit committee has reviewed the financial statements with the management of the Company.

26. AUDITORS

The consolidated financial statements for the year ended 31 December 2018 have been audited by Deloitte Touche Tohmatsu ("Deloitte"), who will retire, and being eligible, offer themselves for re-appointment as auditors of the Company at the forthcoming annual general meeting of the Company. A resolution for the re-appointment of Deloitte as auditors of the Company is to be proposed at the forthcoming annual general meeting of the Company.

Deloitte have been appointed as the auditors of the Company with effect from 22 January 2015 to fill the casual vacancy following the resignation of Messrs. Ernst & Young which took effect from 22 January 2015. Save for the above, there had been no other change in auditors of the Company in any of the preceding three years of this annual report.

27. PERMITTED INDEMNITY PROVISIONS

The Articles of Association of the Company provides that every director of the Company shall be entitled to be indemnified out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them, their or any of their heirs, executors or administrators, shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices or trusts. Directors liability insurance is in place to protect the directors of the Company or its subsidiaries against potential costs and liabilities arising from claims brought against the directors.

28. DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save for those disclosed in the section headed "Share Option Scheme" in this Directors' report in this annual report, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any of the Directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, its holding Company, or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

On behalf of the Board

Mr. Sze Wai Pan
Chairman and Chief Executive Officer
Hong Kong, 28 March 2019

Deloitte. 德勤

TO THE MEMBERS OF FREETECH ROAD RECYCLING TECHNOLOGY (HOLDINGS) LIMITED
英達公路再生科技(集團)有限公司
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Freetech Road Recycling Technology (Holdings) Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 49 to 151, 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, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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 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 judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Impairment on trade receivables and contract assets We identified the impairment on trade receivables and contract assets as a key audit matter due to the significance of trade receivables and contract assets to the Group's consolidated financial position and the involvement of management estimates in evaluating the expected credit losses ("ECL") of the Group's trade receivables and contract assets at the end of the reporting period. As disclosed in note 4 to the consolidated financial statements, the management of the Group estimates the amounts of lifetime ECL of trade receivables and contract assets based on provision matrix through grouping of various debtors that have similar loss patterns, after considering internal credit ratings of trade debtors and contract assets, ageing, repayment history and/or past due status of respective trade receivables and contract assets. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information. In addition, trade receivables and contract assets that are credit impaired are assessed for ECL individually. The loss allowance amounts of the credit impaired trade receivables and contract assets are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit losses. As disclosed in notes 24, 26 and 41 respectively to the consolidated financial statements, the Group had trade receivables and contract assets of approximately HK$471 million and HK$379 million respectively, and the balance of loss allowance of trade receivable and contract assets were approximately HK$344 million and HK$83 million respectively as at 31 December 2018.	Our procedures in relation to the impairment assessment of trade receivables and contract assets included: • Understanding key controls on how the management estimates the loss allowance for trade receivables and contract assets; • Testing the integrity of information used by management to develop the provision matrix, including trade receivables and contract assets ageing analysis as at 31 December 2018, on a sample basis, by comparing individual items in the analysis with the relevant sales agreements, sales invoices and other supporting documents; • Challenging management's basis and judgement in determining credit loss allowance on trade receivables and contract assets as at 31 December 2018, including their identification of credit impaired trade receivables and contract assets, the reasonableness of management's grouping of the remaining trade debtors and contract assets into different categories in the provision matrix, and the basis of estimated loss rates applied in each category in the provision matrix (with reference to historical default rates and forward-looking information); • Evaluating the disclosures regarding the impairment assessment of trade receivables and contract assets in notes 24, 26 and 41 to the consolidated financial statements; and • Testing subsequent settlements of credit impaired trade receivables, on a sample basis, by inspecting supporting documents in relation to cash receipt from trade debtors subsequent to the end of the current reporting period.

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Lo Kin Cheong.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	**2018 HK$'000**	2017 HK$'000
Revenue	5	**522,433**	475,528
Cost of sales		**(420,334)**	(361,989)
Gross profit		**102,099**	113,539
Other income	7	**9,688**	9,371
Other gains and losses	8	**(7,359)**	(112,109)
Impairment losses, net of reversal	10	**(135,955)**	(157,902)
Changes in fair value of investment property		**21,076**	42,418
Selling and distribution costs		**(17,848)**	(19,995)
Administrative expenses		**(78,431)**	(95,175)
Research and development costs		**(12,122)**	(14,234)
Other expenses		**(839)**	(722)
Share of losses of joint ventures		**(4,213)**	(31,331)
Finance costs	9	**(7,378)**	(6,107)
Loss before taxation		**(131,282)**	(272,247)
Taxation	11	**(13,083)**	(15,835)
Loss for the year		**(144,365)**	(288,082)
Other comprehensive (expense) income			
Items that will not be reclassified to profit or loss:			
Fair value loss on investments in equity instruments at fair value through other comprehensive income ("FVTOCI")		**(844)**	–
Transferred to retained earnings on disposal of equity instrument at FVTOCI		**385**	–
Exchange differences arising from translation		**(39,143)**	76,763
Other comprehensive (expense) income for the year		**(39,602)**	76,763
Total comprehensive expense for the year		**(183,967)**	(211,319)
Loss for the year attributable to:			
Owners of the Company		**(139,130)**	(265,004)
Non-controlling interests		**(5,235)**	(23,078)
		(144,365)	(288,082)
Total comprehensive expense attributable to:			
Owners of the Company		**(177,284)**	(194,299)
Non-controlling interests		**(6,683)**	(17,020)
		(183,967)	(211,319)
Loss per share	15		
— Basic		**HK(13.11) cents**	HK(24.96) cents
— Diluted		**HK(13.11) cents**	HK(24.96) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment	16	**174,002**	196,904
Goodwill	19	**6,150**	6,881
Prepaid lease payments	17	**9,900**	10,747
Investment property	18	**229,281**	218,018
Other intangible assets	20	**354**	540
Prepayments and deposits for acquisition of land use rights		**36,762**	38,748
Interests in joint ventures	21	**29,846**	35,075
Deferred tax assets	31	**1,422**	2,284
Equity instruments at FVTOCI	23	**6,955**	–
Available-for-sale investments	23	**–**	13,652
Contract assets	26	**20,577**	–
Trade receivables-non-current	24	**–**	43,782
		515,249	566,631
Current assets			
Inventories	27	**47,496**	44,407
Bills and trade receivables	24	**131,072**	552,301
Contract assets	26	**276,163**	–
Prepayments, deposits and other receivables	25	**70,219**	69,336
Prepaid lease payments	17	**290**	306
Financial assets at fair value through profit or loss ("FVTPL")	22	**11,417**	–
Time deposits	28	**1,976**	15,914
Pledged bank deposits	28	**24,432**	5,698
Structured bank deposits	28	**–**	38,919
Bank balances and cash	28	**154,614**	200,037
		717,679	926,918

At 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Current liabilities			
Bills, trade and other payables	29	**346,530**	336,836
Contract liabilities	30	**2,035**	–
Taxation payable		**6,412**	2,795
Bank borrowings	32	**123,012**	153,754
		477,989	493,385
Net current assets		**239,690**	433,533
Total assets less current liabilities		**754,939**	1,000,164
Non-current liabilities			
Deferred tax liabilities	31	**25,535**	21,358
		729,404	978,806
Capital and reserves			
Share capital	33	**107,900**	107,900
Reserves		**594,779**	794,661
Attributable to owners of the Company		**702,679**	902,561
Non-controlling interests		**26,725**	76,245
Total equity		**729,404**	978,806

The consolidated financial statements on pages 49 to 151 were approved and authorised for issue by the board of directors on 28 March 2019 and are signed on its behalf by:

Mr. Sze Wai Pan
DIRECTOR

Ms. Sze Wan Nga
DIRECTOR

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	Shares held under the share award scheme HK$'000 (Note c)	Contributed surplus HK$'000 (Note a)	Reserve funds HK$'000 (Note b)	Share-based compensation reserve HK$'000	Foreign currency translation reserve HK$'000	Retained earnings HK$'000	Investment revaluation reserve HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2017	107,900	732,463	(26,584)	25,328	85,550	835	(106,754)	277,967	–	1,096,705	93,265	1,189,970
Loss for the year	–	–	–	–	–	–	–	(265,004)	–	(265,004)	(23,078)	(288,082)
Other comprehensive income for the year	–	–	–	–	–	–	70,705	–	–	70,705	6,058	76,763
Total comprehensive income (expense) for the year	–	–	–	–	–	–	70,705	(265,004)	–	(194,299)	(17,020)	(211,319)
Transfer from retained earnings	–	–	–	–	3,593	–	–	(3,593)	–	–	–	–
Transfer of share-based compensation reserve upon forfeiting of share options	–	–	–	–	–	(400)	–	400	–	–	–	–
Equity settled share option arrangements (note 34)	–	–	–	–	–	155	–	–	–	155	–	155
At 31 December 2017	107,900	732,463	(26,584)	25,328	89,143	590	(36,049)	9,770	–	902,561	76,245	978,806
Adjustments (note 2)	–	–	–	–	–	–	–	(23,047)	449	(22,598)	(42,837)	(65,435)
At 1 January 2018 (restated)	**107,900**	**732,463**	**(26,584)**	**25,328**	**89,143**	**590**	**(36,049)**	**(13,277)**	**449**	**879,963**	**33,408**	**913,371**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(139,130)**	**–**	**(139,130)**	**(5,235)**	**(144,365)**
Other comprehensive (expense) income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**(37,695)**	**385**	**(844)**	**(38,154)**	**(1,448)**	**(39,602)**
Total comprehensive expense for the year	**–**	**–**	**–**	**–**	**–**	**–**	**(37,695)**	**(138,745)**	**(844)**	**(177,284)**	**(6,683)**	**(183,967)**
Transfer from retained earnings	**–**	**–**	**–**	**–**	**2,199**	**–**	**–**	**(2,199)**	**–**	**–**	**–**	**–**
Transfer of share-based compensation reserve upon forfeiting of share options	**–**	**–**	**–**	**–**	**–**	**(120)**	**–**	**120**	**–**	**–**	**–**	**–**
At 31 December 2018	**107,900**	**732,463**	**(26,584)**	**25,328**	**91,342**	**470**	**(73,744)**	**(154,101)**	**(395)**	**702,679**	**26,725**	**729,404**

For the year ended 31 December 2018

Notes:

(a) The contributed surplus represents the difference between the Company's shares of the nominal value of the paid-up capital of the subsidiaries acquired over the Company's cost of acquisition of the subsidiaries under common control upon the reorganisation, details of which are set out under the section "History and Corporate Structure" to the Company's prospectus dated 14 June 2013.

(b) Pursuant to the relevant laws and regulations, a portion of the profits of the Company's subsidiaries which are established in the PRC has been transferred to reserve funds which are restricted to use.

(c) The amount represents payments by the Group to the trustee of the Share Award Scheme (as defined in note 35), net off with the vested portion to selected employees who have been awarded shares under the Share Award Scheme. Details of the Share Award Scheme is set out in note 35.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
Operating activities		
Loss before taxation	**(131,282)**	(272,247)
Adjustments for:		
Interest income	**(6,828)**	(5,813)
Finance costs	**7,378**	6,107
Share of losses of joint ventures	**4,213**	31,331
Depreciation	**31,853**	50,871
Amortisation of prepaid lease payments	**290**	306
Amortisation of other intangible assets	**165**	144
Loss on disposal of property, plant and equipment	**7,325**	900
Impairment loss on property, plant and equipment	**–**	100,458
Impairment loss recognised in respect of goodwill	**731**	7,819
Impairment loss, net of reversal		
— trade receivables	**76,745**	157,510
— contract assets	**55,707**	–
— other receivables	**3,503**	392
Changes in fair value of investment property	**(21,076)**	(42,418)
Dividend income from equity instruments at FVTOCI	**(662)**	–
Share-based payment expense	**–**	155
Unrealised exchange differences	**16,663**	4,250
Operating cash flows before movements in working capital	**44,725**	39,765
Increase in inventories	**(5,604)**	(11,608)
Increase in bills and trade receivables	**(67,053)**	(60,792)
Decrease in contract assets	**36**	–
(Increase) decrease in prepayments, deposits and other receivables	**(85)**	50,130
Increase in contract liabilities	**361**	–
Increase in bills, trade and other payables	**20,375**	30,314
Cash (used in) generated from operations	**(7,245)**	47,809
Interest paid	**(7,378)**	(6,107)
Income tax paid	**(3,632)**	(2,491)
Net cash (used in) from operating activities	**(18,255)**	39,211

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
Investing activities		
Interest received	**6,828**	5,813
Purchase of equity instrument at FVTOCI	**(1,933)**	–
Dividend income from equity instruments at FVTOCI	**662**	–
Proceeds on disposal of property, plant and equipment	**81**	570
Purchase of property, plant and equipment	**(30,994)**	(15,552)
Purchase of available-for-sale investments	**–**	(4,805)
Purchase of investment property	**(2,369)**	(86,592)
Placement of pledged bank deposits	**(23,293)**	(3,624)
Withdrawal of pledged bank deposits	**4,559**	44,771
Placement of structured bank deposits	**(11,417)**	(38,919)
Withdrawal of structured bank deposits	**38,919**	1,229
Investments in joint ventures	**–**	(16,576)
Purchase of other intangible assets	**–**	(194)
Placement of time deposits	**–**	(15,914)
Withdrawal of time deposits	**13,938**	3,016
Net cash used in investing activities	**(5,019)**	(126,777)
Financing activities		
Bank borrowings raised	**127,883**	206,348
Repayments of bank borrowings	**(151,565)**	(195,055)
Net cash (used in) from financing activities	**(23,682)**	11,293
Net decrease in cash and cash equivalents	**(46,956)**	(76,273)
Cash and cash equivalents at the beginning of the year	**200,037**	275,119
Effects of exchange rate changes on the balance of cash held in foreign currencies	**1,533**	1,191
Cash and cash equivalents at the end of the year, represented by bank balances and cash	**154,614**	200,037

1. GENERAL

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 8 June 2011 under the Companies Law, Chapter 22 of the Cayman Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company. Its subsidiaries (the Company and its subsidiaries are collectively referred to as the "Group") are principally engaged in the manufacturing and sale of road maintenance equipment and provision of road maintenance services in the People's Republic of China (the "PRC"). Details of its subsidiaries are set out in note 44.

The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") on 26 June 2013.

The Company's functional currency is Renminbi ("RMB"). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"). The directors of the Company consider that the presentation of the consolidated financial statements in HK$ is more appropriate for a company listed in Hong Kong and for the convenience of the shareholders of the Company.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

2.1 New and Amendments to HKFRSs that are mandatorily effective for the current year

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

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

Except as described below, the application of the above new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

2.1 New and Amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

2.1.1 HKFRS 15 Revenue from Contracts with Customers

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

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained earnings (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected at the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue* and HKAS 11 *Construction Contracts* and the related interpretations.

The Group recognises revenue from the following major sources:

- Provision of maintenance services; and
- Manufacturing and sale of road maintenance equipment.

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 5 and 3 respectively.

Summary of effects arising from initial application of HKFRS 15

The application of HKFRS 15 has no impact on the timing and amounts of revenue recognised in the retained earnings at 1 January 2018.

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

2.1 New and Amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

2.1.1 HKFRS 15 Revenue from Contracts with Customers *(Continued)*

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

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

	Notes	Carrying amounts previously reported at 31 December 2017 HK$'000	Reclassification HK$'000	Carrying amounts under HKFRS 15 at 1 January 2018* HK$'000
Non-current Assets				
Trade receivables-non-current	(a)	43,782	(43,782)	–
Contract assets	(a)	–	43,782	43,782
Current Assets				
Bills and trade receivables	(a)	552,301	(286,248)	266,053
Contract assets	(a)	–	286,248	286,248
Current Liabilities				
Bills, trade and other payables	(b)	336,836	(1,674)	335,162
Contract liabilities	(b)	–	1,674	1,674

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

Notes:

(a) At the date of initial application, unbilled revenue of HK$330,030,000 arising from sales of equipment contracts and maintenance services contracts are conditional on the Group's achieving specified milestones as stipulated in the contracts, and hence such balance was reclassified from trade receivables-non-current and bills and trade receivables to contract assets.

(b) As at 1 January 2018, advance from customers of HK$1,674,000 in respect of sales of equipment contracts, previously included in bills, trade and other payables, were reclassified to contract liabilities.

The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and its consolidated statement of cash flows for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

2.1 New and Amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

2.1.1 HKFRS 15 Revenue from Contracts with Customers *(Continued)*

Impact on the consolidated statement of financial position

	As reported HK$'000	Adjustments HK$'000	Amounts without application of HKFRS 15 HK$'000
Non-current Assets			
Trade receivables-non-current	–	20,577	20,577
Contract assets	20,577	(20,577)	–
Current Assets			
Bills and trade receivables	131,072	276,163	407,235
Contract assets	276,163	(276,163)	–
Current Liabilities			
Bills, trade and other payables	346,530	2,035	348,565
Contract liabilities	2,035	(2,035)	–

Impact on the consolidated statement of cash flows

	As reported HK$'000	Adjustments HK$'000	Amounts without application of HKFRS 15 HK$'000
OPERATING ACTIVITIES			
Increase in bills and trade receivables	(67,053)	36	(67,017)
Decrease in contract assets	36	(36)	–
Increase in trade and other payables	20,375	361	20,736
Increase in contract liabilities	361	(361)	–
Cash used in operations	**(7,245)**	**–**	**(7,245)**
Net cash used in operating activities	**(18,255)**	**–**	**(18,255)**

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

2.1 New and Amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

2.1.2 HKFRS 9 Financial Instruments

In the current year, the Group has applied HKFRS 9 *Financial Instruments* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

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

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

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

Summary of effects arising from initial application of HKFRS 9

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

	Notes	Available-for-sale investments HK$'000	Equity instruments at FVTOCI HK$'000	Structured bank deposits HK$'000	Financial assets at FVTPL required by HKFRS9 HK$'000	Investment revaluation reserve HK$'000	Bills and trade receivables HK$'000	Trade receivables — non-current HK$'000	Contract assets HK$'000	Retained earnings HK$'000	Non-controlling interests HK$'000
Closing balance at 31 December 2017 — HKAS 39		13,652	–	38,919	–	–	552,301	43,782	–	9,770	76,245
Effect arising from initial application of HKFRS 15		–	–	–	–	–	(286,248)	(43,782)	330,030	–	–
Effect arising from initial application of HKFRS 9:											
Reclassification of											
From available-for-sale investments	(a)	(13,652)	13,652	–	–	–	–	–	–	–	–
From structured bank deposits	(b)	–	–	(38,919)	38,919	–	–	–	–	–	–
Remeasurement											
Impairment under ECL model	(c)	–	–	–	–	–	(32,630)	–	(33,254)	(23,047)	(42,837)
From amortised cost to fair value	(a)	–	449	–	–	449	–	–	–	–	–
Opening balance at 1 January 2018		–	14,101	–	38,919	449	233,423	–	296,776	(13,277)	33,408

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

2.1 New and Amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

2.1.2 HKFRS 9 Financial Instruments *(Continued)*

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

Notes:

(a) Available-for-sale ("AFS") investments

From AFS equity investments to FVTOCI

The Group elected to present in other comprehensive income ("OCI") for the fair value changes of all its equity investments previously classified as available-for-sale investments. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, HK$13,652,000 were reclassified from available-for-sale investments to equity instruments at FVTOCI, of which HK$13,652,000 related to unquoted equity investments previously measured at cost less impairment under HKAS 39. The fair value gains of HK$449,000 relating to those investments previously carried at fair value continued to accumulate in investment revaluation reserve.

(b) Structured bank deposits

At the date of initial application of HKFRS 9, the Group's structured bank deposits did not meet the HKFRS 9 criteria for classification at amortised cost and FVTOCI, as their cash flows did not represent solely payments of principal and interest. As a result, the carrying amounts of structured bank deposits of HK$38,919,000 were reclassified to financial assets at FVTPL.

(c) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all contract assets and trade receivables. Except for those which had been determined as credit impaired under HKAS 39, the balances of contract assets and trade receivables are grouped based on internal credit rating. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore estimated the expected loss rates for the trade receivables and the contract assets on the same basis.

ECL for other financial assets at amortised cost, including other receivables, time deposits, pledged bank deposits and bank balances are assessed on 12-month ECL ("12m ECL") basis as there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, the additional credit loss allowance of HK$65,884,000 has been recognised against retained earnings and non-controlling interests. The additional loss allowance is charged against the respective asset.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

2.1 New and Amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

2.1.2 HKFRS 9 Financial Instruments *(Continued)*

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

Notes: (Continued)

(c) Impairment under ECL model (Continued)

All loss allowance, including contract assets and trade receivables as at 31 December 2017 reconcile to the opening loss allowance as at 1 January 2018 are as follows:

	Contract assets HK$'000	**Trade receivables** HK$'000
At 31 December 2017 — HKAS 39	N/A	249,099
Amounts remeasured through opening retained earnings	33,254	32,630
At 1 January 2018	33,254	281,729

2.1.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards, amendments and interpretations

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	31 December 2017 (Audited) HK$'000	HKFRS 15 HK$'000	HKFRS 9 HK$'000	1 January 2018 (Restated) HK$'000
Non-current Assets				
Available-for-sale investments	13,652	–	(13,652)	–
Equity instruments at FVTOCI	–	–	14,101	14,101
Trade receivables-non-current	43,782	(43,782)	–	–
Contract assets	–	43,782	–	43,782
Others with no adjustments	509,197	–	–	509,197
	566,631	–	449	567,080
Current assets				
Bills and trade receivables	552,301	(286,248)	(32,630)	233,423
Contract assets	–	286,248	(33,254)	252,994
Structured bank deposits	38,919	–	(38,919)	–
Financial assets at FVTPL	–	–	38,919	38,919
Others with no adjustments	335,698	–	–	335,698
	926,918	–	(65,884)	861,034

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

2.1 New and Amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

2.1.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards, amendments and interpretations *(Continued)*

	31 December 2017 (Audited) HK$'000	HKFRS 15 HK$'000	HKFRS 9 HK$'000	1 January 2018 (Restated) HK$'000
Current Liabilities				
Bills, trade and other payables	336,836	(1,674)	–	335,162
Contract liabilities	–	1,674	–	1,674
Others with no adjustments	156,549	–	–	156,549
	493,385	–	–	493,385
Net Current Assets	433,533	–	(65,884)	367,649
Total assets less current liabilities	1,000,164	–	(65,435)	934,729
Non-current liabilities				
Others with no adjustments	21,358	–	–	21,358
Net assets	978,806	–	(65,435)	913,371
Capital and Reserves				
Share capital	107,900	–	–	107,900
Reserves	794,661	–	(22,598)	772,063
Equity attributable to owners of the Company	902,561	–	(22,598)	879,963
Non-controlling interests	76,245	–	(42,837)	33,408
Total Equity	978,806	–	(65,435)	913,371

Note: For the purposes of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2018 as disclosed above.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

2.2 New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[3]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Amendments to HKFRS 3	*Definition of a Business*[4]
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*[2]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[5]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
Amendments to HKFRSs	*Annual Improvements to HKFRSs 2015–2017 Cycle*[1]

1 Effective for annual periods beginning on or after 1 January 2019

2 Effective for annual periods beginning on or after a date to be determined

3 Effective for annual periods beginning on or after 1 January 2021

4 Effective for business combinations and assets acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

5 Effective for annual periods beginning on or after 1 January 2020

Except for the new HKFRS mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 16 *Leases*

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

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

2.2 New and amendments to HKFRSs in issue but not yet effective *(Continued)*

HKFRS 16 *Leases* *(Continued)*

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

Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows respectively by the Group.

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

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK$5,361,000 as disclosed in note 37. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK$513,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right- of-use assets.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained earnings without restating comparative information.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards 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 and by the Hong Kong Companies Ordinance.

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

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

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

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

For investment properties which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

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)*

Basis of consolidation

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

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

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

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

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

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

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, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Changes in the Group's interests in existing subsidiaries *(Continued)*

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.

Business combinations

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

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

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

- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date; 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 amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount 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)*

Business combinations *(Continued)*

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary'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 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 (i.e. the date when the Group obtains control), 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.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or groups of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or groups of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash- generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

The Group's policy for goodwill arising on the acquisition of a joint venture is described below.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in joint ventures

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

The results and assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture. Changes in net assets of the joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former joint venture and the retained interest is a financial asset within the scope of HKFRS 9/HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the joint venture and the fair value of any retained interest and any proceeds from disposing the relevant interest in the joint venture is included in the determination of the gain or loss on disposal of the joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that joint venture on the same basis as would be required if that joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in joint ventures *(Continued)*

The Group continues to use the equity method when an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

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

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

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

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

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

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

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

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2) *(Continued)*

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

Output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

Existence of significant financing component

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

For contracts where the period between payment and transfer of the associated goods or services is less than one year, the Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

For contracts where the Group transferred the associated goods or services before payments from customers in which the Group adjusts for the promised amount of consideration for significant financing components, the Group applies a discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. The Group recognises interest income during the period between the payment from customers and the transfer of the associated goods or services, and accounts receivables due over one year.

Revenue recognition (prior to 1 January 2018)

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition (prior to 1 January 2018) *(Continued)*

- 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.

Revenue from services is recognised in the period in which the services are rendered.

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 from a financial asset is accrued on a time apportionment 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.

Leases

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, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land for own use

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its 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 that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on the settlement of monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see the accounting policies below); and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the group entities are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve (attributed to non-controlling interests as appropriate).

On disposal of a group entity that is not a foreign operation, the exchange differences accumulated in equity relating to the translation of assets and liabilities of that group entity into presentation currency of the Group are transferred to retained earnings.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

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

Short-term benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Equity-settled share-based payment transactions

The Company operates a share option scheme and a share award plan for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled share-based payments").

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity.

At the end of each reporting period, the Group revises its estimates of the number of options and awards that are expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with corresponding adjustments to share-based compensation reserve.

For share options and awards that vest immediately at the date of grant, the fair value of the share options and awards granted is expensed immediately to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Equity-settled share-based payment transactions *(Continued)*

When share options are exercised, the amount previously recognised in share-based compensation reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share-based compensation reserve will be transferred to retained earnings.

Where the Company's employee share trust purchases shares from the market, the consideration paid, including any directly attributable incremental costs is presented as "shares held under the share award scheme" and presented as a deduction against equity attributable to the Company's equity holders.

When the awarded shares are transferred to the awardees upon vesting, the related cost of the awarded shares previously recognised in "shares held under the share award scheme", and the related employment costs of the awarded shares previously recognised in "share-based compensation reserve" are transferred to retained earnings.

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/loss before taxation because 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 difference 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. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, and interests in joint ventures, 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 the 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 realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis. 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 is 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 the business combination.

Property, plant and equipment

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including properties under construction for such purposes).

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are classified and accounted for as investment properties and are measured using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Internally-generated intangible assets — 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 (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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets *(Continued)*

Internally-generated intangible assets — research and development expenditure *(Continued)*

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 assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the 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.

Impairment of tangible and intangible assets other than goodwill

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

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

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generated unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

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

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

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

Interest/dividend income which are derived from the Group's ordinary course of business are presented as revenue.

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (Continued)

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

A financial asset is classified as held for trading if:

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

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit- impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the investment revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained earnings.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (Continued)

(iii) Financial assets at FVTPL

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

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

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including bills and trade receivables and other receivables, time deposits, pledged bank deposits and bank balances) and contract assets. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

The Group always recognises lifetime ECL for bills and trade receivables and contract assets without significant financing component. The ECL on these assets are assessed collectively using a provision matrix with appropriate groupings.

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

(i) Significant increase in credit risk

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (Continued)

(i) Significant increase in credit risk (Continued)

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

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

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

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (Continued)

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit- impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (Continued)

(v) Measurement and recognition of ECL (Continued)

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables are each assessed as a separate group.);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

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

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

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

The Group's financial assets are classified into the following specified categories: AFS financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

(i) AFS financial assets

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

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably are measured at cost less any identified impairment losses at the end of each reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018) (Continued)

(ii) Loans and receivables

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

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

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

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

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For loans and receivables, the objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation, or disappearance of an active market for that financial asset because of financial difficulties.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018) (Continued)

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

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

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

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

Derecognition of financial assets

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

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI upon application of HKFRS 9, the cumulative gain or loss previously accumulated in the investment revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

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

Financial liabilities at amortised cost

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

Derecognition of financial liabilities

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

4. CRITICAL ACCOUNTING JUDGMENT 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 judgments, 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.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Deferred taxation on investment property

For the purpose of measuring deferred tax liabilities arising from investment property that are measured using the fair value model, the directors of the Company have reviewed the Group's investment property portfolios and concluded that the Group's investment property is held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time. Therefore, in determining the Group's deferred taxation on investment property, the directors of the Company have determined that the presumption that the carrying amounts of investment property measured using the fair value model are recovered through sale is rebutted.

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

Critical judgements in applying accounting policies *(Continued)*

Deferred taxation on investment property *(Continued)*

Accordingly, the Group recognises deferred tax in respect of the changes in fair value of the investment property based on director's best estimate assuming future tax consequences through usage of such property for rental purpose, rather than through sale. The final tax outcome could be different from the deferred tax liabilities recognised in the consolidated financial statements should the investment property is subsequently disposed by the Group, rather than consumed substantially all of the economic benefits embodied in the investment property by leasing over time. In the event the investment property is being disposed, the Group may be liable to higher tax upon disposal considering the impact of enterprise income tax and land appreciation tax.

Key sources of estimation uncertainty

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

Provision of ECL for trade receivables and contract assets

The management of the Group estimates the amounts of lifetime ECL of trade receivables and contract assets based on provision matrix through grouping of various debtors that have similar loss patterns, after considering internal credit ratings of trade debtors and contract assets, ageing, repayment history and/or past due status of respective trade receivables and contract assets. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information. In addition, trade receivables and contract assets that are credit impaired are assessed for ECL individually. The loss allowance amounts of the credit impaired trade receivables and contract assets are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit losses.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables and contract assets are disclosed in notes 24, 26 and 41 respectively.

Useful lives and residual value of property, plant and equipment, and impairment of property, plant and equipment

The Group's management determines the residual values, useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual residual value and useful lives of property, plant and equipment of similar nature and functions and may vary significantly as a result of technical innovations and keen competitions from competitors, resulting in higher depreciation charge and/or write-off or write-down of technically obsolete assets when residual value or useful lives are less than previously estimated.

In assessing the impairment of property, plant and equipment, the Group is required to estimate the recoverable amount of those assets. The recoverable amount, which is determined by the higher of the value-in-use calculation and fair value less cost of disposal, requires the Group to estimate the future cash flows expected to arise from those tangible assets and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which result in downward revision of future cash flows, a material impairment loss/further impairment loss may arise.

At 31 December 2018, the carrying amount of property, plant and equipment amounted to approximately HK$174,002,000 (2017: HK$196,904,000), details of which are set out in note 16.

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

Key sources of estimation uncertainty *(Continued)*

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating unit to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

As at 31 December 2018, the carrying amount of goodwill was HK$6,150,000 (2017: HK$6,881,000), details of which are set out in note 19.

Allowance for inventories

The management reviews the aging analysis of inventories of the Group and makes provision for obsolete inventory items. The management estimates the net realisable value for such inventories primarily based on the latest invoice prices and current market conditions. A considerable amount of judgement is required in assessing the ultimate realisation of these inventories. If the market conditions were to change, resulting in a change of provision for obsolete items, the difference will be recorded in the period when it is identified. Inventories are stated at the lower of cost and net realisable value. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of selling expenses. As at 31 December 2018, the carrying amount of inventories was HK$47,496,000 (2017: carrying amount of HK$44,407,000).

Fair value of investment property

At the end of the reporting period, investment property is stated at fair value based on the valuation performed by independent professional valuers. In determining the fair value of investment property, the Group uses valuation techniques that use inputs which are not based on observable market data including the capitalization rate, monthly market rent and the best use of the property. Please refer to note 18 for details of valuation techniques, inputs and assumptions used in estimating the fair value of investment property. The carrying amounts of investment properties at 31 December 2018 was HK$229,281,000 (2017: carrying amount of HK$218,018,000).

For the year ended 31 December 2018

5. REVENUE

A. For the year ended 31 December 2018

(i) Disaggregation of revenue from contracts with customers

Segments	For the year ended 31 December 2018		
	Maintenance Service HK$'000	Sales of equipment HK$'000	Total HK$'000
Types of goods			
Maintenance Service			
"Hot-in-place" Projects	265,755	–	265,755
Non-"Hot-in-place" Projects	202,253	–	202,253
Sales of equipment			
Standard series	–	48,722	48,722
Repair and maintenance	–	5,703	5,703
Total	468,008	54,425	522,433
Geographical markets			
Mainland China	468,008	44,160	512,168
Overseas	–	10,265	10,265
Total	468,008	54,425	522,433
Timing of revenue recognition			
A point in time	–	54,425	54,425
Over time	468,008	–	468,008
Total	468,008	54,425	522,433

(ii) Performance obligations for contracts with customers

Maintenance Services (with milestone payments)

The Group provides asphalt pavement maintenance ("APM") services to customers. Such services are recognised as a performance obligation satisfied over time as the Group creates or enhances an asset that the customer controls as the asset is created or enhanced. Revenue is recognised for these APM services based on the stage of completion of the contract using output method.

The Group's APM services contracts include payment schedules which require stage payments over the APM services period once certain specified milestones are reached. The Group requires certain customers to provide upfront deposits range from 10% to 30% of total contract sum, when the Group receives a deposit before APM services commences, this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the specific contract exceeds the amount of the deposit.

5. REVENUE *(Continued)*

A. For the year ended 31 December 2018 *(Continued)*

(ii) Performance obligations for contracts with customers *(Continued)*

Maintenance Services (with milestone payments) (Continued)

A contract asset, net of contract liability related to the same contract, is recognised over the period in which the APM services are performed representing the Group's right to consideration for the services performed because the rights are conditioned on the Group's future performance in achieving specified milestones. The contract assets are transferred to trade receivables when the rights become unconditional. The Group's typical timing of transferring the contract assets to trade receivables is ranging from three months to one year.

Retention receivables, prior to expiration of defect liability period, are classified as contract assets, which ranges from one to two years from the date of the practical completion of the APM services. The relevant amount of contract asset is reclassified to trade receivables when the defect liability period expires. The defect liability period serves as an assurance that the APM services performed comply with agreed- upon specifications and such assurance cannot be purchased separately.

Sales of equipment (revenue recognised at one point in time)

For sales of equipment, revenue is recognised when control of the equipment has transferred, being at the point when the equipment has been shipped to the customer's specific location (delivery), being at the point that the customer obtains the control of the equipment and the Group has present right to payment and collection of the consideration is probable. The normal credit term of the standard series equipment is 7 days upon delivery. The normal credit term of the modular series equipment is 6 months to 12 months upon delivery with upfront deposits range from 10% to 30%.

Sales-related warranties associated with equipment cannot be purchased separately and they serve as an assurance that the products sold comply with agreed-upon specifications. Accordingly, the Group accounts for warranties in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* consistent with its previous accounting treatment.

B. For the year ended 31 December 2017

	2017 HK$'000
Maintenance services-"Hot-in-Place" Projects	267,734
Maintenance services-Non-"Hot-in-Place" Projects	163,872
Sale of equipment-Standard series	40,869
Sale of equipment-Repair and maintenance	3,053
	475,528

6. OPERATING SEGMENTS

HKFRS 8 *Operating Segments* requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the executive directors, the chief operating decision maker (the "CODM"), in order to allocate resources to the segments and to assess their performance. The Group's operating and reportable segments are as follows:

Maintenance services — Provision of road maintenance services

Sale of equipment — Manufacturing and sale of road maintenance equipment

Segment revenue and results

	Maintenance services HK$'000	Sale of equipment HK$'000	Consolidated Total HK$'000
For the year ended 31 December 2018			
Segment revenue:			
Sales to external customers	468,008	54,425	522,433
Intersegment sales	24,601	17,391	41,992
	492,609	71,816	564,425
Reconciliation			
Elimination of intersegment sales	(24,601)	(17,391)	(41,992)
Revenue	468,008	54,425	522,433
Segment results	(61,618)	(68,056)	(129,674)
Reconciliation:			
Interest income			6,828
Changes in fair value of investment property			21,076
Exchange gains			722
Finance costs			(7,378)
Unallocated corporate expenses			(18,643)
Share of losses of joint ventures			(4,213)
Loss before tax			(131,282)

6. OPERATING SEGMENTS *(Continued)*

Segment revenue and results *(Continued)*

	Maintenance services HK$'000	Sale of equipment HK$'000	Consolidated Total HK$'000
For the year ended 31 December 2017			
Segment revenue:			
Sales to external customers	431,606	43,922	475,528
Intersegment sales	8,368	18,441	26,809
	439,974	62,363	502,337
Reconciliation			
Elimination of intersegment sales	(8,368)	(18,441)	(26,809)
Revenue	431,606	43,922	475,528
Segment results	(255,893)	(8,221)	(264,114)
Reconciliation:			
Interest income			5,813
Changes in fair value of investment property			42,418
Exchange losses			(2,932)
Finance costs			(6,107)
Unallocated corporate expenses			(15,994)
Share of losses of joint ventures			(31,331)
Loss before tax			(272,247)

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

The accounting policies of the operating and reportable segments information are the same as the Group's accounting policies described in note 3. Segment results represent the profit earned by each segment without allocation of head office and corporate expenses, changes in fair value of investment property, interest income, exchange gains and losses, share of profits or losses of joint ventures and finance costs. This is the measure reported to CODM for the purposes of resource allocation and assessment of segment performance.

For the year ended 31 December 2018

6. OPERATING SEGMENTS *(Continued)*

Segment assets and liabilities

	Maintenance services HK$'000	Sale of equipment HK$'000	Consolidated Total HK$'000
As at 31 December 2018			
Segment assets	**622,500**	**271,007**	**893,507**
Elimination of intersegment receivables			**(166,884)**
Investments in joint ventures			**29,846**
Investment property			**229,281**
Other unallocated assets			**247,178**
Total assets			**1,232,928**
Segment liabilities	**467,916**	**47,065**	**514,981**
Elimination of intersegment payables			**(166,884)**
Other unallocated liabilities			**155,427**
Total liabilities			**503,524**
As at 31 December 2017			
Segment assets	742,931	328,751	1,071,682
Elimination of intersegment receivables			(154,226)
Investments in joint ventures			35,075
Investment property			218,018
Other unallocated assets			323,000
Total assets			1,493,549
Segment liabilities	429,633	61,366	490,999
Elimination of intersegment payables			(154,226)
Other unallocated liabilities			177,970
Total liabilities			514,743

6. OPERATING SEGMENTS *(Continued)*

Other segment information (included in the measure of segment results and segment assets)

	Maintenance services HK$'000	Sale of equipment HK$'000	Consolidated Total HK$'000
For the year ended 31 December 2018			
Impairment losses recognised in respect of trade receivables, contract assets and other receivables	**86,373**	**49,582**	**135,955**
Depreciation and amortisation	**29,585**	**2,723**	**32,308**
Capital expenditure (Note)	**25,797**	**798**	**26,595**
For the year ended 31 December 2017			
Impairment losses recognised in respect of trade and other receivables	156,843	1,059	157,902
Impairment losses on property, plant and equipment	100,458	–	100,458
Depreciation and amortisation	49,021	2,300	51,321
Capital expenditure (Note)	19,744	1,582	21,326

Note: Capital expenditure consists of additions to property, plant and equipment, land use rights, and other intangible assets, excluding assets from the acquisition of subsidiaries.

For the purposes of assessing segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than pledged bank deposits, time deposits, structured bank deposits, cash and cash equivalents, interests in joint ventures, investment property, deferred tax assets and other unallocated head office and corporate assets as these assets are managed on a group basis; and

- all liabilities are allocated to operating segments other than deferred tax liabilities, bank borrowings, tax payable and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

During the year ended 31 December 2018, revenue from a related company, accounted for 10% or more of the Group's revenue and its revenue amounted to HK$128,571,000 (2017: HK$127,791,000). The sales to the above related company were derived from the provision of road maintenance services.

The Group's revenue from external customers is derived substantially from its operations in the PRC, and the non-current assets of the Group are substantially located in the PRC.

For the year ended 31 December 2018

7. OTHER INCOME

	2018 HK$'000	2017 HK$'000
Government grants (Note)	**1,738**	2,993
Interest income	**6,828**	5,813
Dividend income from equity instruments at FVTOCI	**662**	–
Others	**460**	565
	9,688	9,371

Note: The government grants mainly represent unconditional subsidies from the PRC local governments to encourage the operations of certain subsidiaries. The government grants are accounted for as immediate financial support with no future related costs expected to be incurred and are not related to any assets.

8. OTHER GAINS AND LOSSES

	2018 HK$'000	2017 HK$'000
Loss on disposal of property, plant and equipment	**(7,325)**	(900)
Impairment loss recognised in respect of goodwill	**(731)**	(7,819)
Impairment loss on property, plant and equipment	**–**	(100,458)
Net foreign exchange gains (losses)	**722**	(2,932)
Others	**(25)**	–
	(7,359)	(112,109)

9. FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Interest on:		
— Bank borrowings wholly repayable within five years	**7,378**	6,107
Less: amounts capitalised	**–**	–
	7,378	6,107

For the year ended 31 December 2018

10. IMPAIRMENT LOSSES, NET OF REVERSAL

	2018 HK$'000	2017 HK$'000
Impairment losses recognised on:		
— Trade receivables	**(76,745)**	(157,510)
— Other receivables	**(3,503)**	(392)
— Contract assets	**(55,707)**	–
	(135,955)	(157,902)

11. TAXATION

The charge comprises:

	2018 HK$'000	2017 HK$'000
PRC Enterprise Income Tax ("EIT"):		
— Current year	**6,179**	1,379
— Under provision in prior years	**1,070**	1,506
	7,249	2,885
Deferred tax charge (note 31)	**5,834**	12,950
	13,083	15,835

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements since there is no tax assessable profit for the year ended 31 December 2018.

Except as described below, provision for PRC Enterprise Income Tax is made based on the estimated taxable income for PRC taxation purposes at 25% pursuant to the Law of the PRC on Enterprise Income Tax and Implementation Regulation.

英達熱再生有限公司 Freetech Road Recycling Corporation ("Freetech Road Recycling") was recognised as a High-Tech company in 2010 , 2014 and 2017 respectively and the applicable tax rate is 15% from 1 January 2010 to 31 October 2020.

11. TAXATION *(Continued)*

南京英達公路養護車製造有限公司 Nanjing Freetech Road Maintenance Vehicle Manufacturing Corporation ("Nanjing Freetech Vehicle Manufacturing") was recognised as a High-Tech company in 2009, 2012, 2015 and 2018 respectively and the applicable tax rate is 15% from 1 January 2009 to 28 November 2021.

Withholding tax of approximately HK$224,000 (2017: HK$221,000) has been provided for the year ended 31 December 2018 with reference to the anticipated dividends to be distributed by the PRC entities to non-PRC tax residents.

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

	2018		2017	
	HK$'000	**%**	HK$'000	%
Loss before taxation	**(131,282)**		(272,247)	
Tax at the applicable income tax rate of 25% (2017: 25%) (Note)	**(32,821)**	**25.0**	(68,061)	25.0
Tax effect of expenses not deductible for tax purposes	**12,835**	**(9.8)**	1,310	(0.5)
Tax effect of tax losses not recognised	**5,667**	**(4.3)**	15,704	(5.8)
Tax effect of income not taxable for tax purpose	**(4,127)**	**3.1**	(3,721)	1.4
Tax effect of share of losses of joint ventures	**1,236**	**(0.9)**	7,833	(2.9)
Tax effect of deductible temporary differences not recognised	**33,988**	**(25.9)**	64,562	(23.7)
Utilisation of tax losses and deductible temporary differences previously not recognised	**(41)**	**0.0**	(1,546)	0.6
Income tax at concessionary rates	**(2,341)**	**1.8**	(194)	0.1
Under provision in prior years	**1,070**	**(0.8)**	1,506	(0.6)
Tax effect of additional deduction related to research and development costs and certain staff costs	**(2,607)**	**2.0**	(1,779)	0.7
Withholding tax on undistributed profits of PRC subsidiaries	**224**	**(0.2)**	221	(0.1)
Taxation charge and effective tax rate for the year	**13,083**	**(10.0)**	15,835	(5.8)

Note: The domestic income tax rate of 25 % (2017: 25%) represents the PRC Enterprise Income Tax rate of which the Group's operations are substantially based on.

12. LOSS BEFORE TAXATION

	2018 HK$'000	2017 HK$'000
Loss before taxation has been arrived at after charging:		
Directors' emoluments (note 13)	**6,066**	6,195
Other staff costs	**62,103**	61,278
Other staff retirement benefit scheme contributions	**10,213**	9,623
Share-based payment expense for other staff	**–**	122
Total staff costs	**78,382**	77,218
Amortisation of prepaid lease payments	**290**	306
Amortisation of other intangible assets	**165**	144
Auditor's remuneration	**1,770**	1,530
Cost of inventories sold	**31,554**	23,678
Cost of services provided	**388,780**	338,311
Depreciation	**31,853**	50,871

No share-based payment expense was recognised in profit or loss during the year ended 31 December 2018 in respect of share options and awards of the Company. Share-based payment expense of approximately HK$155,000 was recognised in profit or loss during the year ended 31 December 2017 in respect of share options and awards of the Company. Details of transactions are set out in note 34 and note 35.

13. DIRECTORS'/CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

The emoluments paid or payable to the directors for the year ended 31 December 2018 were as follows:

	2018						2017					
	Fees HK$'000	Salaries and other benefits HK$'000	Performance related bonuses (Note) HK$'000	Share-based payment expenses HK$'000	Contributions to retirement benefit schemes HK$'000	Total HK$'000	Fees HK$'000	Salaries and other benefits HK$'000	Performance related bonuses (Note) HK$'000	Share-based payment expenses HK$'000	Contributions to retirement benefit schemes HK$'000	Total HK$'000
Executive directors												
Sze Wai Pan	–	2,000	168	–	18	2,186	–	2,080	100	–	18	2,198
Sze Wan Nga	–	1,120	38	–	18	1,176	–	1,170	40	7	18	1,235
Zhang Yifu	–	851	35	–	14	900	–	854	20	7	18	899
Chan Kai King	–	953	33	–	18	1,004	–	1,006	20	7	18	1,051
Non-executive directors												
Wang Lei	–	–	–	–	–	–	–	–	–	–	–	–
Chan Yan Chong	200	–	–	–	–	200	200	–	–	–	–	200
Independent non-executive directors												
Yeung Sum	200	–	–	–	–	200	200	–	–	4	–	204
Tang Koon Yiu, Thomas	200	–	–	–	–	200	200	–	–	4	–	204
Lau Ching Kwong	200	–	–	–	–	200	200	–	–	4	–	204
	800	4,924	274	–	68	6,066	800	5,110	180	33	72	6,195

Note: Performance related bonuses are determined with reference to the performance of the individual directors.

13. DIRECTORS'/CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

(Continued)

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group. The non-executive directors' emoluments shown above were mainly for their services as directors of the Company or its subsidiaries.

The five highest paid individuals included four (2017: four) directors of the Company, details of whose emoluments are set out above. The emolument of the remaining one (2017: one) highest paid individual during the year is as follows:

	2018 **HK$'000**	2017 HK$'000
Basic salaries and allowances	**880**	896
Performance related bonuses	**30**	20
Retirement benefits scheme contributions	**18**	18
Share-based payment expense	**–**	7
	928	941

Its emolument is within the following band:

	Number of employee	
	2018	2017
HK$Nil to HK$1,000,000	**1**	1

During the year, no emoluments were paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived or agreed to waive any emoluments during both years.

14. DIVIDENDS

	2018 HK$'000	2017 HK$'000
Dividends recognised as distribution: 2018: 2017 final dividend of nil (2017: 2016 final dividend of nil) per ordinary share	–	–

No final dividend is proposed by the directors for the years ended 31 December 2018 and 31 December 2017.

15. LOSS PER SHARE

	2018 HK$'000	2017 HK$'000
Loss:		
Loss for the purposes of calculating basic and diluted loss per share — attributable to owners of the Company	(139,130)	(265,004)
Number of shares:		
Weighted average number of ordinary shares in issue less shares held under the share award scheme during the year for the purpose of calculating basic loss per share	1,061,630,000	1,061,630,000
Effect of dilutive potential ordinary shares:		
Unvested share award	–	–
Weighted average number of ordinary shares for the purpose of calculating diluted loss per share	1,061,630,000	1,061,630,000

The computation of diluted loss per share for the years ended 31 December 2018 and 31 December 2017 did not assume the exercise of the Company's outstanding share options and the share awards as that would decrease the loss per share for the year presented.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Furniture, fixtures and equipment HK$'000	Leasehold improvements HK$'000	Total HK$'000
COST						
At 1 January 2017	84,192	320,603	41,046	8,768	1,702	456,311
Additions	5,758	14,119	987	268	–	21,132
Disposal/write-off	–	(3,082)	(394)	(10)	–	(3,486)
Effect of foreign currency exchange differences	6,557	33,604	3,498	721	211	44,591
At 31 December 2017	**96,507**	**365,244**	**45,137**	**9,747**	**1,913**	**518,548**
Additions	**–**	**25,730**	**369**	**350**	**146**	**26,595**
Disposal/write-off	**(108)**	**(9,762)**	**(642)**	**(51)**	**–**	**(10,563)**
Effect of foreign currency exchange differences	**(4,993)**	**(26,165)**	**(2,592)**	**(549)**	**(161)**	**(34,460)**
At 31 December 2018	**91,406**	**355,047**	**42,272**	**9,497**	**1,898**	**500,120**
DEPRECIATION						
At 1 January 2017	12,831	99,068	27,892	6,141	523	146,455
Provided for the year	4,217	39,642	5,406	1,029	577	50,871
Disposal/write-off	–	(1,689)	(319)	(8)	–	(2,016)
Effect of foreign currency exchange differences	1,126	17,534	2,697	564	144	22,065
At 31 December 2017	**18,174**	**154,555**	**35,676**	**7,726**	**1,244**	**217,375**
Provided for the year	**4,312**	**22,612**	**4,127**	**802**	**–**	**31,853**
Disposal/write-off	**–**	**(2,534)**	**(578)**	**(45)**	**–**	**(3,157)**
Effect of foreign currency exchange differences	**(1,106)**	**(14,728)**	**(2,691)**	**(478)**	**447**	**(18,556)**
At 31 December 2018	**21,380**	**159,905**	**36,534**	**8,005**	**1,691**	**227,515**
IMPAIRMENT						
At 1 January 2017	**–**	**–**	**–**	**–**	**–**	**–**
Provided for the year	**–**	**100,458**	**–**	**–**	**–**	**100,458**
Effect of foreign currency exchange differences	**–**	**3,811**	**–**	**–**	**–**	**3,811**
At 31 December 2017	**–**	**104,269**	**–**	**–**	**–**	**104,269**
Effect of foreign currency exchange differences	**–**	**(5,666)**	**–**	**–**	**–**	**(5,666)**
At 31 December 2018	**–**	**98,603**	**–**	**–**	**–**	**98,603**
CARRYING VALUES						
At 31 December 2018	**70,026**	**96,539**	**5,738**	**1,492**	**207**	**174,002**
At 31 December 2017	78,333	106,420	9,461	2,021	669	196,904

For the year ended 31 December 2018

16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The estimated useful lives of each category of property, plant and equipment are as follows:

Buildings	20 years, which is the shorter of the lease term of land and estimated useful lives of the building
Plant and machinery	10 years
Motor vehicles	5 years
Furniture, fixtures and equipment	5 years
Leasehold improvements	5 years

During the year 31 December 2017, in light of significant loss incurred in maintenance service segment and adverse change of market conditions due to the tightened cash flow occurred at the local government level in the PRC, the directors of the Company conducted a review of the Group's plant and machineries and determined that certain assets were impaired, due to the plan of suspension of operations of certain subsidiaries. Accordingly, impairment losses of approximately HK$100,458,000 had been recognised in respect of such machineries, which are used by those subsidiaries. The recoverable amounts of the relevant assets had been determined on the basis of fair values less costs of disposal.

17. PREPAID LEASE PAYMENTS

	2018 HK$'000	2017 HK$'000
Non-current	**9,900**	10,747
Current	**290**	306
	10,190	11,053

18. INVESTMENT PROPERTY

	Investment properties under construction HK$'000
FAIR VALUE	
At 1 January 2017	–
Additions	167,632
Effect of foreign currency exchange differences	7,968
Net increase in fair value recognised in profit or loss	42,418
At 31 December 2017	218,018
Additions	2,369
Net increase in fair value recognised in profit or loss	21,076
Effect of foreign currency exchange differences	(12,182)
At 31 December 2018	229,281

18. INVESTMENT PROPERTY *(Continued)*

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

The fair value of the Group's investment property as at 31 December 2018 and 31 December 2017 has been arrived at on the basis of a valuation carried out by Messrs Jiangsu Tianqin Assets Appraisal Co., Ltd (江蘇天勤資產評估事務所有限公司), independent qualified professional valuers not connected to the Group.

In determining the fair value of the relevant properties, the Group has set up a valuation team, which is headed up by the Chief Financial Officer of the Company, to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Investment properties	Valuation technique(s)	Significant unobservable input(s)	Sensitivity
Properties under development located in Jiangxinzhou, Nanjing, PRC	Income capitalisation	Capitalisation rate, taking into account the capitalisation of rental income potential, nature of the property, and prevailing market condition of 7.5 % (2017: 6.66%) .	An increase in the capitalisation rate used would result in a decrease in fair value, and vice versa.
		Monthly market rent, using direct market comparables and taking into account of time, location, and individual factors, such as frontage and size of the property, of RMB104 (2017: RMB86) per square metre ("sqm") per month for the base level.	An increase in the market rent used would result in an increase in fair value, and vice versa.

Details of the Group's investment property and information about the fair value hierarchy as at the end of the reporting period are as follows:

	Level 3 and Fair value as at 31 December	
	2018	2017
	HK$000	HK$000
Properties under development located in Nanjing, the PRC	**229,281**	218,018

There were no transfers into or out of Level 3 during the year.

19. GOODWILL

	2018 HK$000	2017 HK$000
Cost		
At beginning and the end of the year	**17,563**	17,563
Impairment		
At beginning of the year	**10,682**	2,863
Impairment losses recognised in the year	**731**	7,819
At the end of the year	**11,413**	10,682
Carrying amount		
At the end of the year	**6,150**	6,881

On 21 June 2012, the Group acquired 2% equity interest in 內蒙古英達東方道路再生工程有限公司 Inner Mongolia Freetech Dongfang Road Recycling Engineering Co., Ltd. ("Freetech Ordos"), which was previously a 51% owned joint venture of the Group, from an independent third party at a cash consideration of approximately HK$1,481,000 (equivalent to approximately RMB1,200,000), resulting in a goodwill of HK$731,000. The equity interests held by the Group in Freetech Ordos increased from 51% to 53% upon the completion of this acquisition. During the year ended 31 December 2018, this goodwill with the amount of HK$731,000 was impaired.

On 25 August 2014, the Group acquired 4% equity interest in 湖南英達通衢道路再生工程有限公司 Hunan Freetech Tongqu Road Recycling Engineering Co., Ltd. ("Hunan Freetech Tongqu"), which was previously a 55% owned joint venture of the Group, from an independent third party at a cash consideration of approximately HK$2,125,000 (equivalent to approximately RMB1,680,000), resulting in a goodwill of HK$115,000. The equity interests held by the Group in Hunan Freetech Tongqu increased from 55% to 59% upon the completion of this acquisition. During the year ended 31 December 2017, this goodwill with the amount of HK$115,000 was impaired.

On 3 November 2014, the Group acquired 40% equity interest in 新疆建達道路工程有限公司 Xinjiang Jianda Road Engineering Co., Ltd. ("Xinjiang Jianda"), which was previously a 49% owned associate of the Group, from an independent third party at a cash consideration of approximately HK$5,074,000 (equivalent to approximately RMB4,000,000), resulting in a goodwill of HK$1,198,000. The equity interests held by the Group in Xinjiang Jianda increased from 49% to 89% upon the completion of this acquisition. During the year ended 31 December 2017, this goodwill with the amount of HK$1,198,000 was impaired.

19. GOODWILL *(Continued)*

On 27 November 2014, the Group acquired a 30% equity interest in 宿遷恒通道路再生工程有限公司 Suqian Hengtong Road Recycling Constructions Co., Ltd. ("Suqian Hengtong"), which was previously a 35% owned associate of the Group, from two independent third parties at an aggregate cash consideration of approximately HK$13,268,000 (equivalent to approximately RMB10,500,000), resulting in a goodwill of HK$2,863,000. The equity interests held by the Group in Suqian Hengtong increased from 35% to 65% upon the completion of this acquisition. During the year ended 31 December 2015, this goodwill with the amount of HK$2,863,000 was impaired.

On 31 August 2015, the Group acquired 55% equity interest in 天津市高速公路養護有限公司 Tianjin Expressway Maintenance Company Limited. ("Tianjin Expressway Maintenance"), which was previously owned by a third party 天津高速公路集團有限公司 Tianjin Expressway Group Company Limited ("Tianjin Expressway Group"), at a cash consideration of approximately HK$58,503,000 (equivalent to approximately RMB46,802,400), resulting in a goodwill of HK$6,150,000.

On 22 December 2015, the Group acquired 25% equity interest in 福達道路再生工程有限公司 Futech Road Recycling Engineering Limited ("Futech Road Recycling"), which was previously a 50% owned joint venture of the Group, from an independent third party at a cash consideration of approximately HK$13,388,000, resulting in a goodwill of HK$2,313,000. The equity interests held by the Group in Futech Road Recycling increased from 50% to 75% upon the completion of this acquisition. During the year ended 31 December 2017, this goodwill with the amount of HK$$2,313,000 was impaired.

On 30 December 2016, the Group subscribed additional capital of approximately HK$14,165,000 in 廣東穗通道路再生工程有限公司 Guangdong Suitong Road Recycling Engineering Co., Ltd. ("Guangdong Suitong"), which was previously a 51% owned joint venture of the Group, resulting in a goodwill of HK$4,146,000. The equity interests held by the Group in Guangdong Suitong increased from 51% to 94.19% upon the completion of this subscription. During the year ended 31 December 2017, this goodwill with the amount of HK$$4,146,000 was impaired.

On 27 December 2016, the Group acquired 65 % equity interest in 福州速達道路養護工程有限公司 Fuzhou Suda Road Maintenance Engineering Co., Ltd. ("Fuzhou Suda"), which was previously a 35% owned joint venture of the Group, from an independent third party at a cash consideration of approximately HK$12,009,000, resulting in a goodwill of HK$47,000. The equity interests held by the Group in Fuzhou Suda increased from 35% to 100% upon the completion of this acquisition. During the year ended 31 December 2017, this goodwill with the amount of HK$$47,000 was impaired.

19. GOODWILL *(Continued)*

	Freetech Ordos HK$'000	Hunan Freetech Tongqu HK$'000	Xinjiang Jianda HK$'000	Suqian Hengtong Maintenance HK$'000	Tianjin Expressway Maintenance HK$'000	Futech Road Recycling HK$'000	Guangdong Suitong HK$'000	Fuzhou Suda HK$'000	Total HK$'000
Goodwill amount:									
At 1 January 2017, 31 December 2017 and 31 December 2018	731	115	1,198	2,863	6,150	2,313	4,146	47	17,563
Impairment:									
At 1 January 2017	–	–	–	(2,863)	–	–	–	–	(2,863)
Provided for the year	–	(115)	(1,198)	–	–	(2,313)	(4,146)	(47)	(7,819)
At 31 December 2017	–	(115)	(1,198)	(2,863)	–	(2,313)	(4,146)	(47)	(10,682)
Provided for the year	(731)	–	–	–	–	–	–	–	(731)
At 31 December 2018	(731)	(115)	(1,198)	(2,863)	–	(2,313)	(4,146)	(47)	(11,413)
Carrying amount:									
At 31 December 2018	–	–	–	–	6,150	–	–	–	6,150
At 31 December 2017	731	–	–	–	6,150	–	–	–	6,881

For the purposes of impairment testing, the two subsidiaries (2017: seven subsidiaries) are considered as two cash-generating units ("CGUs") (2017: seven CGUs) as they can generate cash flows that are largely independent of the cash inflows from other assets or groups of assets.

During the year ended 31 December 2018, the Group recognised an impairment loss of HK$731,000 in relation to goodwill of Freetech Ordos. There is no impairment in relation to the goodwill of Tianjin Expressway Maintenance.

During the year ended 31 December 2017, the Group recognised an impairment loss of HK$7,819,000 in relation to goodwill of Hunan Freetech Tongqu, Xinjiang Jianda, Futech Road Recycling, Guangdong Suitong and Fuzhou Suda. There is no impairment in relation to the goodwill of other subsidiaries.

The basis of the estimation of the recoverable amount of the above CGUs and the major underlying assumptions are summarised below:

The recoverable amount has been determined based on a value-in-use calculation. That calculation uses cash flow projections based on financial budgets approved by the management covering a 5-year period, and discount rate is 15% (2017: 13% to 15%). The CGUs' cash flows beyond the 5-year period are extrapolated using a steady growth rate of 1% (2017: 1%). The growth rate used is based on the management's best estimation on growth forecasts and does not exceed the average long-term growth rate for the relevant markets. Other key assumptions for the value-in-use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin.

20. OTHER INTANGIBLE ASSETS

	Software HK$'000
COST	
At 1 January 2017	1,376
Additions	194
Effect of foreign currency exchange differences	111
At 31 December 2017	1,681
Effect of foreign currency exchange differences	(87)
At 31 December 2018	1,594
AMORTISATION	
At 1 January 2017	922
Charge for the year	144
Effect of foreign currency exchange differences	75
At 31 December 2017	1,141
Charge for the year	165
Effect of foreign currency exchange differences	(66)
At 31 December 2018	1,240
CARRYING VALUES	
At 31 December 2018	354
At 31 December 2017	540

The above intangible assets have finite useful lives and are amortised on a straight-line basis over the following period:

Software	5 year

21. INTERESTS IN JOINT VENTURES

	2018 HK$'000	2017 HK$'000
Cost of unlisted investments in joint ventures	**106,961**	106,961
Share of post-acquisition loss and other comprehensive expense, net of dividend received	**(64,275)**	(55,350)
Unrealised profit of sales to joint ventures	**(12,840)**	(16,536)
	29,846	35,075

When the unrealised profit of sales to a joint venture exceeds the Group's share of the net assets of the joint venture, a negative balance of the interest in that joint venture will result. Such negative balance of interest in a joint venture is not net off with other interests in joint ventures and is reclassified and included under the line item bills, trade and other payables in the consolidated statement of financial position. There is no such excess balance of the unrealised profit over the share of the net assets of the joint venture at 31 December 2018 and 31 December 2017.

As at 31 December 2018 and 2017, the Group had interests in the following joint ventures:

Name of entity	Form of business structure	Place/Country of establishment /incorporation, principal place of operation	Proportion of nominal value of registered capital held by the Group 2018	2017	Proportion of voting rights held by the Group 2018	2017	Principal activity
南京路捷道路養護工程有限公司 Nanjing Lujie Road Maintenance Engineering Co., Ltd. ("Nanjing Lujie")	PRC equity joint venture	PRC	**45%**	45%	**45%**	45% (Note 1)	Provision of road maintenance services
連雲港路達道路再生工程有限公司 Lianyungang Luda Road Recycling Engineering Co., Ltd. ("Lianyungang Luda")	PRC equity joint venture	PRC	**35%**	35%	**35%**	35% (Note 1)	Provision of road maintenance services
財匯有限公司 Flourish Rich Limited	Limited liability company	Hong Kong	**45%**	45%	**50%**	50% (Note 2)	Investment holding
南京金財匯融資租賃有限公司 Nanjing Golden Rich Financial Leasing Limited	PRC equity joint venture	PRC	**45%**	45%	**50%**	50% (Note 2)	Provision of leasing services
貴州英達道路工程有限公司 Guizhou Freetech Road Engineering Co., Ltd. ("Guizhou Freetech")	PRC equity joint venture	PRC	**49%**	49%	**49%**	49% (Note 1)	Provision of road maintenance services

21. INTERESTS IN JOINT VENTURES *(Continued)*

Notes:

1. Under the joint venture agreements, Nanjing Lujie, Lianyungang Luda and Guizhou Freetech are jointly controlled by the Group and other parties because the financial and operating decisions related to those entities require the unanimous consent of the Group and the other parties sharing the control. Therefore, Nanjing Lujie, Lianyungang Luda and Guizhou Freetech are classified as joint ventures of the Group.

2. The voting power is determined with reference to the number of directors representing the Group in the respective board of directors of the joint venture. The joint venture partners have an equal number of seats on the board of directors.

Summarised financial information of a material joint venture

Summarised financial information in respect of the Group's material joint venture is set out below. The summarised financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with HKFRSs.

The joint venture is accounted for using the equity method in these consolidated financial statements.

Nanjing Lujie

	2018 **HK$'000**	2017 HK$'000
Current assets	**70,521**	68,405
Non-current assets	**24,428**	30,240
Current liabilities	**51,924**	45,663
The above amounts of assets and liabilities included the following:		
Cash and cash equivalent	**6,589**	2,247
Current financial liabilities (excluding trade and other payables and provisions)	**5,695**	–
Revenue	**64,767**	48,067
Loss for the year	**(7,499)**	(20,014)
Other comprehensive (expense) income for the year	**(2,458)**	4,405
Total comprehensive expense for the year	**(9,957)**	(15,609)
Dividends received from Nanjing Lujie during the year	**–**	–

For the year ended 31 December 2018

21. INTERESTS IN JOINT VENTURES *(Continued)*

Summarised financial information of a material joint venture *(Continued)*

The above (loss) profit for the year included the following:

	2018 HK$'000	2017 HK$'000
Depreciation and amortisation	**4,235**	7,249
Interest income	**9**	6
Interest expense	**311**	270
Income tax expense	**–**	–

Reconciliation of the above summarised financial information to the carrying amount of the Group's interest in Nanjing Lujie is recognised in the consolidated financial statements:

	2018 HK$'000	2017 HK$'000
Net assets of Nanjing Lujie	**43,025**	52,982
Proportion of the Group's ownership interest in Nanjing Lujie	**45%**	45%
Unrealised profit of sales to the joint venture	**(4,054)**	(5,303)
Carrying amount of the Group's interest in Nanjing Lujie	**15,566**	18,798

Aggregate information of joint ventures that are not individually material

	2018 HK$'000	2017 HK$'000
The Group's share of loss and total comprehensive expense	**(4,445)**	(33,412)
Aggregate carrying amount of the Group's interest in the joint ventures	**14,280**	16,277

22. FINANCIAL ASSETS AT FVTPL

	2018 HK$'000	2017 HK$'000
Financial assets mandatorily measured at FVTPL:		
Structured bank deposits	11,417	–
Analysed for reporting purposes as:		
Current assets	11,417	–

23. EQUITY INSTRUMENTS AT FVTOCI/AVAILABLE-FOR-SALE INVESTMENTS

Equity instruments at FVTOCI

	2018 HK$'000
Unlisted equity investments in the PRC, at cost	6,955

The above unlisted equity investments represent the Group's equity interest in private entities established in the PRC. The directors of the Company have elected to designate these investments in equity instruments as at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

In the current year, the Group disposed an unlisted equity investment, at a consideration of HK$8,081,000, which was also the fair value as at the date of disposal as the investment no longer meets the investment objective of the Group after group restructuring carried out by the investee. A cumulative gain on disposal of HK$385,000 has been transferred to retained earnings.

Available-for-sale investments

	2017 HK$'000
Unlisted equity investments in the PRC, at cost	13,652

The above unlisted equity investments represent investments in unlisted equity securities issued by private entities incorporated in the PRC. As the Group has no control, joint control nor significant influence in these private entities, the investments were presented as available-for-sale investments carried at cost in the consolidated statement of financial position at 31 December 2017. They are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

24. BILLS AND TRADE RECEIVABLES

	2018 HK$'000	2017 HK$'000
Trade receivables	**471,185**	843,779
Less: Allowance for credit losses	**(343,587)**	(249,099)
	127,598	594,680
Portion classified as non-current assets	**–**	(43,782)
Current portion	**127,598**	550,898
Bills receivables	**3,474**	1,403
	131,072	552,301

As at 31 December 2018 and 1 January 2018, trade receivables from contracts with customers amounted to HK$127,598,000 and HK$232,020,000 respectively.

As at 31 December 2017, included in the trade receivables are retention amounts of HK$11,801,000, of which HK$1,993,000 are due after one year. Upon application of HKFRS 15, the retentions receivables were reclassified to contract assets.

The following is an aging analysis of bills receivables at the end of the reporting period:

	2018 HK$'000	2017 HK$'000
0 to 180 days	**3,474**	1,403

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The Group's trade customers are principally government agencies. The credit period is determined on a case by case basis, subject to the fulfillment of conditions as stipulated in the respective sales contracts. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by the senior management.

24. BILLS AND TRADE RECEIVABLES *(Continued)*

The following is an aging analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates:

	2018 **HK$'000**	2017 HK$'000
Within 3 months	**27,811**	209,075
3 to 12 months	**37,373**	121,458
1 to 2 years	**36,108**	195,370
Over 2 years	**26,306**	68,777
	127,598	594,680

As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$127,598,000 which are past due as at the reporting date. Out of the past due balances, HK$90,092,000 has been past due 90 days or more and is not considered as in default as most of the Group's customers are government agencies and the risk of default is not high.

As at 31 December 2017, the trade receivables balances of HK$328,666,000 that are neither past due nor impaired at the end of the reporting period for which the Group has not provided for impairment loss since they have no default history and of good credit quality.

At 31 December 2018, included in the trade receivables are amounts due from the Group's related companies of HK$20,025,000 (2017: HK$160,657,000), which are repayable on credit terms similar to those offered to the major customers of the Group, details of which are set out in note 43.

At 31 December 2017, included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately HK$266,013,000 which are past due at the end of the reporting period for which the Group has not provided for impairment loss.

The following is an aging analysis of trade receivables which were past due but not impaired:

	2017 HK$'000
Less than 1 month past due	44,786
1 to 3 months past due	3,927
More than 3 months but less than 12 months past due	103,343
Over 1 year past due	113,957
	266,013

24. BILLS AND TRADE RECEIVABLES *(Continued)*

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

Movement in the allowance for doubtful debts — trade receivables

	2017 HK$'000
1 January	79,678
Allowance for bad and doubtful debts	160,081
Reverse for bad and doubtful debts	(2,571)
Amounts written off as uncollectible	(2)
Effect of foreign currency differences	11,913
31 December	249,099

Details of impairment assessment of trade and other receivables for the year ended 31 December 2018 are set out in note 41.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2018 **HK$'000**	2017 HK$'000
Other receivables	**27,803**	23,990
Less: Allowance for credit losses	**(4,808)**	(1,502)
	22,995	22,488
Prepayments and deposits	**42,821**	46,687
Tax recoverable	**4,403**	161
	70,219	69,336

At 31 December 2018, included in the Group's prepayments, deposits and other receivables are amounts due from related companies of HK$920,000 (2017: HK$2,147,000), which are unsecured, interest-free and have no fixed terms of repayment, details of which are set out in note 43.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Continued)*

Movement in the allowance for doubtful debts — other receivables

	2017 HK$'000
1 January	1,124
Allowance for bad and doubtful debts	392
Amounts written off as uncollectible	(108)
Effect of foreign currency differences	94
31 December	1,502

Details of impairment assessment of prepayments, deposits and other receivables for the year ended 31 December 2018 are set out in note 41.

26. CONTRACT ASSETS

	31/12/2018 HK$'000	1/1/2018* HK$'000
Maintenance services	**248,610**	239,328
Sale of equipment	**48,130**	57,448
	296,740	296,776
Current	**276,163**	252,994
Non-current	**20,577**	43,782
	296,740	296,776

* The amounts in this column are after the adjustments from the application of HKFRS 9 and 15.

At 31 December 2018, included in the contract assets are amounts due from the Group's related companies of HK$72,388,000, details of which are set out in note 43.

The contract assets primarily relate to the Group's right to consideration for work completed and not billed because the rights are conditioned on the Group's future performance. The contract assets are transferred to trade receivables when the rights become unconditional.

Contract assets, that are not expected to be settled within the Group's normal operating cycle, are classified as current and non-current based on expected settlement dates.

For the year ended 31 December 2018

27. INVENTORIES

	2018 HK$'000	2017 HK$'000
Raw materials	**28,583**	17,426
Work-in-progress	**10,068**	19,819
Finished goods	**8,845**	7,162
	47,496	44,407

28. TIME DEPOSITS/PLEDGED BANK DEPOSITS/STRUCTURED BANK DEPOSITS/BANK BALANCES AND CASH

Time deposits at 31 December 2018 represented bank deposits placed in banks in Hong Kong and the PRC. The interest rate was 2.35% (2017: 0.01% to 3.75%) per annum in 2018.

Pledged bank deposits represented bank deposits pledged to banks to secure short-term banking facilities granted to the Group. The pledged deposits at 31 December 2018 carried an interest rate from 0.35% to 1.85% (2017: 0.35% to 1.5%) per annum.

At 31 December 2017, structured bank deposits represent foreign currency or interest rate linked structured bank deposits ("SBDs") placed by the Group to a number of banks. Pursuant to the relevant underlying agreements, the SBDs carry interest at a variable rate per annum with reference to the performance of foreign currency or interest rate during the investment period and the principal sums are denominated in RMB. The SBDs are designated at FVTPL on initial recognition as they contain non-closely related embedded derivatives. The directors of the Group considers the fair values of the SBDs, which are based on the prices provided by the counterparty banks representing the prices they would pay to redeem the deposits at 31 December 2017, approximate to their carrying values on the same day.

Bank balances and cash comprise cash held by the Group and short-term bank deposits with original maturities of three months or less. Cash at banks earn interest at floating rates based on daily bank deposit rates. Short-term bank deposits are made for various periods ranging from 1 to 3 months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The interest rate for short-term bank deposits during the year ended 31 December 2018 was approximately from 0.75% to 1.16% (2017: 0.75% to 1.16%) per annum.

At 31 December 2018, certain time deposit, bank balances and cash, pledged bank deposits and structured bank deposits of approximately HK$178,237,000 (2017: HK$234,311,000) are denominated in RMB which is not a freely convertible currency in the international market. The remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

29. BILLS, TRADE AND OTHER PAYABLES

	2018 HK$'000	2017 HK$'000
Bills payable	**8,201**	17,766
Trade payables	**275,274**	243,193
Other tax payables	**19,898**	28,496
Advance from customers, other payables and accrued charges	**43,157**	47,381
	346,530	336,836

At 31 December 2018, included in the Group's trade payables are amounts due to related parties of approximately HK$2,541,000 (2017:HK$678,000) which is repayable within 90 days, which represents credit terms similar to those offered by related parties to their major customers, details of which are set out in note 43.

At 31 December 2017, included in the Group's advance from customers, other payables and accrued charges is an amount due to a related party of approximately HK$770,000 which is unsecured, interest-free and has no fixed terms of repayment, details of which are set out in note 43.

At 31 December 2018, included in the Group's advance from customers, other payables and accrued charges is an amount due to a non-controlling shareholder of approximately HK$26,690,000 (2017: HK$27,910,000) which is unsecured, interest-free and has no fixed terms of repayment.

The following is an aged analysis of bills payable at the end of the reporting period:

	2018 HK$'000	2017 HK$'000
0 to 180 days	**8,201**	17,766

The Group normally receives credit terms of 30 days to 180 days (2017: 30 days to 180 days) from its suppliers. The following is an aged analysis of trade payables at the end of the reporting period, presented based on the invoice date:

	2018 HK$'000	2017 HK$'000
Within 3 months	**194,568**	147,634
3 to 12 months	**23,297**	36,083
1 to 2 years	**33,586**	41,841
Over 2 years	**23,823**	17,635
	275,274	243,193

30. CONTRACT LIABILITIES

	31/12/2018 HK$'000	1/1/2018* HK$'000
Maintenance services	**77**	–
Sales of equipment	**1,958**	1,674
	2,035	1,674

* The amounts in this column are after the adjustments from the application of HKFRS 15.

The contract liabilities as at 1 January 2018, amount of HK$1,674,000 were recognised as revenue during the year ended 31 December 2018.

31. DEFERRED TAX ASSETS/LIABILITIES

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balance for financial reporting purposes:

	2018 HK$'000	2017 HK$'000
Deferred tax assets	**1,422**	2,284
Deferred tax liabilities	**(25,535)**	(21,358)
	(24,113)	(19,074)

At 31 December 2018, the Group had not recognised deductible temporary difference in respect of certain assets in aggregate of approximately HK$467,271,000 (2017: HK$354,870,000) as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

At 31 December 2018, the Group had tax losses arising in Hong Kong of approximately HK$91,604,000 (2017: HK$70,800,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arise. The Group also had tax losses arising in Mainland of China of approximately HK$103,262,000 (2017: HK$101,562,000) that will expire at various dates up to and including 2023 (2017: 2022) for offsetting against future taxable profits. No deferred tax assets have been recognised in respect of such losses due to the unpredictability of future profit streams.

Under the EIT 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. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately HK$325 million (2017: HK$318 million) as the Group is able to control the timing of the reversal of the temporary differences and the Group has determined that this portion of profits derived from these PRC operating subsidiaries will be retained by these subsidiaries and will not be distributed in the foreseeable future. Therefore, it is probable that such differences will not reverse in the foreseeable future.

31. DEFERRED TAXATION ASSETS/LIABILITIES *(Continued)*

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

	Withholding tax HK$'000	Unrealised profits from transactions with joint ventures HK$'000	Fair value adjustment on investment property HK$'000	Total HK$'000
At 1 January 2017	(9,414)	3,613	–	(5,801)
Charge to profit or loss	(221)	(2,124)	(10,605)	(12,950)
Effect of foreign currency exchange differences	(716)	795	(402)	(323)
At 31 December 2017 and 1 January 2018	(10,351)	2,284	(11,007)	(19,074)
Charge to profit or loss	(224)	(341)	(5,269)	(5,834)
Effect of foreign currency exchange differences	545	(521)	771	795
At 31 December 2018	(10,030)	1,422	(15,505)	(24,113)

32. BANK BORROWINGS

	2018 HK$'000	2017 HK$'000
Unsecured	**123,012**	153,754
Carrying amounts repayable:		
Within one year or on demand	**123,012**	153,754

At 31 December 2018, the Group's bank borrowings denominated in RMB amounted to HK$123,012,000 (equivalent to RMB108,000,000) (2017: HK$153,754,000 (equivalent to RMB128,000,000)). The RMB denominated bank loan carries interest from 4.35% to 5.26% (2017: 4.35% to 5.22%).

At 31 December 2018, included in the Group's bank borrowings repayable within one year or on demand were an unsecured bank loan of HK$123,012,000 (2017: HK$153,754,000) which are all with on-demand clauses.

33. SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2017, 31 December 2017 and 31 December 2018	10,000,000,000	1,000,000
Issued and fully paid:		
At 1 January 2017, 31 December 2017 and 31 December 2018	1,079,000,000	107,900

34. SHARE OPTION SCHEMES

The Company operates a share option scheme (the "Scheme") for the purpose of motivating eligible persons to optimise their future performance and efficiency to the Group and/or rewarding them for their past contributions, attracting and retaining or otherwise maintaining on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally in the case of executives, enabling the Group to attract and retain individuals with experience and ability and/or rewarding them for their past contributions. Eligible persons of the Scheme include (i) the Company's directors, including independent non-executive directors, (ii) other employees of the Group, (iii) direct and indirect shareholders of the Group, (iv) suppliers of goods or services to the Group, (v) customers, consultants, business or joint venture partners, franchisees, contractors, agents or representatives of the Group, (vi) persons or entities that provide design, research, development or other support or any advisory, consultancy, professional or other services to the Group; and (vii) associates of the persons identified in (i), (ii) and (iii) above. The Scheme became effective on 7 June 2013 and, unless otherwise cancelled or amended, will remain in force for ten years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible person in the Scheme within any twelve-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors of the Company. In addition, 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 of the Company in issue at any time or with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5 million, within any twelve-month period, are subject to shareholders' approval in advance in a general meeting.

34. SHARE OPTION SCHEMES *(Continued)*

The offer of a grant of share options may be accepted within twenty eight days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors of the Company and ends on a date which is not later than ten years from the date of offer of share options or the expiry date of the Scheme, if earlier.

The exercise price of share options is determinable by the directors of the Company, but may not be less than the highest of (i) the nominal value of a share; (ii) the closing price of a share as stated in the Hong Kong Stock Exchange's daily quotation sheet on the offer date; and (iii) the average closing price of a share as stated in the Hong Kong Stock Exchange's daily quotation sheets for the five business days immediately preceding the offer date.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

All holders of options granted under the Scheme may only exercise their options in the following manner:

Maximum percentage of options exercisable	Vesting period
50% of the options	Upon the first anniversary of the date of grant
Additional 50% of the options	Upon the third anniversary of the date of grant

No share option had been granted during the years ended 31 December 2018 and 2017. The share options outstanding under the Scheme during the years ended 31 December 2018 and 2017 are as follows:

Name of grantee	Date of grant	Exercisable period	Exercise price	Outstanding as at 1.1.2018	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding as at 31.12.2018
Directors								
Sze Wan Nga	16.10.2014	16.10.2017 – 15.10.2019	HK$2.75	100,000	–	–	–	100,000
Chan Kai King	16.10.2014	16.10.2017 – 15.10.2019	HK$2.75	100,000	–	–	–	100,000
Zhang Yi Fu	16.10.2014	16.10.2017 – 15.10.2019	HK$2.75	100,000	–	–	–	100,000
Yeung Sum	16.10.2014	16.10.2017 – 15.10.2019	HK$2.75	50,000	–	–	–	50,000
Tang Koon Yiu Thomas	16.10.2014	16.10.2017 – 15.10.2019	HK$2.75	50,000	–	–	–	50,000
Lau Ching Kwong	16.10.2014	16.10.2017 – 15.10.2019	HK$2.75	50,000	–	–	–	50,000
Employees								
Employees	16.10.2014	16.10.2017 – 15.10.2019	HK$2.75	1,790,000	–	–	(260,000)	1,530,000
				2,240,000	–	–	(260,000)	1,980,000
Exercisable at the end of the year								1,980,000

34. SHARE OPTION SCHEMES *(Continued)*

Name of grantee	Date of grant	Exercisable period	Exercise price	Outstanding as at 1.1.2017	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding as at 31.12.2017
Directors								
Sze Wan Nga	16.10.2014	16.10.2015 – 15.10.2017	HK$2.50	100,000	–	–	(100,000)	–
Sze Wan Nga	16.10.2014	16.10.2017 – 15.10.2019	HK$2.75	100,000	–	–	–	100,000
Chan Kai King	16.10.2014	16.10.2015 – 15.10.2017	HK$2.50	100,000	–	–	(100,000)	–
Chan Kai King	16.10.2014	16.10.2017 – 15.10.2019	HK$2.75	100,000	–	–	–	100,000
Zhang Yi Fu	16.10.2014	16.10.2015 – 15.10.2017	HK$2.50	100,000	–	–	(100,000)	–
Zhang Yi Fu	16.10.2014	16.10.2017 – 15.10.2019	HK$2.75	100,000	–	–	–	100,000
Yeung Sum	16.10.2014	16.10.2015 – 15.10.2017	HK$2.50	50,000	–	–	(50,000)	–
Yeung Sum	16.10.2014	16.10.2017 – 15.10.2019	HK$2.75	50,000	–	–	–	50,000
Tang Koon Yiu Thomas	16.10.2014	16.10.2015 – 15.10.2017	HK$2.50	50,000	–	–	(50,000)	–
Tang Koon Yiu Thomas	16.10.2014	16.10.2017 – 15.10.2019	HK$2.75	50,000	–	–	–	50,000
Lau Ching Kwong	16.10.2014	16.10.2015 – 15.10.2017	HK$2.50	50,000	–	–	(50,000)	–
Lau Ching Kwong	16.10.2014	16.10.2017 – 15.10.2019	HK$2.75	50,000	–	–	–	50,000
Employees								
Employees	16.10.2014	16.10.2015 – 15.10.2017	HK$2.50	2,035,000	–	–	(2,035,000)	–
Employees	16.10.2014	16.10.2017 – 15.10.2019	HK$2.75	1,790,000	–	–	–	1,790,000
				4,725,000	–	–	(2,485,000)	2,240,000
Exercisable at the end of the year								2,240,000

At 31 December 2018, the number of shares in respect of which options under the Scheme had been granted and remained outstanding was 1,980,000 (2017: 2,240,000), representing 0.18 % (2017: 0.21%) of the shares of the Company in issue at that date.

During the year ended 31 December 2017, the Group recognised total expenses of HK$155,000 in relation to share options granted by the Company.

35. SHARE AWARD SCHEMES

On 7 May 2014, the Company adopted the share award scheme (the "Share Award Scheme") under which shares of the Company may award selected employees (including executive directors) of the Group (the "Selected Employees") pursuant to the terms of the scheme rules and trust deed of the Share Award Scheme. The Share Award Scheme became effective on the adoption date and, unless otherwise terminated or amended, will remain in force for a term of 10 years commencing on the adoption date.

The aggregate number of the awarded shares (the "Awarded Shares") permitted to be awarded under the Share Award Scheme throughout the duration of the Share Award Scheme is limited to 3% of the issued share capital of the Company from time to time. The maximum number of the Awarded Shares which may be awarded to a selected employee shall not exceed 1% of the issued share capital of the Company from time to time.

When a selected employee has satisfied all vesting conditions, which might include service and/or performance conditions specified by the board of directors of the Company at the time of making the award and become entitled to the shares of the Company forming the subject of the award, the trustee shall transfer the relevant Awarded Shares to that employee at no consideration. The selected employee, however, is not entitled to receive any income or distribution, such as dividend derived from the unvested Awarded Shares allocated to him/her.

Movement of the Company's shares held by the trustee under the Share Award Scheme during the year is as follows:

	Number of shares '000		
	Held by the trustee yet to be awarded	Held by the trustee for the grantee	Total held by The trustee
Balance at 1 January 2017	17,370	–	17,370
Transfer to grantee upon vesting during the year	–	–	–
Number of the Company's shares acquired by the trustee under the Share Award Scheme	–	–	–
Balance at 31 December 2017 and 2018	17,370	–	17,370

During the years ended 31 December 2018 and 31 December 2017, no ordinary share was acquired by the trustee.

During the years ended 31 December 2018 and 31 December 2017, there was no shares awarded or vested.

No share award expense was recognised during the years ended 31 December 2018 and 31 December 2017.

36. RETIREMENT BENEFIT SCHEMES

As stipulated by the relevant rules and regulations in the PRC, the Group contributes to the retirement benefit scheme managed by local social security bureau in the PRC. The Group contributes a certain percentage of the basic salaries of its employees to the retirement benefit scheme to fund the benefits.

The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The Group operates a Mandatory Provident Fund scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of the trustee. The Group basically contributes 5% of the relevant payroll costs to the scheme.

The total expense recognised in profit or loss of HK$10,281,000 (2017: HK$9,695,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans. As at 31 December 2018, contributions of HK$555,000 (2017: HK$500,000) due in respect of the year ended 31 December 2018 had not been paid over to the plans. The amounts were paid subsequent to the end of the reporting period.

37. OPERATING LEASES

The Group as lessee

	2018 **HK$'000**	2017 HK$'000
Minimum lease payments paid for the year under operating leases for premises	**16,411**	25,432

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	**2,938**	3,931
In the second to fifth year inclusive	**2,423**	2,073
	5,361	6,004

Operating lease payments represent rentals payable by the Group for certain of its office properties and warehouse. Leases are negotiated for terms ranging from one to three years.

38. CAPITAL COMMITMENTS

	2018 HK$'000	2017 HK$'000
Contracted for but not provided for in respect of the acquisition of property, plant and equipment	**9,479**	5,128
Contracted for but not provided for in respect of the acquisition of land use right	**33,108**	34,916
Contracted for but not provided for capital contributions payable to equity investment at FVTOCI/available-for-sale investments	**315**	1,036
Authorised but not provided for in respect of the acquisition of property, plant and equipment	**1,057**	1,114

39. PLEDGE OF ASSETS

At the end of the reporting period, the Group has pledged the following assets to secure the general banking facilities granted to the Group.

	2018 HK$'000	2017 HK$'000
Bank deposits	**24,432**	5,698

40. 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 year.

The capital structure of the Group consists of bank borrowings, net of bank balances and cash, and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained earnings.

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 the recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, issue of shares, repayment of borrowings and the raising of borrowings.

41. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2018 HK$'000	2017 HK$'000
Financial assets		
Financial assets at FVTPL		
Mandatorily measured at FVTPL		
— Structured bank deposits	**11,417**	–
Equity instruments at FVTOCI	**6,955**	–
Available-for-sale investments	**–**	13,652
Loans and receivables (including cash and cash equivalents)	**631,828**	879,139
Financial liabilities		
Amortised cost	**441,159**	452,421

Financial risk management objectives and policies

The Group's major financial instruments include bills and trade receivables, contract assets, prepayments, deposits and other receivables, financial assets at FVTPL, equity instruments at FVTOCI, available-for-sale investments, pledged bank deposits, structured bank deposits, time deposits, bank balances and cash, bills, trade and other payables and bank borrowings. Details of these financial instruments are disclosed in the 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 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. The risks associated with these financial instruments and the management policies remain unchanged from prior year.

41. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk

Currency risk

The Group collects most of its revenue in RMB and most of the expenditures as well as capital expenditures are also denominated in RMB. The Group's sales are mainly denominated in RMB and the disbursements are also mainly settled in RMB, which is the functional currency of the relevant subsidiaries. The Group's exposure to foreign currency risk is arising mainly from the bank balances of the Group which are denominated in foreign currencies of the relevant group entities. Except for the bank balances, trade and other receivables and trade and other payables denominated in foreign currencies of the relevant group entities, the group entities did not have any other monetary assets or liabilities denominated in foreign currencies as at the end of the reporting period. The management conducts periodic review of exposure and requirements of various currencies, and will consider hedging significant foreign currency exposures should the need arise.

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

	Assets		**Liabilities**	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
United States dollars ("US$")	**25,459**	36,037	**–**	–
Hong Kong dollars ("HK$")	**13,928**	17,898	**352**	50

The Group is mainly exposed to the currency risk on US$ and HK$ against RMB.

41. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Currency risk (Continued)

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to the key management personnel and represents management's assessment of the reasonably possible changes 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. The analysis illustrates the impact for a 5% strengthening of RMB against the relevant currency. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit.

	US$ impact (i)		**HK$ impact (ii)**	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
(Decrease) increase in post-tax profit for the year as a result of a 5% strengthening of RMB against the foreign currency	**(1,273)**	(1,735)	**(664)**	(880)

(i) This is mainly attributable to the exposure outstanding on US$ trade receivables of the Group at the end of the reporting period.

(ii) This is mainly attributable to the exposure outstanding on HK$ bank balances and cash of the Group at the end of the reporting period.

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to pledged bank deposits, time deposits and bank borrowings (see note 28 for details of these pledged bank deposits, time deposits and bank borrowings respectively). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances and variable-rate bank borrowings (see note 28 and note 32 for details of these bank balances and bank borrowings respectively). The directors of the Company monitor interest rate exposure and will consider hedging significant interest rate risk should the need arise.

For the year ended 31 December 2018

41. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Interest rate risk (Continued)

Total interest income from financial assets that are measured at amortised cost is as follows:

	2018 **HK$'000**
Other income	
Financial assets at amortised cost	**6,828**

Total interest income from financial assets that are measured at amortised cost is as follows:

	2017 HK$'000
Other income	
Loans and receivables (including bank balances and cash)	5,813

Interest expense on financial liabilities not measured at fair value through profit or loss:

	2018 **HK$'000**	2017 HK$'000
Financial liabilities at amortised cost	**7,378**	6,107

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for financial instruments (including bank balances and borrowings) at the end of the reporting period, and the stipulated changes taking place at the beginning of the financial year and held constant throughout the reporting period in the case of bank balances and borrowings.

A 10 basis points (2017: 10 basis points) increase or decrease in interest rates on variable bank balances, and a 100 basis points (2017: 100 basis points) increase or decrease in interest rates on variable-rate borrowings represent the managements' assessment of the reasonably possible changes in interest rates.

41. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Interest rate risk (Continued)

Sensitivity analysis (Continued)

If interest rates on variable-rate bank balances had been 10 basis points (2017: 10 basis points) higher and all other variables were held constant, a positive number below indicates an increase in post-tax profit.

	Year ended 31 December	
	2018	2017
	HK$'000	HK$'000
Increase in post-tax profit for the year	**120**	122

The post-tax profit for the year would be decreased by the same amount as mentioned above if interest rates on variable-rate bank balances had been 10 basis points (2017: 10 basis points) lower and all other variables were held constant.

If the interest rate on variable-rate borrowings had been 100 basis points higher and all other variables were held constant, a positive number below indicates a decrease in post-tax profit for the year.

	Year ended 31 December	
	2018	2017
	HK$'000	HK$'000
Decrease in post-tax profit for the year	**852**	153

The post-tax profit for the year would be increased by the same amount as mentioned above if the interest rate on variable-rate borrowings had been 100 basis points lower and all other variables were held constant.

Credit risk and impairment assessment

The Group's maximum exposure to credit risk in the event of the counterparties, failure to meet their obligations in relation to the Group's principal financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

41. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Trade receivables arising from contracts with customers

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade balances based on provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Time deposits, pledged bank deposits and bank balances

There is concentration of credit risk on time deposits, pledged bank deposits and bank balances for the Group as at 31 December 2018 and 31 December 2017. As at 31 December 2018, balances with the four largest banks accounted for 58% (2017: 53%) of total time deposits, pledged bank deposits and bank balances of the Group. The credit risk on liquid funds is limited because the majority of counterparties are banks with high credit-ratings assigned by international credit-rating agencies and state-owned banks with good reputation.

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables	Other financial assets/other items
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL — not credit-impaired	12-month ECL
Watch list	Debtor frequently repays after due dates but usually settle after due date	Lifetime ECL — not credit-impaired	12-month ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL — not credit-impaired	Lifetime ECL — not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL — credit-impaired	Lifetime ECL — credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

41. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

2018	Notes	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amount HK$'000	HK$'000
Financial assets at amortised cost						
Other receivables	25	N/A	note ii	12-month ECL	23,667	
				Lifetime ECL (not credit impaired)	–	
				Credit impaired	4,136	27,803
Trade receivables	24	N/A	note iii	Lifetime ECL (provision matrix)	142,863	
				Credit impaired	328,322	471,185
Contract assets	26	N/A	note iii	Lifetime ECL (provision matrix)	256,547	
				Credit impaired	122,709	379,256

Notes:

i. For bank balances and cash, pledged bank deposits and time deposits, the management considered the credit risk has not increased significantly since the initial recognition. According to the historical observed default rates of these debtors, the average loss rate is immaterial.

ii. For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition.

	Past due HK$'000	Not past due HK$'000	Total HK$'000
Other receivables	23,667	4,136	27,803

iii. For trade receivables and contract assets, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the expected credit losses on these items by using a provision matrix, grouped by internal credit rating. Except for debtors credit-impaired, the Group determines the expected credit losses on these items by using a provision matrix, grouped by internal credit rating.

41. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

As part of the Group's credit risk management, the Group applies internal credit rating for its customers. The following table provides information about the exposure to credit risk and loss allowance for trade receivables and contract assets which are assessed collectively based on provision matrix as at 31 December 2018 within lifetime ECL (not credit impaired). As at 31 December 2018, the credit-impaired debtors with gross carrying amounts of HK$451,031,000 were assessed individually.

Internal credit rating	Average loss rate	Trade receivables HK$'000	Contract assets HK$'000
Grade A	0.1%	5,723	113,335
Grade B	2.15%	75,083	120,560
Grade C	6.28%	7,380	5,267
Grade D	40.31%	54,677	17,385
		142,863	256,547

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the year ended 31 December 2018, the Group provided HK$24,121,000, HK$672,000 and HK$10,042,000 impairment allowance for trade receivables, other receivables and contract assets respectively, based on the provision matrix. Impairment allowance of HK$396,076,000 were made on the credit-impaired debtors.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL (not credit-impaired) HK$'000	Lifetime ECL (credit-impaired) HK$'000	Total HK$'000
As at 1 January 2018 — As restated	51,676	230,053	281,729
Transfer to credit-impaired	(32,585)	32,585	–
Impairment losses recognised	4,385	72,360	76,745
Transfer from contract assets	2,316	390	2,706
Exchange realignment	(1,671)	(15,922)	(17,593)
As at 31 December 2018	24,121	319,466	343,587

41. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Changes in the loss allowance for trade receivables are mainly due to:

	31 December 2018 Increase/(decrease) in lifetime ECL	
	Not credit-impaired HK$'000	**Credit-impaired HK$'000**
Trade debtors with gross carrying amount of HK$32,585,000 defaulted and transferred to credit-impaired as at 31 December 2018	**(32,585)**	**32,585**

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier. None of the trade receivables that have been written off is subject to enforcement activities.

The following table shows the movement in lifetime ECL that has been recognised for contract assets under the simplified approach.

	Lifetime ECL (not credit-impaired) HK$'000	**Lifetime ECL (credit-impaired)** HK$'000	**Total** HK$'000
As at 1 January 2018 — As restated	32,858	396	33,254
Transfer to credit-impaired	(37,488)	37,488	–
Impairment losses recognised	17,852	37,855	55,707
Transfer to trade receivables	(2,316)	(390)	(2,706)
Exchange realignment	(864)	(2,875)	(3,739)
As at 31 December 2018	10,042	72,474	82,516

41. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Changes in the loss allowance for contract assets are mainly due to:

	31 December 2018 Increase/(decrease) in lifetime ECL	
	Not credit-impaired HK$'000	**Credit-impaired HK$'000**
Contract assets with gross carrying amount of HK$37,488,000 defaulted and transferred to credit-impaired as at 31 December 2018	**(37,488)**	**37,488**

The following tables show reconciliation of loss allowances that has been recognised for other receivables.

	12M ECL HK$'000	**Lifetime ECL (not credit-impaired)** HK$'000	**Lifetime ECL (credit-impaired)** HK$'000	**Total** HK$'000
As at 1 January 2018	1,502	–	–	1,502
Transfer to credit-impaired	(1,101)	–	1,101	–
Impairment losses recognised	309	–	3,194	3,503
Exchange realignment	(38)	–	(159)	(197)
As at 31 December 2018	672	–	4,136	4,808

Changes in the loss allowance for other receivables are mainly due to:

	31 December 2018 Increase/(decrease) in lifetime ECL		
	Increase/ (decrease) in 12m ECL HK$'000	**Not credit-impaired HK$'000**	**Credit-impaired HK$'000**
Other receivables	**(1,101)**	**–**	**1,101**

41. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk

The Group's objective is to maintain a balance between the continuity of funding and the flexibility through the use of bank borrowings. In addition, banking facilities have been put in place for contingency purposes.

The following table details the remaining contractual maturity for the Group's financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average interest rate %	On demand and less than 3 months HK$'000	3 months to 1 year HK$'000	Over 1 year HK$'000	Total undiscounted cash flows HK$'000	Carrying amounts HK$'000
2018						
Non-derivative financial liabilities						
Non-interest bearing	–	318,147	–	–	318,147	318,147
Floating rate instruments	5.00%	102,780	–	–	102,780	100,232
Fixed rate instruments	5.00%	23,002	–	–	23,002	22,780
		443,929	–	–	443,929	441,159
2017						
Non-derivative financial liabilities						
Non-interest bearing	–	298,667	–	–	298,667	298,667
Floating rate instruments	4.79%	18,618	–	–	18,618	18,018
Fixed rate instruments	4.58%	139,806	–	–	139,806	135,736
		457,091	–	–	457,091	452,421

At 31 December 2018, included in interest-bearing bank borrowings was a term loan in the amount of HK$123,012,000 (2017: HK$153,754,000). The loan agreement contains a repayment on-demand clause giving the bank the unconditional right to call in the loan at any time. In the opinion of the directors of the Company, such term loan would not be repayable on-demand and would be repaid by installment in accordance with the scheduled repayment dates. For the purpose of the above maturity profile, the total amount was classified as "on demand".

41. FINANCIAL INSTRUMENTS *(Continued)*

Fair value

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

- the fair value of financial assets and liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and

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

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate to their fair values at the end of reporting period.

Fair value measurements recognised in the consolidated statement of financial position

The Group's financial instruments that are measured subsequent to initial recognition at fair value are grouped into levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

41. FINANCIAL INSTRUMENTS *(Continued)*

Fair value *(Continued)*

Fair value measurements recognised in the consolidated statement of financial position *(Continued)*

Structured bank deposits at FVTPL with carrying amount of HK$11,417,000 and equity instruments at FVTOCI with carrying amount of HK$6,955,000 were level 3 measurement at 31 December 2018. The details are as follows:

Financial assets	Fair value as at		Fair value hierarchy	Basis of fair value measurement	Relationship of Significant unobservable input	Unobservable inputs to fair value
	31.12.2018	31.12.2017				
Structured bank deposits at FVTPL	**HK$11,417,000**	N/A	Level 3	Discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership	An increase in the discount rate would result in a decrease in the fair value measurement of the financial assets at FVTPL, and vice versa.	Discount rate ranging from 2.4% to 3.7%
Private equity at FVTOCI (2017 available-for-sale investments)	**Equity investment in PRC Manufacturing Industry HK$6,955,000**	N/A	Level 3	Discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership	An increase in the discount rate would result in a decrease in the fair value measurement of the financial assets at FVTPL, and vice versa.	Discount rate ranging from 11.20% to 11.69%

42. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Bank borrowings HK$000
At 1 January 2018	153,754
Financing cash flows	(23,682)
Foreign exchange translation	(7,060)
At 31 December 2018	123,012
At 1 January 2017	139,601
Financing cash flows	11,293
Foreign exchange translation	2,860
At 31 December 2017	153,754

43. RELATED PARTY DISCLOSURES

During the year, other than those disclosed elsewhere in the consolidated financial statements, the Group had the following significant transactions with its related companies:

(a) Related party transactions

Name	Sales of goods		Consulting service		Road maintenance service	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
Nanjin Lujie (Note (1))	**423**	271	**–**	–	**416**	294
Freetech Technology Limited (Note (3))	**–**	–	**2,760**	–	**–**	–
Tianjin Expressway Group (Note(2))	**–**	–	**–**	–	**128,571**	127,791
Subsidiaries of Tianjin Expressway Group	**–**	–	**–**	–	**5,114**	12,276
Associates of Tianjin Expressway Group	**–**	–	**–**	–	**24,719**	5,905

Notes:

(1) A joint venture of the Group.

(2) Tianjin Expressway Group is the non-controlling shareholder, holding 45% equity interests in Tianjin Expressway Maintenance (as defined in note 19), which itself is a 55% owned subsidiary of the Group.

(3) Freetech Technology Limited is the ultimate holding company of the Group.

(b) Details of the remuneration of directors and other members of key management during the year are set out in note 13.

43. RELATED PARTY DISCLOSURES *(Continued)*

(c) Details of the amounts due from related parties are as follows:

Name of related parties	2018 HK$'000	2017 HK$'000
Guizhou Freetech (Note)	**11,146**	12,012
Nanjing Lujie (Note)	**680**	2,383
Tianjin Expressway Group	**59,090**	134,557
Subsidiaries of Tianjin Expressway Group	**3,727**	11,368
Associates of Tianjin Expressway Group	**18,690**	2,484
	93,333	162,804

Details of the amounts due to related parties are as follows:

Name of related parties	2018 HK$'000	2017 HK$'000
Nanjing Lujie (Note)	**2,370**	498
Lianyungang Luda (Note)	**171**	180
Tianjin Expressway Group	**–**	770
	2,541	1,448

Note: A joint venture of the Group.

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Particulars of the Company's principal subsidiaries at 31 December 2018 and 2017 were as follows:

Name of subsidiary	Date, place/country of incorporation/ establishment and form of structure	Issued and fully paid share/ registered capital	Effective proportion of nominal value of issued share/ registered capital held by the Company 2018	Effective proportion of nominal value of issued share/ registered capital held by the Company 2017	Principal activities
Freetech Road Recycling Engineering Limited (Note)	British Virgin Islands — limited liability company 23 November 2009	Share — US$ 2 (2017: US$2)	**100%**	100%	Investment holding
BS (BVI) Limited (Note)	British Virgin Islands — limited liability company 30 March 2011	Share — US$ 1 (2017: US$1)	**100%**	100%	Investment holding

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

Name of subsidiary	Date, place/country of incorporation/ establishment and form of structure	Issued and fully paid share/ registered capital	Effective proportion of nominal value of issued share/ registered capital held by the Company 2018	2017	Principal activities
Freetech Road Maintenance Engineering Co., Limited	Hong Kong — limited liability company 17 August 2001	Share — HK$3 (2017: HK$3)	**100%**	100%	Investment holding and sale of road maintenance equipment
BS (Int'l) Automobile Technology Co., Limited	Hong Kong — limited liability company 18 August 2004	Registered capital — HK$1,000,000 (2017: HK$1,000,000)	**100%**	100%	Investment holding and sale of road maintenance equipment
Freetech Road Recycling (as defined in note 11)	PRC — Wholly-foreign –owned enterprise 8 September 2000	Registered capital — US$ 135,060,000 (2017: US$135,060,000)	**100%**	100%	Provision of road maintenance services
南京奔騰養護機械有限公司 Nanjing BS Maintenance Machinery Company Limited	PRC — Wholly-foreign –owned enterprise 22 July 2009	Registered capital — US$ 5,050,000 (2017: US$5,050,000)	**100%**	100%	Sale of road maintenance equipment
Nanjing Freetech Vehicle Manufacturing (as defined in note 11)	PRC — Sino-foreign joint venture 21 June 2005	Registered capital — US$ 9,700,000 (2017: US$9,700,000)	**100%**	100%	Manufacturing and sale of road maintenance equipment
Freetech Ordos (as defined in note 19)	PRC — Limited liability company 17 June 2011	Registered capital — RMB 30,000,000 (2017: RMB30,000,000)	**53%**	53%	Provision of road maintenance services
新疆英達熱再生有限公司 Xinjiang Freetech Road Recycling Co., Ltd.	PRC — Limited liability company 8 June 2012	Registered capital — RMB 10,000,000 (2017: RMB10,000,000)	**100%**	100%	Provision of road maintenance services
Hunan Freetech Tongqu (as defined in note 19)	PRC — Limited liability company 11 April 2011	Registered capital — RMB 35,000,000 (2017: RMB35,000,000)	**59%**	59%	Provision of road maintenance services
Suqian Hengtong (as defined in note 19)	PRC — Limited liability company 31 May 2012	Registered capital — RMB 35,000,000 (2017: RMB35,000,000)	**65%**	65%	Provision of road maintenance services
Xinjiang Jianda (as defined in note 19)	PRC — Limited liability company 20 December 2012	Registered capital — RMB 20,000,000 (2017: RMB20,000,000)	**89%**	89%	Provision of road maintenance services

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

Name of subsidiary	Date, place/country of incorporation/ establishment and form of structure	Issued and fully paid share/ registered capital	Effective proportion of nominal value of issued share/ registered capital held by the Company		Principal activities
			2018	2017	
Freetech Smart Road Recycling Engineering Investment Limited	Hong Kong — limited liability company 11 August 2014	Registered capital — HK$50,000 (2017: HK$50,000)	**51%**	51%	Investment holding
Tianjin Expressway Maintenance (as defined in note 19)	PRC — Limited liability company 1 September 2009	Registered capital — RMB 44,444,400 (2017: RMB44,444,400)	**55%**	55%	Provision of road maintenance services
Futech Road Recycling (as defined in note 19)	Hong Kong — limited liability company 15 May 2012	Registered capital — HK$100,000,000 (2017: HK$100,000,000)	**75%**	75%	Investment holding
Quanzhou Fuda Road Recycling Engineering Co., Ltd	PRC — Limited liability company 6 June 2012	Registered capital — HK$63,000,000 (2017: HK$63,000,000)	**75%**	75%	Provision of road maintenance services
英達生態科技發展(南京)有限公司 Freetech Ecological Technology Development (Nanjing) Co., Ltd. (formerly known as 英達置業(南京)有限公司 Freetech Real Estate (Nanjing) Co., Ltd.)	PRC — Limited liability company 28 November 2016	Registered capital — RMB165,000,000 (2017: RMB 165,000,000)	**100%**	100%	Property holding
英達循環科技裝備(南京)有限公司 Freetech Recycling Technology Equipment (Nanjing) Limited	PRC — Limited liability company 10 May 2016	Registered capital — USD24,000,000 (2017: USD 24,000,000)	**100%**	100%	Sale of road maintenance equipment
Guangdong Suitong (as defined in note 19)	PRC — Limited liability company 16 January 2013	Registered capital — RMB25,300,000 (2017: RMB 25,300,000)	**94.19%**	94.19%	Provision of road maintenance services
Fuzhou Suda (as defined in note 19)	PRC — Limited liability company 14 June 2013	Registered capital — RMB25,000,000 (2017: RMB 25,000,000)	**100%**	100%	Provision of road maintenance services

Note: Directly held by the Company.

None of the subsidiaries had issued any debt securities at the end of the reporting period.

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

At 31 December 2018, the Group has 41 (2017:37) subsidiaries. The above table lists the 20 (2017:20) subsidiaries of the Group which, in the opinion of the Company's directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Company's directors, result in particulars of excessive length. At the end of the reporting period, the Company has 21 (2017:17) subsidiaries that are not material to the Group. These subsidiaries operate in the PRC and Hong Kong. Out of the Group's total 41 (2017: 37) subsidiaries, 31 (2017:27) subsidiaries are wholly-owned by the Group. The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Country of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Profit (loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		31/12/18	31/12/17	**31/12/18 HK$'000**	31/12/17 HK$'000	**31/12/18 HK$'000**	31/12/17 HK$'000
Freetech Ordos	PRC	**47%**	47%	**(10,948)**	2,132	**5,798**	19,726
Hunan Freetech Tongqu	PRC	**41%**	41%	**(989)**	(9,011)	**5,577**	6,938
Tianjin Expressway Maintenance	PRC	**45%**	45%	**4,433**	1,086	**48,213**	44,976
Individually subsidiaries with immaterial non-controlling interests						**(32,863)**	4,605
						26,725	76,245

Summarised financial information in respect of the Group's subsidiaries that have material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

For the year ended 31 December 2018

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

Freetech Ordos

	2018 HK$'000	2017 HK$'000
Current assets	**37,933**	65,512
Non-current assets	**6,670**	9,374
Current liabilities	**32,275**	32,925
Equity attributable to owners of the Company	**6,530**	22,235
Non-controlling interests	**5,798**	19,726

	2018 HK$'000	2017 HK$'000
Revenue	**15,005**	36,120
Expenses	**38,298**	31,583
(Loss) profit attributable to owners of the Company	**(12,345)**	2,405
(Loss) profit attributable to non-controlling interests	**(10,948)**	2,132
(Loss) Profit for the year	**(23,293)**	4,537
Other comprehensive (expense) income attributable to owners of the Company	**(535)**	1,473
Other comprehensive (expense) income attributable to non-controlling interests	**(475)**	1,307
Other comprehensive (expense) income for the year	**(1,010)**	2,780
Total comprehensive (expense) income attributable to owners of the Company	**(12,880)**	3,878
Total comprehensive (expense) income attributable to non-controlling interests	**(11,423)**	3,439
Total comprehensive (expense) income for the year	**(24,303)**	7,317
Dividends paid to non-controlling interests	**–**	–
Net cash outflow from operating activities	**(9,379)**	(5,393)
Net cash inflow (outflow) from investing activities	**8,518**	(7,208)
Net cash inflow from financing activities	**–**	–
Net cash outflow	**(861)**	(12,601)

For the year ended 31 December 2018

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

Hunan Freetech Tongqu

	2018 HK$'000	2017 HK$'000
Current assets	**14,040**	17,715
Non-current assets	**1,321**	1,732
Current liabilities	**1,813**	2,580
Equity attributable to owners of the Company	**7,971**	9,929
Non-controlling interests	**5,577**	6,938

	2018 HK$'000	2017 HK$'000
Revenue	**213**	–
Expenses	**2,625**	21,978
Loss attributable to owners of the Company	**(1,423)**	(12,967)
Loss attributable to non-controlling interests	**(989)**	(9,011)
Loss for the year	**(2,412)**	(21,978)
Other comprehensive (expense) income attributable to owners of the Company	**(457)**	1,147
Other comprehensive (expense) income attributable to non-controlling interests	**(318)**	797
Other comprehensive (expense) income for the year	**(775)**	1,944
Total comprehensive expense attributable to owners of the Company	**(1,880)**	(11,820)
Total comprehensive expense attributable to non-controlling interests	**(1,307)**	(8,214)
Total comprehensive expense for the year	**(3,187)**	(20,034)
Dividends paid to non-controlling interests	**–**	–
Net cash (outflow) inflow from operating activities	**(62)**	7,120
Net cash inflow (outflow) from investing activities	**5,920**	(5,793)
Net cash outflow from financing activities	**–**	–
Net cash inflow	**5,858**	1,327

For the year ended 31 December 2018

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

Tianjin Expressway Maintenance

	2018 HK$'000	2017 HK$'000
Current assets	**172,960**	241,453
Non-current assets	**24,649**	22,275
Current liabilities	**146,360**	163,732
Equity attributable to owners of the Company	**3,036**	55,020
Non-controlling interests	**48,213**	44,976

	2018 HK$'000	2017 HK$'000
Revenue	**217,495**	175,707
Expenses	**207,645**	173,294
Profit attributable to owners of the Company	**5,417**	1,327
Profit attributable to non-controlling interests	**4,433**	1,086
Profit for the year	**9,850**	2,413
Other comprehensive (expense) income attributable to owners of the Company	**(1,461)**	3,804
Other comprehensive (expense) income attributable to non-controlling interests	**(1,195)**	3,113
Other comprehensive (expense) income for the year	**(2,656)**	6,917
Total comprehensive income attributable to owners of the Company	**3,956**	5,131
Total comprehensive income attributable to non-controlling interests	**3,238**	4,199
Total comprehensive income for the year	**7,194**	9,330
Dividends paid to non-controlling interests	**–**	–
Net cash inflow from operating activities	**1,300**	4,979
Net cash outflow from investing activities	**(6,017)**	(1,952)
Net cash outflow from financing activities	**–**	(13,730)
Net cash outflow	**(4,717)**	(10,703)

For the year ended 31 December 2018

45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Financial information of the Company at the end of the reporting period includes:

	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS		
Property, plant and equipment	**42**	182
Investments in subsidiaries	**454,985**	649,826
	455,027	650,008
CURRENT ASSETS		
Prepayments, deposits and other receivables	**2,887**	629
Dividend receivable	**241,352**	241,352
Bank balances and cash	**1,398**	3,449
	245,637	245,430
CURRENT LIABILITIES		
Other payables and accruals	**259**	100
Amounts due to subsidiaries	**331**	252
	590	352
NET CURRENT ASSETS	**245,047**	245,078
TOTAL ASSETS LESS CURRENT LIABILITIES	**700,074**	895,086
CAPITAL AND RESERVES		
Share capital	**107,900**	107,900
Reserves	**592,174**	787,186
Total equity	**700,074**	895,086

45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Movement in reserves

	Share premium HK$'000	Contributed surplus HK$'000 (Note)	Shares held under the share award scheme HK$'000	Share-based compensation reserve HK$'000	Retained earnings HK$'000	Foreign currency translation reserve HK$'000	Total HK$'000
At 1 January 2017	732,463	1,253,901	(26,584)	835	(4,445)	72	1,956,242
Loss for the year	–	–	–	–	(1,169,351)	–	(1,169,351)
Other comprehensive income for the year	–	–	–	–	–	140	140
Total comprehensive (expense) income for the year	–	–	–	–	(1,169,351)	140	(1,169,211)
Equity-settled share option arrangements (note 34)	–	–	–	155	–	–	155
Transfer of share-based compensation reserve upon forfeiting of share options	–	–	–	(400)	400	–	–
At 31 December 2017	732,463	1,253,901	(26,584)	590	(1,173,396)	212	787,186
Loss for the year	**–**	**–**	**–**	**–**	**(194,913)**	**–**	**(194,913)**
Other comprehensive expense for the year	**–**	**–**	**–**	**–**	**–**	**(99)**	**(99)**
Total comprehensive expense for the year	**–**	**–**	**–**	**–**	**(194,913)**	**(99)**	**(195,012)**
Transfer of share-based compensation reserve upon forfeiting of share options	**–**	**–**	**–**	**(120)**	**120**	**–**	**–**
At 31 December 2018	**732,463**	**1,253,901**	**(26,584)**	**470**	**(1,368,189)**	**113**	**592,174**

Note: The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the reorganisation described under the section "History and Corporate Structure" to the Company's prospectus dated 14 June 2013, over the nominal value of the Company's shares issued in exchange therefor.

FINANCIAL SUMMARY

	Year ended 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
Turnover	**522,433**	475,528	495,598	616,641	390,434
(Loss) profit before taxation	**(131,282)**	(272,247)	55,110	77,621	65,515
Taxation	**13,083**	15,835	10,686	11,913	11,465
(Loss) profit for the year	**(144,365)**	(288,082)	44,424	65,708	54,050

	As at 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
Total assets	**1,232,928**	1,493,549	1,634,899	1,703,781	1,363,792
Total liabilities	**503,524**	514,743	444,929	462,904	149,552
Net assets	**729,404**	978,806	1,189,970	1,240,877	1,214,240

Freetech Road Recycling Technology (Holdings) Limited

英達公路再生科技(集團)有限公司