CHTC FONG'S INTERNATIONAL COMPANY LIMITED

(Incorporated in Bermuda with limted liability)

(Stock Code: 641)

Annual Report 2019

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CORPORATE INFORMATION

CHAIRMAN EMERITUS

Mr. Fong Sou Lam

BOARD OF DIRECTORS

Executive Directors

Mr. Ye Maoxin *(Chairman)*
Mr. Guan Youping *(Chief Executive Officer)*
Mr. Du Qianyi *(Chief Financial Officer)*
Mr. Wu Xudong

Non-executive Director

Mr. Fong Kwok Leung, Kevin

Independent Non-executive Directors

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

COMPANY SECRETARY

Mr. Lee Che Keung

AUTHORISED REPRESENTATIVES

Mr. Guan Youping
Mr. Lee Che Keung

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

LEGAL ADVISER

Reed Smith Richards Butler

AUDITOR

PKF Hong Kong Limited

PRINCIPAL BANKERS IN HONG KONG

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

PRINCIPAL BANKERS IN THE PEOPLE'S REPUBLIC OF CHINA

Bank of China Limited
Industrial and Commercial Bank of China Limited

BERMUDA PRINCIPAL REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited
4th Floor, North Cedar House,
41 Cedar Avenue,
Hamilton HM 12,
Bermuda

HONG KONG BRANCH REGISTRAR AND TRANSFER OFFICE

Tricor Secretaries Limited
Level 54, Hopewell Centre,
183 Queen's Road East, Hong Kong
Tel: (852) 2980 1333
Fax: (852) 2810 8185

REGISTERED OFFICE

5th Floor, Victoria Place,
31 Victoria Street,
Hamilton HM 10, Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

WEBSITE ADDRESS

http://www.fongs.com

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "**Board**") of CHTC Fong's International Company Limited (the "**Company**", together with its subsidiaries, the "**Group**"), I am pleased to present to the shareholders the audited annual results of the Group for the year ended 31 December 2019.

As the global economy has slowed down due to the continued trade war between China and the United States and downtrend in China's economy, the year 2019 was not an easy one for the Group, with an ever challenging business environment and intensified market competition. For the year ended 31 December 2019, the Group recorded consolidated revenue of approximately HK$2,663,000,000 (2018: HK$3,472,000,000), representing a decline of 23% from last year. Profit attributable to owners of the Company was approximately HK$169,000,000 (2018: HK$141,000,000), representing an increase of 20% from last year. The increase in profit was attributable to the recognition of income before tax of approximately HK$316,000,000 in the year in respect of portions of the payment received by the Group from the urban renewal project of the land in Shenzhen (in the form of resettlement and demolition compensation) totalling RMB350,000,000 (equivalent to approximately HK$388,000,000), net of related costs of approximately HK$72,000,000.

In early 2020, the operation of the Group was impacted by the outbreak of the novel coronavirus (COVID-19). Our Shenzhen and Zhongshan plants had to postpone the resumption of operations after the Lunar New Year holidays for a limited period of time to late February. The management of the Group will continue to stay vigilant to the development of the epidemic, and take a prudent approach in managing working capital, capital expenditure and corporate governance, so as to maintain high resilience amidst uncertainties in the market. Therefore, in consideration of such factors as the Group's profitability, financial position, debt repayment requirements, capital expenditure plans, and medium and long-term business strategies, the Board has resolved to propose a final dividend of 2 HK cents per share for the year ended 31 December 2019.

CHAIRMAN'S STATEMENT

On 18 October 2019, Mr. Guan Youping has been appointed as an Executive Director and the Chief Executive Officer of the Company, as the successor of Mr. Ji Xin, who resigned as an Executive Director and the Chief Executive Officer of the Company due to work assignments. The Board expresses its sincere gratitude to Mr. Ji Xin for his valuable contributions to the Group during his tenure of office. The Board believes that under the leadership of the Chief Executive Officer, Mr. Guan Youping, the management team will resolutely implement the decisions of the Board, actively develop our businesses, relentlessly respond to market challenges, and create more values for our shareholders. I am pleased to have such a professional, devoted and united management team, and I am confident that with the joint efforts of all staff, the Group will definitely stride towards its established development goals.

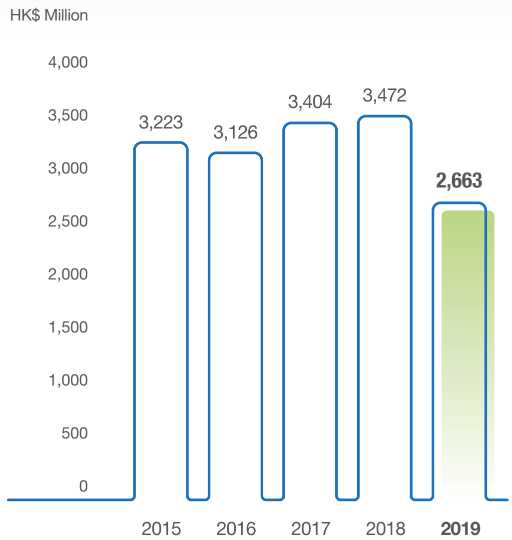
In light of the unstable relationship between China and the United States, as well as the unclear situation of the COVID-19 epidemic, it is particularly important for us to build on our established strengths amidst this challenging macro environment. On the basis of innovative technologies and processes, the Group will achieve rapid growth of product portfolio and customer base, and improve its competitive edge. In addition, apart from actively expanding its presence in the Chinese market, the Group will further explore market opportunities overseas. In the coming year, the Group is poised to grow against the downward trend and bring higher returns to its shareholders.

The success of the Group would not have been attained without the joint efforts of all our staff and management team. On behalf of the Board, I would like to express heartfelt gratitude towards their continued endeavour and contribution in the past year. We will further develop our technology in all business sectors, seek transformation through innovation, and actively respond to market changes with diversified and cutting-edge technologies and processes, so as to enhance the development and long-term growth potential of the Group.

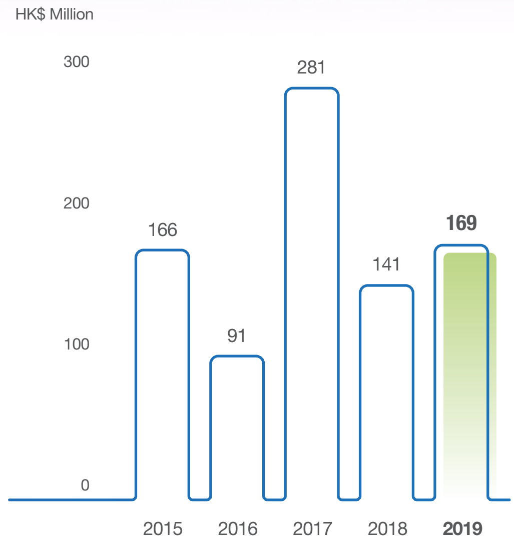
Ye Maoxin
Chairman

Hong Kong, 27 March 2020

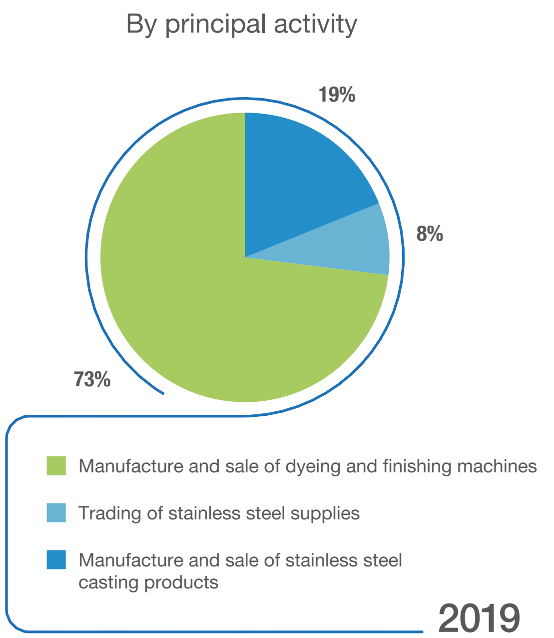
REVENUE

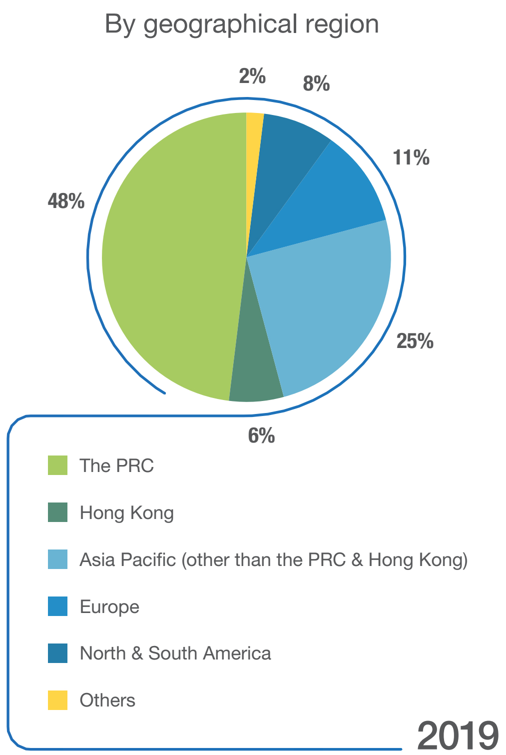


PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY



ANALYSIS OF REVENUE FOR THE YEAR

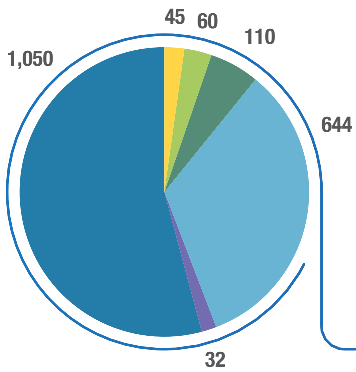




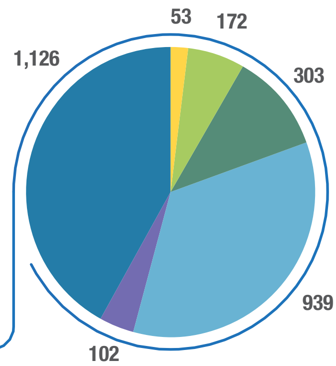
ANALYSIS OF REVENUE FOR THE YEAR *(continued)*

Manufacture and Sale of Dyeing and Finishing Machines

By geographical region

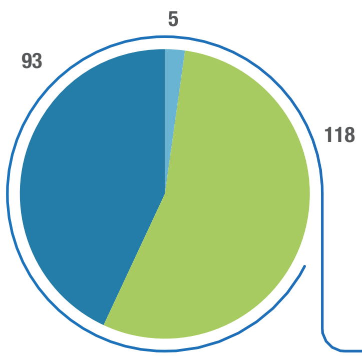


2019 HK$ Million		2018 HK$ Million
1,050	The PRC	1,126
32	Hong Kong	102
644	Asia Pacific	939
110	Europe	303
60	North & South America	172
45	Others	53
1,941		2,695

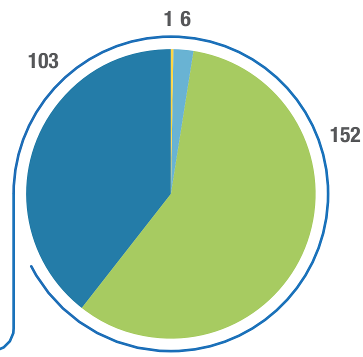


Trading of Stainless Steel Supplies

By geographical region

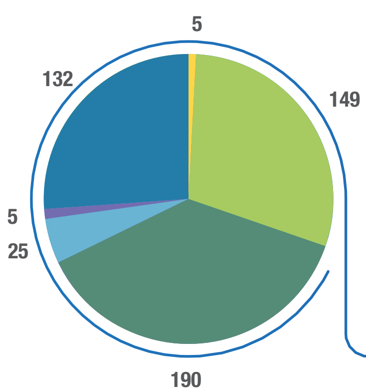


2019 HK$ Million		2018 HK$ Million
93	The PRC	103
118	Hong Kong	152
5	Asia Pacific	6
0	North & South America	1
216		262

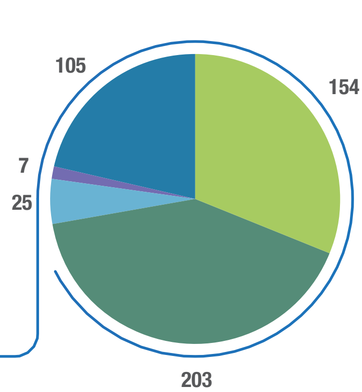


Manufacture and Sale of Stainless Steel Casting Products

By geographical region



2019 HK$ Million		2018 HK$ Million
132	The PRC	105
5	Hong Kong	7
25	Asia Pacific	25
190	Europe	203
149	North & South America	154
5	Others	0
506		494



Chairman Emeritus

Mr. Fong Sou Lam, aged 85, is the founder of the Group and the Chairman Emeritus of the Company. Mr. Fong established the dyeing and finishing machine manufacturing business in 1963 and has over 50 years of business experience in the industry.

MEMBERS OF THE BOARD OF DIRECTORS

Chairman and Executive Director

Mr. Ye Maoxin, aged 57, joined the Company as a Non-executive Director and the Vice-Chairman of the Board on 9 June 2011 and has been re-designated as an Executive Director and the Chairman of the Board with effect from 1 September 2015. Mr. Ye is also the Chairman of the Nomination Committee and a member of the Remuneration Committee of the Company. Mr. Ye is responsible for formulating the overall corporate development and strategic directions of the Group. Mr. Ye holds a Bachelor of Engineering degree in machinery manufacturing from Xian Jiaotong University (西安交通大學) and an Executive Master of Business Administration degree from Guanghua School of Management, Beijing University (北京大學光華管理學院). Mr. Ye is currently the vice-president of China Hi-Tech Group Corporation (中國恒天集團有限公司) and the general manager of China Textile Machinery (Group) Company Limited (中國紡織機械(集團)有限公司). Mr. Ye had been a director and the chairman of Jingwei Textile Machinery Company Limited (經緯紡織機械股份有限公司) (a company listed on the Shenzhen Stock Exchange, A-share stock code: 000666) during the period from August 2010 to 13 January 2020. Mr. Ye has over 30 years of solid experience in business management in the textile machinery industry.

Executive Directors

Mr. Guan Youping, aged 52, has been appointed as an Executive Director and the Chief Executive Officer as well as a member of the Nomination Committee and Remuneration Committee of the Company with effect from 18 October 2019. Mr. Guan holds a Bachelor's degree in Machinery Manufacturing Technology and Equipment from Tianjin Institute of Textile Science and Technology (currently known as Tianjin Polytechnic University) and a Master's degree in Management Science and Engineering from the University of Science and Technology Beijing, and he is a senior engineer. Mr. Guan had served as a director of Jingwei Textile Machinery Company Limited (經緯紡織機械股份有限公司) (a company listed on the Shenzhen Stock Exchange, A-share stock code: 000666) during the period from July 2019 to 11 October 2019. Mr. Guan has over 30 years' working experience in the textile industry and in-depth knowledge in product, market and operation of textile machinery industry. Mr. Guan also has extensive practical experience in corporate lean production, technology research and development, marketing and operations management.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

Mr. Du Qianyi, aged 54, joined the Company on 15 March 2012 and has been appointed as an Executive Director of the Company with effect from 18 April 2016, he is currently the Chief Financial Officer of the Group. Mr. Du had previously served as an Executive Director of the Company during the period from 15 March 2012 to 31 December 2012. Mr. Du has been working in the textile machinery industry for a prolonged period, knowing the traits in the markets and operations of the textile machinery industry, having extensive experience in corporate management as well as solid theoretical foundation and rich practical experience in the areas of capital operations, operational management and financial management.

Mr. Wu Xudong, aged 56, has been appointed as an Executive Director of the Company with effect from 26 July 2019. Mr. Wu obtained a Bachelor's degree in Agriculture from Shanxi Agricultural University（山西農業大學）and an EMBA degree from Donghua University（東華大學）in Shanghai, he also attains the qualification of Senior Economist and Senior Professional Manager. Mr. Wu is concurrently a director of China Textile Machinery (Group) Co., Ltd.（中國紡織機械（集團）有限公司）and a director and the chairman of Jingwei Textile Machinery Company Limited（經緯紡織機械股份有限公司）(a company listed on the Shenzhen Stock Exchange, A share stock code: 000666). Mr. Wu has been working in the textile machinery manufacturing industry for a prolonged period, knowing the traits in the markets and operations of the textile machinery industry, having approximately 30 years of experience in operation management as well as solid theoretical foundation and extensive practical experience in aspects of business operation, lean management and innovation in business model.

Non-executive Director

Mr. Fong Kwok Leung, Kevin, aged 58, is the eldest son of Mr. Fong Sou Lam who is the founder of the Group as well as the Chairman Emeritus and a substantial shareholder of the Company. Mr. Fong holds a Bachelor's degree in Business Administration from the Simon Fraser University, Canada. Mr. Fong joined the Group in 1986 and was appointed as an Executive Director of the Company on 25 July 1990. Mr. Fong had been responsible for overseeing the stainless steel trading and stainless steel casting businesses of the Group for a long period. With effect from 1 October 2016, Mr. Fong has been re-designated from an Executive Director to a Non-executive Director of the Company due to his desire to devote more time to his own family business. Mr. Fong has also been appointed as a consultant of the Company as from 1 October 2016 for providing consultancy services in relation to the business development of the Group.

Independent Non-executive Directors

Mr. Ying Wei, aged 53, has been appointed as an Independent Non-executive Director of the Company since 1 September 2011. Mr. Ying is also the Chairman of the Audit Committee and a member of the Remuneration Committee and Nomination Committee of the Company. Mr. Ying holds a Master of Business Administration degree from the University of San Francisco and a Bachelor's degree of Economics from Zhejiang Gongshang University（浙江工商大學）(formerly known as Hangzhou Institute of Commerce（杭州商學院）) and is a non-practising member of the Chinese Institute of Certified Public Accountants（中國註冊會計師協會）. Mr. Ying is currently an independent non-executive director of Fountain Set (Holdings) Limited (stock code: 420) and Zhongsheng Group Holdings Limited (stock code: 881). Mr. Ying is also the Managing Director of CDH Investments. Mr. Ying had been a non-executive director of China Health Group Limited (stock code: 673) during the period from 18 June 2016 to 7 May 2018 and a non-executive director of New Focus Auto Tech Holdings Limited (stock code: 360) during the period from August 2013 to 29 March 2018.

Dr. Yuen Ming Fai, aged 69, has been appointed as an Independent Non-executive Director of the Company since 1 September 2004. He is also a member of the Audit Committee, Nomination Committee and Remuneration Committee of the Company. Dr. Yuen is currently the Professor Emeritus of the Department of Mechanical and Aerospace Engineering at the Hong Kong University of Science and Technology. Dr. Yuen holds a Doctorate degree in Mechanical Engineering from the University of Bristol, the United Kingdom and is a fellow member of both the Institution of Mechanical Engineers (UK) and the Hong Kong Institution of Engineers.

Mr. Li Jianxin, aged 66, has been appointed as an Independent Non-executive Director of the Company since 1 July 2014. Mr. Li is also the Chairman of the Remuneration Committee and a member of the Audit Committee and Nomination Committee of the Company. Mr. Li graduated from Inner Mongolia Engineering College（內蒙古工學院）(currently known as Inner Mongolia University of Technology（內蒙古工業大學）) specialising in chemical machinery and obtained a Bachelor of Engineering degree. Mr. Li completed his study of the postgraduate course on Chinese Culture and Modernisation（中國文化與現代化）at Tsinghua University（清華大學）in 2003. Over the period between 1985 until his retirement in 2013, Mr. Li had been working for a large Chinese state-owned commercial bank and held positions as the assistant general manager of Credit and Investment Approval Department, a commission member of Investment Commission and a member of the Credit Policy Committee at the Main Office focusing on approval of corporate finance. Mr. Li has been an independent non-executive director of CHTC Helon Co., Ltd.（恒天海龍股份有限公司）(a company listed on the Shenzhen Stock Exchange, A-share stock code: 000677) since 23 May 2014. Mr. Li holds the title of Senior Economist having many years of experience in financial affairs and in-depth knowledge of the business operations of a wide range of industries and has accumulated extensive experience in financial analysis, project finance, investment management and risk control.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

SENIOR MANAGEMENT

Dr. Tsui Tak Ming, William, aged 61, is a vice-president of the Company and is in charge of the research and development division of the Group. Dr. Tsui is a chartered engineer and chartered IT professional, he holds a Bachelor of Science degree and a Doctorate of Philosophy degree in Aeronautical Engineering from the University of Manchester, the United Kingdom and is a fellow member of both the Institution of Mechanical Engineers (UK) and the Hong Kong Institution of Engineers. Dr. Tsui is also a corporate member of the British Royal Aeronautical Society, the Hong Kong Computer Society and the British Computer Society. Dr. Tsui is an expert in Physics, Computing, Automation Control and Management issues. Dr. Tsui joined the Group in 1989 and has over 30 years of experience in research and development on mechanical engineering and information technology. Dr. Tsui is the inventor of over 50 inventions of the Group with patent granted. He has been a member of the advisory committee in various universities including the University of Hong Kong, the Hong Kong Polytechnic University and the City University of Hong Kong.

Mr. Wong Ching Chuen, Patrick, aged 58, is a vice-president of the Company and is responsible for supervising the world-wide dyeing and finishing machine sales and after-sale technical services of the Group. Mr. Wong has been educated in the Hong Kong Polytechnic (which was subsequently renamed the Hong Kong Polytechnic University) for Mechanical Engineering and Griffith University in Australia for law. Mr. Wong has extensive experience in China trade for industrial equipment supplies and engineering work. Mr. Wong joined the Group in July 2000.

Mr. Lei Haohui, aged 41, is a vice-president of the Company and is primarily responsible for supervising the Human Resources and Administration Department of Fong's National Engineering (Shenzhen) Company Limited and Fong's National Engineering (Guangdong) Company Limited. Mr. Lei graduated with a Bachelor's degree from Zhongyuan University of Technology majoring in Machinery Manufacturing Technology and Equipment and is an engineer. Since December 2004, Mr. Lei had held position as deputy head of Assembly Workshop and deputy general manager of Tianjin Hongda Textile Machinery Co. Ltd.（天津宏大紡織機械有限公司）, general manager assistant, deputy general manager, general manager and chairman of Tianjin Textile Machinery Co. Ltd.（天津紡織機械有限責任公司）as well as deputy general manager and director of Tianjin Hongda Textile Technology Co. Ltd.（天津宏大紡織科技有限公司）. Mr. Lei has many years of experience in the textile machinery industry and has in-depth knowledge in its product characteristics, he has also extensive practical experience in production and operation, sales and marketing and management enhancement. Mr. Lei joined the Group in November 2019.

Mr. Stefan Floeth, aged 51, is the Managing Director of A. Monforts Textilmaschinen GmbH & Co. KG ("German Monforts"), a wholly-owned subsidiary of the Company since 1 January 2019. Mr. Floeth graduated from Krefeld University of Applied Sciences with a Diploma in Textile Machinery Engineering and has already worked within the Monforts-Monfongs-Group from 1996 to 2009. During the period of 2010 to 2018 he held the position of Managing Director in a German company manufacturing nonwoven machines extending his experiences in the field of technical textiles. Mr. Floeth is heading all administrative, technical and financial issues including the manufacturing plant in Austria. Mr. Floeth is also a board member of Monforts Fong's Textile Machinery Co. Limited and a member of the technical supervisory committee of the German Machine Builder's Guild VDMA (German Engineering Federation).

Mr. Lee Che Keung, aged 58, is the company secretary of the Company. Mr. Lee graduated from the Hong Kong Polytechnic (which was subsequently renamed the Hong Kong Polytechnic University) with a Professional Diploma in Company Secretaryship and Administration and is an associate member of the Hong Kong Institute of Chartered Secretaries. Mr. Lee is responsible for the investor relations of the Company and the overall corporate secretarial matters of the Group. Mr. Lee joined the Group in February 1990.

BUSINESS PERFORMANCE

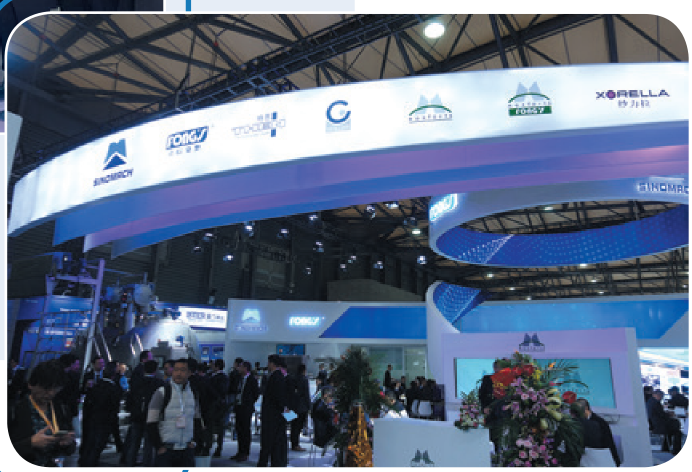
For the year ended 31 December 2019 (the "Year"), the Group recorded consolidated revenue of approximately HK$2,663,000,000, representing a decrease of 23% as compared to approximately HK$3,472,000,000 for last year. Profit attributable to owners of the Company was approximately HK$169,000,000, representing an increase of 20% as compared to approximately HK$141,000,000 for last year. Basic earnings per share for the Year was 15.35 HK cents as compared to 12.82 HK cents for last year.

MANUFACTURE AND SALE OF DYEING AND FINISHING MACHINES

During 2019, the trade friction between China and the United States continued to intensify and the global economic environment was highly volatile, causing many customers to adopt a wait-and-see attitude on investment in production equipment. Meanwhile, the competition remained keen in the dyeing and finishing equipment industry, which inevitably affected the Group's business. In addition, on 4 June 2019, a staff assembling event occurred in one of the dyeing and finishing machine production plants of the Group located at Longgang District, Shenzhen City. Through mutual understanding and negotiation between the Group and its staff, the staff assembling event was successfully resolved on 3 July and the plant has also resumed to normal production since then. Though the staff assembling event caused interruption on the production to a rather limited degree during the period, it did not have any direct material impact on the operating performance and the financial position of the Group for the Year.

Monforts Fong's established the strategic partnership with Deyi in the field of technical textiles

Shanghaitex 2019



For the Year, this business segment recorded revenue of approximately HK$1,941,000,000, accounting for 73% of the Group's revenue and representing a decrease of 28% from approximately HK$2,695,000,000 for last year. In particular, combined sales from Hong Kong and the PRC markets were approximately HK$1,082,000,000, representing a decrease of 12% from approximately HK$1,228,000,000 for last year; and sales from overseas markets were approximately HK$859,000,000, representing a decrease of 41% from approximately HK$1,467,000,000 for last year. Nevertheless, operating profit increased by approximately 69% to approximately HK$204,000,000 from approximately HK$121,000,000 for last year, which was primarily attributable to the recognition of income before tax of approximately HK$316,000,000 in the Year in respect of portions of the payment received from the urban renewal project of the land in Shenzhen (in the form of resettlement and demolition compensation) totalling approximately RMB350,000,000 (equivalent to approximately HK$388,000,000), net of related costs of approximately HK$72,000,000, as the Group has started to relocate part of its production facilities from Shenzhen to Zhongshan in stages during 2019.

ITMA 2019 held in Barcelona

Agents around the globe attended the agency briefing session held by CHTC Fong's at the ITMA 2019 in Barcelona

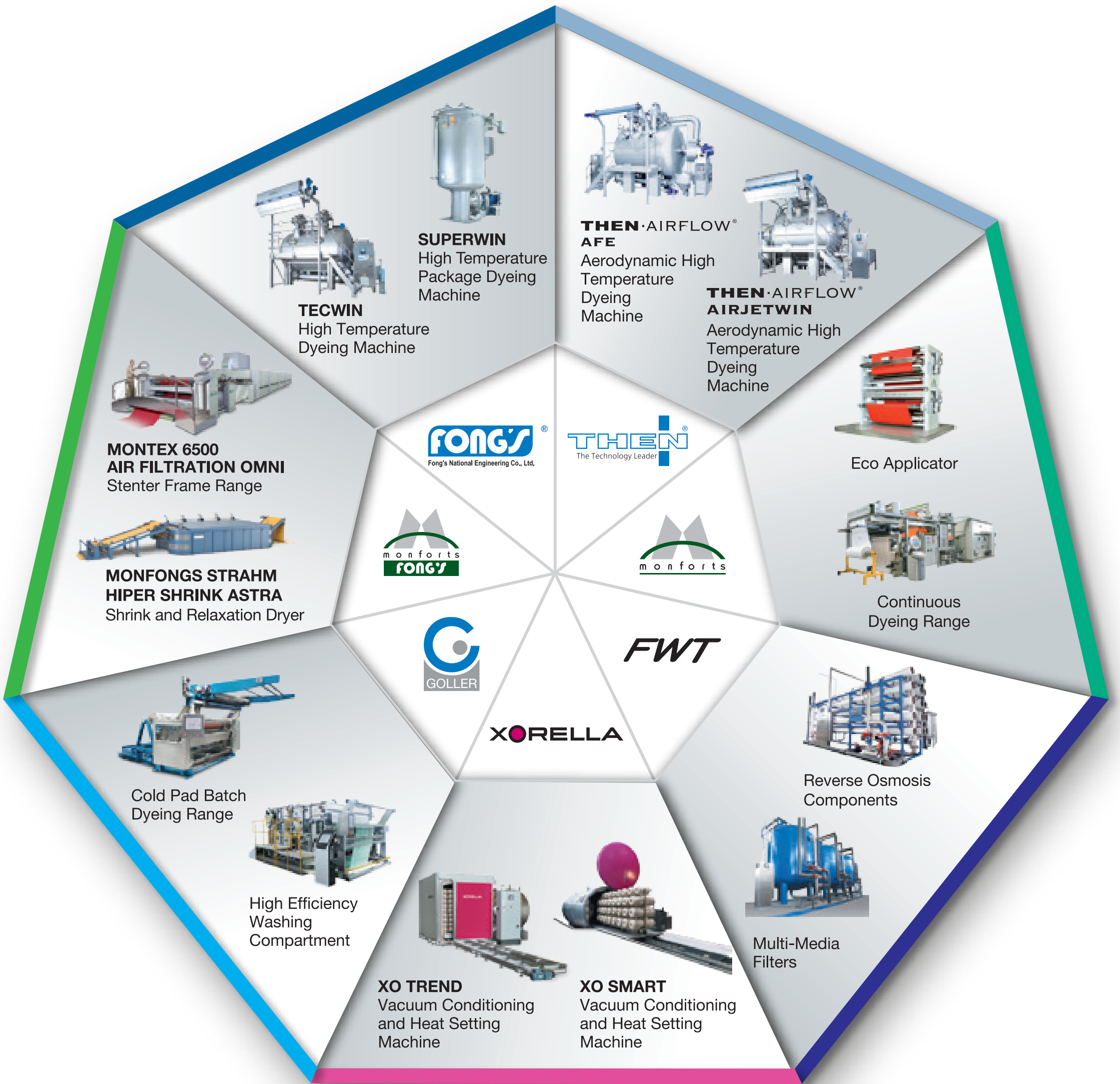
The new production plant of the Group located at Linhai Industrial Park, Cuihang New District, Zhongshan City, Guangdong Province, which has been undertaking interior decoration and equipment installment by phases, has several production lines put into operation and is expected to be ready for use in mid-2020. Upon full operation of the Zhongshan new plant, the Group's production capacity is expected to increase. The new Zhongshan plant will be keen on improving energy conservation and production efficiency, as well as applying more automated processes in its production process to shorten the production cycle and reduce manpower and management costs, and thus improve the Group's operation efficiency.

Since the outbreak of the novel coronavirus (COVID-19) in early 2020, the management has been monitoring the development of the epidemic and has taken timely actions and measures to protect the Group's employees from being infected. The Group's plants in Shenzhen and Zhongshan postponed the resumption of operations after the Lunar New Year holidays for a limited period of time to late February. The Group's operations have not experienced any material disruptions. The management will continue to monitor the development of the epidemic and take appropriate measures when necessary.

The Zhongshan plant of Monforts Fong's

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

In order to cater to the future development of the textile printing and dyeing industry, the demand on automated production and the new trend of smart factories, the Group will continue to invest resources in enhancing the efficiency, as well as the functions of environmental protection, energy saving and automation of its dyeing and finishing machines so as to provide innovative energy-saving and eco-friendly equipment and solutions to customers, thus creating more value. The Group is committed to the research and development (R&D) of supporting intelligent dyeing and finishing equipment systems, mainly focusing on (i) central chemical measuring and dispensing system, (ii) central intelligent control system for printing and dyeing equipment, (iii) exhaust gas purification device and system for stenter frames, (iv) automated intelligent material handling system of textile fabrics and production supplies, and (v) computerised numerical controlled machining centre for core components required for the supporting systems. The development of intelligent equipment projects will not only bring positive impacts on the technological improvement, core competitiveness enhancement and improvement of the Group's performance, but also play an important role in propelling industrial upgrading and technological advancement for the dyeing and finishing industry.



In 2020, the Group will move forward to:

- enhance our R&D capability and create additional technical values to our products;

- improve manufacturing capacity, persistently optimise manufacturing management and organisational structure, continuously innovate process technology, accelerate manufacturing automation, increase manufacturing efficiency and pursue better product quality;

- strengthen cost management and control, and continuously optimise suppliers and supply channels;

- standardise management processes, fine-tuning management system, boost management efficiency and reduce operating costs;

- conform to market demands through offering more premium products and strengthen after-sales technical services;

- explore new markets and sales channels to expand the Group's customer base and market share of its products, thereby maintaining its leadership in the market; and

- strengthen the development of talents and corporate culture.

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

2019 DTG Exhibition

TRADING OF STAINLESS STEEL SUPPLIES

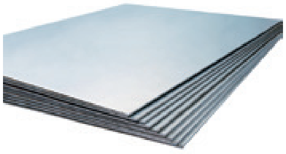
During 2019, the intensifying trade friction between China and the United States has clouded the global economic environment and had a negative influence on the stainless steel supplies market, which led to a decrease in sales of stainless steel supplies of the Group. For the year ended 31 December 2019, this business segment recorded revenue of approximately HK$216,000,000, accounting for approximately 8% of the Group's revenue and representing a decrease of 18% as compared to approximately HK$262,000,000 for last year. Due to the decrease in revenue, operating profit for the Year amounted to approximately HK$6,000,000 as compared to profit of approximately HK$18,000,000 for last year.

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

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

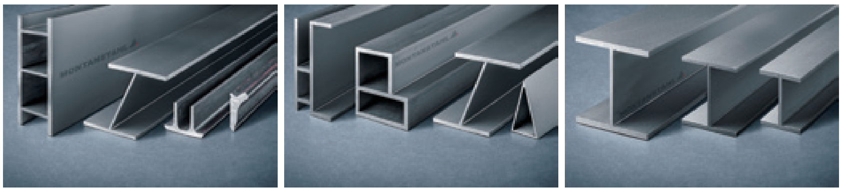
Looking into 2020, the price of stainless steel is expected to remain stable with slight fluctuations. The construction industry in Hong Kong is booming as more major infrastructure projects have commenced, which, coupled with the accelerated pace of urbanisation and infrastructure construction in the PRC, will provide opportunities for trading of stainless steel supplies. Therefore, the Group remains optimistic on the prospect of the stainless steel trading business. The Group will closely monitor and response to market changes to maintain steady growth in this business segment.

outokumpu
high performance stainless steel



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

MONTANSTAHL
special profiles in steel



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

MANUFACTURE AND SALE OF STAINLESS STEEL CASTING PRODUCTS

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

For the year 2019, this business segment recorded revenue of approximately HK$506,000,000, accounting for 19% of the Group's revenue and representing an increase of 2% as compared to approximately HK$494,000,000 for last year. Operating profit increased to approximately HK$83,000,000 from approximately HK$81,000,000 for last year. This business segment performed well as a whole with satisfactory growth in results.

Machining Part

MAGMA Cast simulation software

Machine Centre

The Group will remain committed to promoting its production capacity through streamlined production processes and automatic machines as well as strengthening controls on production costs (including labour costs), thus to further improve the gross profit margin. The Group also implements sales strategies focusing on high-margin products in different businesses and related customer sectors. On the other hand, the Group has established a marketing centre in Atlanta, Georgia to expand its sales network in the United States, aiming for more orders and laying a solid foundation for sustainable and healthy development of this business segment.

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

ENVIRONMENTAL PROTECTION SERVICES

This business segment principally engaged in operating kitchen wastes innocuous treatment projects and animal carcasses innocuous treatment projects in the PRC.

Since January 2019, the kitchen wastes treatment plant of Taian China Science Environmental Engineering Co., Ltd.（泰安中科環保工程有限公司）(“CSEE”), located at the northern foot of Hama Mountain（蛤蟆山）in Taian City, has been taken over by the Environmental Health Management Office of Taian City（泰安市環境衛生管理處）. The animal carcasses innocuous treatment facility of Taian CSCE Environmental Engineering Technology Co., Ltd.（泰安中科潔能環境工程技術有限公司）(“Taian CSCE”) resumed limited production after technological upgrade in September 2018. Due to environmental pressure, the facility had suspended operations for a period. After that, the facility resumed operations in April 2019 but had been operating on an intermittent basis. Due to the recent outbreak of COVID-19, the animal carcasses innocuous treatment facility has been closed after the Lunar New Year holidays. For the year ended 31 December 2019, this business segment recorded revenue of approximately HK$30,000, while the operating loss amounted to approximately HK$22,000,000. The Board believes that the current operating position of this business segment will not have a material adverse effect on the overall financial position of the Group.

In early 2020, the Group had a meeting with relevant governmental authorities of Taian City to communicate on matters concerning the concession rights and business rationalisation of CSEE and Taian CSCE, seeking support from local government so as to resume normal operations of the business. The Company will consider disclosing updates on this business segment for any further development as and when appropriate.

PROSPECTS

Looking into 2020, the global economy is facing an array of uncertainties and the outbreak of COVID-19 is spreading rapidly around the world. The Board believes that 2020 will be another year of both challenges and opportunities. The management of the Group will closely monitor the development of the industry to capture the opportunities brought by technological innovation and the capacity expansion of the new Zhongshan plant, leverage on our advantages of scale, technology and talents, and implement the established development strategy to achieve sustainable and healthy development of the Group. Meanwhile, the Group will gradually divest non-core businesses such as environmental protection services and real estate investment in due course, concentrate resources to further optimise and streamline the corporate structure and comprehensively rationalise and consolidate its three core businesses. It will also actively develop its core businesses, vigorously expand the market and enhance the profitability of the Company so as to maximise value for the shareholders.

HUMAN RESOURCES

As at 31 December 2019, the Group had a total of approximately 4,150 employees (31 December 2018: approximately 4,570 employees) across mainland China, Hong Kong, Macau, Germany, Switzerland, Austria, Thailand, India, Turkey and Central and South America. In 2019, total staff costs (including Directors' emoluments, employees' remuneration and contribution to retirement benefits schemes) amounted to approximately HK$781,000,000 (2018: HK$758,000,000), accounting for 29% (2018: 22%) of its revenue. The Group will continue to monitor the market situation and consolidate its human resources and labour structure in order to utilise manpower more efficiently and enhance operational productivity.

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

LIQUIDITY AND CAPITAL SOURCES

Given continuously increasing cost pressure, the Group strictly implemented prudent cost and cash flow management. During the Year, the Group met its funding requirements in ordinary and normal course of business with cash flow generated from operations, banking facilities and debt financing. The management believes that the Group's current cash and cash equivalents, together with available credit facilities and expected cash flow from operations, will be sufficient to satisfy the current operational requirements of the Group.

During the year ended 31 December 2019, the Group's net cash outflow used for operating activities was approximately HK$52,000,000. As at 31 December 2019, the Group's inventory level increased to approximately HK$766,000,000 as compared to approximately HK$764,000,000 as at 31 December 2018.

As at 31 December 2019, bank borrowings of the Group amounted to approximately HK$1,920,000,000. Most of the bank borrowings were sourced from Hong Kong, with 94% denominated in Hong Kong dollars, 5% in United States dollars and 1% in Renminbi. The Group's bank borrowings are predominantly subject to floating interest rates.

As at 31 December 2019, the Group's bank balances and cash amounted to approximately HK$332,000,000, of which 49% was denominated in Renminbi, 24% in United States dollars, 17% in Hong Kong dollars, 8% in Euros and the remaining 2% in other currencies.

The Group continued to maintain prudent financial management policies during the Year. As at 31 December 2019, the Group's gearing ratio, defined as net bank borrowings (other than payables in ordinary course of business) over total equity, increased to 94% (2018: 84%) and its current ratio was 0.58 (2018: 0.73). The change of gearing ratio was primarily due to the increase of the debt scale.

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

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report for the year ended 31 December 2019.

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

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

Throughout the year ended 31 December 2019, the Company has complied with all the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except for the derivations from the code provision A.6.7 of the CG Code that independent non-executive directors and other non-executive directors should attend general meetings to gain and develop a balanced understanding of the views of shareholders. Mr. Ying Wei and Dr. Yuen Ming Fai, both being Independent Non-executive Directors, were unable to attend the annual general meeting of the Company held on 28 May 2019 due to other business engagement.

CODES FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. All the Directors have confirmed, following a specific enquiry by the Company, that they have complied with the required standard as set out in the code of conduct regarding securities transactions by the Directors adopted by the Company throughout the year ended 31 December 2019 and up to the date of this report.

The Company has also adopted a code of conduct regarding securities transactions by relevant employees of the Group on terms no less exacting than the required standard set out in the Model Code to regulate dealings in the securities of the Company by certain employees of the Company or directors or employees of the Company's subsidiaries who are considered to be likely in possession of unpublished price sensitive information in relation to the Company or its subsidiaries. No incident of non-compliance was noted by the Company for the year ended 31 December 2019.

BOARD OF DIRECTORS

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

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

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

Executive Directors
Mr. Ye Maoxin *(Chairman)*
Mr. Guan Youping *(Chief Executive Officer)* (appointed on 18 October 2019)
Mr. Du Qianyi *(Chief Financial Officer)*
Mr. Wu Xudong (appointed on 26 July 2019)
Mr. Ji Xin *(Chief Executive Officer)* (resigned on 18 October 2019)

Non-executive Director
Mr. Fong Kwok Leung, Kevin

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

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

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

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the Chairman and the Chief Executive Officer are defined clearly to ensure their accountability and responsibilities with respect to the management of the Company.

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

Mr. Guan Youping has been appointed as an Executive Director and the Chief Executive Officer of the Company with effect from 18 October 2019 in substitution for Mr. Ji Xin who had tendered his resignation due to his new assignment in China Hi-Tech Group Corporation（中國恒天集團有限公司）. The Chief Executive Officer is responsible for managing the business of the Group, policy making and corporate management and the implementation of strategies and initiatives adopted by the Board with the support from the management.

NON-EXECUTIVE DIRECTOR AND INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

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

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

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

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

BOARD MEETINGS

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

The Board is scheduled to meet regularly at least four times a year at approximately quarterly intervals to discuss the overall strategy as well as the operational and financial performance of the Group. Other board meetings will be held when necessary. The Bye-laws of the Company allows board meetings to be conducted by way of telephone or video conference and any resolutions to be passed by way of written resolutions circulated to and signed by all Directors from time to time when necessary unless any matters in which a substantial shareholder or a Director or their respective associates has a conflict of interest. As some of the Directors are on occasional, and sometimes unexpected, business trips and/or are stationed in different regions of the PRC, it may, in practice, be inconvenient to convene a full board meeting on a frequent basis. Hence, the Board may approve certain issues in the form of a written resolution. With a view to facilitating Directors' attendance at board meetings and committee meetings as well as corporate events, the Company Secretary will seek advice from the Board and prepare an annual plan for the Board. The Board held a total of eight board meetings (including four meetings by way of circulation of written resolutions) during the year ended 31 December 2019. The attendance record of each Director at the board meetings is disclosed below in this report.

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

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

CORPORATE GOVERNANCE FUNCTIONS

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

BOARD COMMITTEES

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

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

NOMINATION COMMITTEE

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

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

Mr. Ye Maoxin *(Committee Chairman)*
Mr. Guan Youping (appointed on 18 October 2019)
Mr. Ying Wei
Dr. Yuen Ming Fai
Mr. Li Jianxin
Mr. Ji Xin (resigned on 18 October 2019)

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

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

The Nomination Committee is responsible for monitoring the implementation of the board diversity policy and will at the appropriate time set measurable objectives for achieving diversity of the Board. It is also responsible to consider and recommend to the Board suitably qualified persons to become a member of the Board, monitor the succession planning of Directors and assess the independence of Independent Non-executive Directors.

During the year, the Nomination Committee reviewed the structure, size and composition of the Board. It also assessed and confirmed the independence of the Independent Non-executive Directors, and recommended to the Board regarding the appointment of (i) Mr. Wu Xudong as an Executive Director of the Company; and (ii) Mr. Guan Youping as an Executive Director and the Chief Executive Officer of the Company.

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

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Pursuant to bye-law 99 of the Bye-laws, at every annual general meeting of the Company, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that the Chairman and Managing Director (if any) of the Company shall not be subject to retirement by rotation or be taken into account in determining the number of Directors to retire. A retiring Director shall be eligible for re-election. In the spirit of good corporate governance practices, Mr. Ye Maoxin, the Chairman of the Company, will voluntarily retire from his office by rotation at the relevant annual general meetings of the Company notwithstanding that he is not required by the Bye-laws to do so.

Pursuant to bye-law 102(B) of the Bye-laws, any Director appointed by the Board either to fill a casual vacancy or as an addition to the Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Any Director appointed by the Board pursuant to bye-law 102(B) of the Bye-laws shall not be taken into account in determining the number of Directors to retire by rotation.

Accordingly, Mr. Ye Maoxin, Mr. Guan Youping, Mr. Wu Xudong and Mr. Ying Wei will retire from the Board at the AGM and, being eligible, will offer themselves for re-election.

INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

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

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

All Directors are also encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. According to the records maintained by the Company, the trainings undertaken by each of the Directors during the year ended 31 December 2019 are summarised as follows:

Name of Director	Trainings undertaken by Director A	B
Executive Directors		
Mr. Ye Maoxin	✓	✓
Mr. Guan Youping (appointed on 18 October 2019)	✓	✓
Mr. Du Qianyi	✓	✓
Mr. Wu Xudong (appointed on 26 July 2019)	✓	✓
Mr. Ji Xin (resigned on 18 October 2019)	✓	✓
Non-executive Director		
Mr. Fong Kwok Leung, Kevin	✓	✓
Independent Non-executive Directors		
Mr. Ying Wei	✓	✓
Dr. Yuen Ming Fai	✓	✓
Mr. Li Jianxin		✓

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

REMUNERATION COMMITTEE

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

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

Mr. Li Jianxin *(Committee Chairman)*
Mr. Ye Maoxin
Mr. Guan Youping (appointed on 18 October 2019)
Mr. Ying Wei
Dr. Yuen Ming Fai
Mr. Ji Xin (resigned on 18 October 2019)

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

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

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

AUDIT COMMITTEE

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

The main duties of the Audit Committee are to:

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

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

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

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

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

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

The external auditor was invited to attend meetings of the Audit Committee held during the year to discuss with the members of the Audit Committee on issues arising from the audit and financial reporting matters. The Chairman of the Audit Committee provided the Board with a briefing on the significant issues after each meeting of the Audit Committee. There was no disagreement between the Board and the Audit Committee on the selection and re-appointment of the external auditor during the year ended 31 December 2019.

The Audit Committee held three meetings in 2019 and the attendance record of individual member is set out in this Corporate Governance Report. In discharging its responsibilities, the Audit Committee has performed the following works during the year ended 31 December 2019:

(i) reviewed the annual report of the Group for the year ended 31 December 2018 and the interim report of the Group for the six months ended 30 June 2019, as well as the reports prepared by the external auditor covering major findings in the course of its audit;

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

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

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

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

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

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

ATTENDANCE RECORD OF INDIVIDUAL DIRECTOR AT MEETINGS IN 2019

	Number of Attendance/Number of Possible Attendance				
	Board Meeting	Audit Committee Meeting	Nomination Committee Meeting	Remuneration Committee Meeting	Annual General Meeting
Executive Directors					
Mr. Ye Maoxin	8/8	3/3	3/3	2/2	1/1
Mr. Guan Youping (appointed on 18 October 2019)	4/4	1/1	–	2/2	–
Mr. Du Qianyi	8/8	3/3	–	–	1/1
Mr. Wu Xudong (appointed on 26 July 2019)	4/5	1/2	–	–	–
Mr. Ji Xin (resigned on 18 October 2019)	4/4	2/2	1/1	–	1/1
Non-executive Director					
Mr. Fong Kwok Leung, Kevin	8/8	3/3	–	–	1/1
Independent Non-executive Directors					
Mr. Ying Wei	7/8	2/3	3/3	2/2	0/1
Dr. Yuen Ming Fai	8/8	3/3	3/3	2/2	0/1
Mr. Li Jianxin	8/8	3/3	3/3	2/2	1/1

AUDITOR'S REMUNERATION

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

(i) Audit services; and

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

Total remuneration paid for the above audit services and non-audit services was approximately HK$3,185,000.

RESPONSIBILITIES FOR PREPARATION AND REPORTING OF ACCOUNTS

The consolidated financial statements of the Company for the year ended 31 December 2019 have been reviewed by the Audit Committee and audited by the external auditor, PKF Hong Kong Limited. The Directors acknowledged their responsibility for preparing the financial statements of the Group which were prepared in accordance with statutory requirements and applicable accounting standards. A statement by the external auditor about their reporting responsibilities is set out in the Independent Auditor's Report of this Annual Report.

RISK MANAGEMENT AND INTERNAL CONTROLS

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

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

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

During 2019, members of the internal audit department carried out an internal audit project to identify the key risk areas which covered all aspects of corporate strategies, operations and finance of the Group. The Board has reviewed the risk assessment documents and considered that the resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget are adequate during the year under review. The Board has also reviewed the effectiveness of the Group's internal controls and considered that key areas of the Group's system of internal controls are reasonably implemented, which provide prevention of material misstatement or loss, safeguard the Group's assets, maintain appropriate accounting records and financial reporting, efficiency of operations and ensure compliance with the Listing Rules and all other applicable laws and regulations.

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

COMPANY SECRETARY

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

According to Rule 3.29 of the Listing Rules, Mr. Lee took not less than 15 hours of relevant professional training for the year ended 31 December 2019.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

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

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

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

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

During the year ended 31 December 2019, the Company held an annual general meeting on 28 May 2019. The Company's notice to shareholders for the annual general meeting was sent to shareholders at least 20 clear business days before such meeting. The Chairman of the Board and the external auditor had attended the annual general meeting held on 28 May 2019 to answer questions from the shareholders. The Chairman of the annual general meeting had explained the procedures for conducting a poll during the meeting.

SHAREHOLDERS' RIGHTS

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

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

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

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

DIVIDEND POLICY

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

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

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

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

(iv) the Group's liquidity position;

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

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

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

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

On behalf of the Board

Ye Maoxin
Chairman

Hong Kong, 27 March 2020

DIRECTORS' REPORT

The Board presents its report and the audited consolidated financial statements for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company acts as an investment holding company.

The subsidiaries of the Company are principally engaged in the manufacture and sale of dyeing and finishing machines, trading of stainless steel supplies, manufacture and sale of stainless steel casting products and provision of environmental protection services. The activities of its principal subsidiaries are set out in Note 39 to the consolidated financial statements.

Further review and analysis of these business activities, including the risks and uncertainties facing the Group and likely future development in the Group's businesses, are set out in the Chairman's Statement and Management Discussion and Analysis sections on pages 3 to 4 and pages 12 to 21 of this Annual Report respectively. These review and analysis form part of this report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2019 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 61 to 62.

The Board recommended the payment of a final dividend of 2 HK cents per share, totalling approximately HK$22,004,000 in respect of the year to shareholders whose names appear on the register of members of the Company on 5 June 2020. The proposed final dividend for the year ended 31 December 2019 was approved at the Company's board meeting held on 27 March 2020. Details of the dividends for the year ended 31 December 2019 are set forth in Note 10 to the consolidated financial statements.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the annual general meeting of the Company to be held on Thursday, 28 May 2020 ("2020 AGM"), the register of members of the Company will be closed from Monday, 25 May 2020 to Thursday, 28 May 2020, both days inclusive, during which period no transfer of shares of the Company will be effected. In order to be eligible to attend and vote at the 2020 AGM, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Registrar, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 22 May 2020.

Subject to the approval of the proposed final dividend at the 2020 AGM, the register of members of the Company will be closed from Thursday, 4 June 2020 to Friday, 5 June 2020, both days inclusive, for the purpose of determining the entitlements of the shareholders to the proposed final dividend. In order to qualify for the proposed final dividend, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Registrar, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 3 June 2020. Dividend warrants will be despatched on Friday, 19 June 2020.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2019 were as follows:

	HK$'000
Contributed surplus	23,033
Retained profits	98,303
	121,336

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

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

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

PROPERTY, PLANT AND EQUIPMENT

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

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2019, the aggregate amount of revenue attributable to the Group's five largest customers represented less than 14% of the Group's total revenue.

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

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

DIRECTORS AND SERVICE CONTRACTS

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

Executive Directors:
Mr. Ye Maoxin *(Chairman)*
Mr. Guan Youping *(Chief Executive Officer)* (appointed on 18 October 2019)
Mr. Du Qianyi *(Chief Financial Officer)*
Mr. Wu Xudong (appointed on 26 July 2019)
Mr. Ji Xin *(Chief Executive Officer)* (resigned on 18 October 2019)

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

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

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

Mr. Ying Wei was appointed under a contract for a term of two years commencing on 1 September 2017 and expiring on 31 August 2019. Upon expiry, his term of office has been extended to 31 August 2021.

Dr. Yuen Ming Fai was appointed under a contract for a term of 2 years commencing on 1 September 2018 and expiring on 31 August 2020.

Mr. Li Jianxin was appointed under a contract for a term of 2 years commencing on 1 July 2018 and expiring on 30 June 2020.

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

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

In accordance with the Company's Bye-laws, Mr. Ye Maoxin, Mr. Guan Youping, Mr. Wu Xudong and Mr. Ying Wei will retire from the Board by rotation at the forthcoming 2020 AGM. The retiring Directors are eligible for re-election and have agreed to offer themselves for re-election at the forthcoming 2020 AGM.

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

DIRECTORS' INTERESTS IN THE SHARES OF THE COMPANY

As at 31 December 2019, the interests of the Directors and their associates in the shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long position in shares of the Company

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

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

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

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

Save as disclosed above, none of the Directors, chief executive nor their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2019.

SHARE OPTIONS

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

Particulars of the Scheme and a summary of the movements of the share options granted under the Scheme during the year ended 31 December 2019 are set out in Note 34 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

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

ARRANGEMENTS TO PURCHASE SHARES OR DEBT SECURITIES

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

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2019, the Group had entered into the following connected transactions and continuing connected transactions which are exempted from independent shareholders' approval requirements, but are subject to the reporting and announcement requirements set out in Chapter 14A of the Listing Rules.

Connected Transaction

Entrusted Loan Agreement

On 3 December 2018, Fong's National Engineering (Shenzhen) Co., Ltd.（立信染整機械（深圳）有限公司）(an indirect wholly-owned subsidiary of the Company) ("FNES") entered into an entrusted loan agreement with Hengtian Real Estate Company Limited（恒天地產有限公司）("Hengtian Real Estate") and Bank of China Limited, Buji, Shenzhen Branch（中國銀行股份有限公司深圳布吉支行）(the "Bank"), pursuant to which FNES (as the entrusting party and lender) agreed to provide an entrusted loan in the principal amount of RMB40 million for a term of about seven months from 3 December 2018 to 25 June 2019 at the interest rate of 11% per annum to Hengtian Real Estate (as the borrower) through the Bank (as the entrusted party and lending agent). For details of the transaction, please refer to the announcement of the Company dated 3 December 2018. The entrusted loan was fully repaid in one lump sum on 25 June 2019. The total interest received from Hengtian Real Estate during the loan period amounted to RMB1,620,021, net of value-added tax.

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

Continuing Connected Transactions

(i) Tenancy Agreements

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

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

The total rental paid by the Group to Sou Lam for the year ended 31 December 2019 amounted to HK$8,820,000. In addition, upon expiry of the tenancy agreement on 31 December 2019, FNECL surrendered the premises on "as is basis" to Sou Lam and paid Sou Lam a sum of HK$260,000 being payment in lieu of reinstatement of the surrendered premises.

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

(ii) Procurement Agreement

On 28 December 2018, the Group, through its indirect wholly-owned subsidiaries namely Fong's National Engineering (Shenzhen) Co., Ltd.（立信染整機械（深圳）有限公司, Fong's National Engineering (Guangdong) Co., Ltd.（立信染整機械（廣東）有限公司）and Monforts Fong's Textile Machinery (Zhongshan) Co., Ltd.（立信門富士紡織機械（中山）有限公司）as purchaser, entered into a procurement agreement with Keyvalve (Shenzhen) Co., Ltd.（奇偉閥門（深圳）有限公司）("Keyvalve") as seller whereby the purchaser has agreed to purchase from Keyvalve certain categories of valves for its production of dyeing and finishing machines by issuing purchase orders from time to time to Keyvalve under the terms and conditions as stipulated therein during the period from 1 January 2019 to 31 December 2021 (both days inclusive). The annual caps for the contract price of the valves purchased by the purchaser from Keyvalve for the years ending 31 December 2019, 31 December 2020 and 31 December 2021 are RMB26 million, RMB28 million and RMB30 million respectively. Details of the transaction were set out in the announcement of the Company dated 28 December 2018. The amount of valves purchased by the purchaser from Keyvalve during the year ended 31 December 2019 was RMB18,506,362 (equivalent to approximately HK$20,974,000).

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

(iii) Licences and Cooperation Agreement

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

The amount of engineering fee paid by the Group to AUTEFA during the year ended 31 December 2019 was HK$769,066.

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

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

The Board has received a letter of confirmation from the auditor stating that the above continuing connected transactions (i) have been approved by the Board; (ii) have been conducted in accordance with the relevant agreements governing the relevant transactions; and (iii) the aggregate amounts incurred in 2019 have not exceeded the annual cap disclosed in the previous announcements. The auditor issued its unqualified letter containing its findings and conclusions in respect of the transactions disclosed above in accordance with Rule 14A.56 of the Listing Rules. The Company has provided a copy of the said letter to the Stock Exchange.

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

MATERIAL RELATED PARTY TRANSACTIONS

During the year ended 31 December 2019, the Group entered into certain transactions with "related parties" as defined under the applicable accounting standards. Details of the material related party transactions are disclosed in Note 38 to the consolidated financial statements.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

Other than the connected transactions and continuing connected transactions as disclosed above, no other transactions, arrangements and contracts of significance in relation to which the Company, its ultimate holding company, or any of its subsidiaries or fellow subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year ended 31 December 2019 or at any time during that year.

PERMITTED INDEMNITY PROVISIONS

A permitted indemnity provision for the benefit of the Directors of the Company is currently in force and was in force throughout the year ended 31 December 2019. The Company has maintained liability insurance to provide appropriate cover for the Directors of the Company and its subsidiaries.

MANAGEMENT CONTRACTS

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

DISCLOSURE PURSUANT TO RULE 13.21 OF THE LISTING RULES

In accordance with the requirements under Rule 13.21 of the Listing Rules, the Board reported below details of loan facilities which exist at any time during the year ended 31 December 2019 and up to the date of this Annual Report and include covenants requiring specific performance obligations of the controlling shareholder of the Company.

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

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

(ii) On 1 June 2017, a wholly-owned subsidiary of the Company (as borrower) accepted the term loan facility of up to HK$100 million offered by a bank. The term loan shall be repaid by seven quarterly instalments commencing 18 months after the date of drawdown. On 24 April 2019, the bank granted to the Group a new revolving short term advance facility of up to HK$80 million for financing the general working capital requirements of the Group and a new 3-year term loan facility of up to HK$70 million which shall be repaid by seven quarterly instalments commencing 18 months after the date of drawdown. The two term loans will be used for the construction cost of buildings and facilities as well as purchase of production equipment in respect of the new Zhongshan factory premises of the Group. The terms and conditions of the banking facilities include, inter alia, a condition that it will be an event of default if China Hi-Tech Group Corporation (中國恒天集團有限公司) ceases to maintain not less than 51% of shareholding (whether directly or indirectly) of the Company throughout the life of the banking facilities.

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

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

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

Save as disclosed above, the Directors are not aware of any circumstances which would give rise to a disclosure obligation pursuant to the requirements under Rule 13.18 of the Listing Rules as at 31 December 2019 and as at the date of this Annual Report.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

As at 31 December 2019, the register maintained by the Company pursuant to Section 336 of the SFO shows that, other than the interests disclosed above in respect of certain Directors, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company as follows:

Long position in shares of the Company

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

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

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

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

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

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

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

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

Save as disclosed above, as at 31 December 2019, the Company had not been notified of any person who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

DONATIONS

During the year, the Group made charitable and other donations amounting to HK$105,000.

EMOLUMENT POLICY

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

PRE-EMPTIVE RIGHTS

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

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2019.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, throughout the year ended 31 December 2019 and as at the date of this Annual Report, the Company has maintained a sufficient public float of not less than 25% of the Company's issued shares being held by the public as required under the Listing Rules.

AUDITOR

The consolidated financial statements for the year ended 31 December 2019 were audited by PKF Hong Kong Limited which would retire at the conclusion of the 2020 AGM and, being eligible, offer themselves for re-appointment. An ordinary resolution will be proposed to re-appoint PKF Hong Kong Limited as the independent auditor of the Company and to authorise the Board to fix their remuneration at the 2020 AGM.

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

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

On behalf of the Board

Guan Youping
Director

Hong Kong, 27 March 2020

大信梁學濂(香港)會計師事務所有限公司

PKF
Accountants & business advisers

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

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

OPINION

We have audited the consolidated financial statements of CHTC Fong's International Company Limited and its subsidiaries (together the "Group") set out on pages 61 to 181, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

Refer to Notes 4, 15 and 16 to the consolidated financial statements.

Key Audit Matter	How the matter was addressed in our audit procedures
As at 31 December 2019, the Group had goodwill and intangible assets of approximately HK$533,515,000 and HK$90,727,000 respectively relating to the manufacture and sale of dyeing and finishing machines business segment. Management performed its annual impairment review and concluded that there was no impairment in respect of the goodwill and intangible assets. A significant risk of material misstatement may exist as a result of the application of management judgement and estimation in performing the impairment review, in particular, in relation to the forecasting of future cash flows, the growth rates used by management to extrapolate the cash flows after the first 5-year period and the selection of an appropriate discount rate.	Our procedures performed in relation to management's impairment assessment of goodwill and intangible assets included: – Obtaining an understanding of the Group's procedures and method of valuation, including significant assumptions made and management's assessment of estimation uncertainty; – Assessing the value-in-use calculations methodology adopted by management; – Reconciling input data and relevant parameters to supporting evidence, such as approved financial budgets and considering the reasonableness of those budgets; – Assessing the reasonableness of key assumptions based on our understanding of the business and industry; – Re-calculating the valuation made by management; – Considering the potential impact of reasonably possible upside/downside changes in these key assumptions; – Determining whether indication of possible management bias exist; and – Evaluating the recognition and measurement criteria used and disclosure made by management.

IMPAIRMENT ASSESSMENT OF INTANGIBLE ASSETS – PROVISION OF ENVIRONMENTAL PROTECTION SERVICES SEGMENT

Refer to Notes 4 and 16 to the consolidated financial statements.

Key Audit Matter	How the matter was addressed in our audit procedures
As at 31 December 2019, included in intangible assets were concession rights to operate kitchen wastes recycling treatment plant and operation rights to operate animal carcass processing facilities of approximately HK$89,946,000 and HK$33,689,000 respectively. For the year ended 31 December 2019, impairment loss of approximately HK$10,797,000 and HK$4,176,000 had been recognised on the concession rights and the operation rights respectively. We have identified the impairment assessment of intangible assets as a key audit matter because the estimations of the recoverable amounts are complex, subjective and highly judgmental, particularly in the assumptions and judgements made by management in arriving at the cash flow forecasts.	Our procedures performed in relation to management's impairment assessment of intangible assets included: – Obtaining an understanding of the Group's procedures and method of valuation, including significant assumptions made and management's assessment of estimation uncertainty; – Evaluating the independence and works performed by the independent external valuer engaged by management to assist their valuation; – Evaluating whether the method of valuation and assumptions made are appropriate; – Testing the data used by management in the valuation; – Re-calculating the valuation made by management; – Considering the potential impact of reasonably possible upside/downside changes in these key assumptions; – Determining whether indication of possible management bias exist; and – Evaluating the recognition and measurement criteria used and disclosure made by management.

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

Refer to Notes 4, 17 and 33(c) to the consolidated financial statements.

Key Audit Matter	How the matter was addressed in our audit procedures
As at 31 December 2019, the Group had financial assets at fair value through other comprehensive income of approximately HK$170,707,000. The Group engaged an independent external valuer to apply valuation method to determine the fair value of these financial instruments. This valuation method included significant unobservable inputs, involved subjective judgements and assumptions. The sensitivity of the assumptions used may have material impact on the valuation of these financial instruments. We have identified the valuation of financial assets at fair value through other comprehensive income as a key audit matter because of the significant estimation uncertainty resulted from the use of unobservable inputs and the significant judgement made in selecting the valuation method.	Our procedures performed in relation to management's valuation of financial assets at fair value through other comprehensive income included: – Obtaining an understanding of the Group's procedures and method of valuation, including significant assumptions made and management's assessment of estimation uncertainty; – Evaluating the independence and works performed by the independent external valuer engaged by management to assist their valuation; – Evaluating whether the method of valuation and assumptions made are appropriate; – Testing the data used by management in the valuation; – Re-calculating the valuation made by management; – Considering the potential impact of reasonably possible upside/downside changes in these key assumptions; – Determining whether indication of possible management bias exist; and – Evaluating the recognition and measurement criteria used and disclosure made by management.

OTHER INFORMATION IN THE ANNUAL REPORT

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement director on the audit resulting in this independent auditor's report is TAN Yik Chung Wilson (Practising Certificate Number: P05103).

PKF Hong Kong Limited
Certified Public Accountants

Hong Kong, 27 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
Revenue	5	**2,663,259**	3,472,497
Cost of sales		**(1,883,171)**	(2,369,420)
Gross profit		**780,088**	1,103,077
Interest income		**4,134**	9,577
Other income	8	**33,690**	26,060
Other gains (losses)	8	**303,860**	(11,837)
Selling and distribution costs		**(204,695)**	(299,628)
Administrative and other expenses		**(625,629)**	(611,593)
Finance costs	6	**(58,863)**	(42,401)
Share of results of an associate	18	**(113)**	(72)
Impairment loss on goodwill		**–**	(4,535)
Impairment loss on intangible assets		**(14,973)**	(14,837)
Profit before tax		**217,499**	153,811
Income tax expense	7	**(58,633)**	(29,189)
Profit for the year	8	**158,866**	124,622
Other comprehensive (expense) income, net of tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation		**(25,984)**	(68,776)
Exchange difference reclassified to profit or loss upon deregistration of a subsidiary		**–**	(920)
Share of translation reserve of an associate		**(612)**	(1,196)
		(26,596)	(70,892)
Items that will not be reclassified to profit or loss:			
Remeasurement (loss) gain on defined benefit plan		**(2,363)**	253
Fair value gain (loss) on financial assets at fair value through other comprehensive income		**15,910**	(13,713)
		13,547	(13,460)
Other comprehensive expense for the year		**(13,049)**	(84,352)
Total comprehensive income for the year		**145,817**	40,270

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
Profit (loss) for the year attributable to:			
Owners of the Company		**168,836**	141,017
Non-controlling interests		**(9,970)**	(16,395)
		158,866	124,622
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		**155,787**	56,665
Non-controlling interests		**(9,970)**	(16,395)
		145,817	40,270
Earnings per share			
Basic	11(a)	**15.35 HK cents**	12.82 HK cents
Diluted	11(b)	**15.35 HK cents**	12.82 HK cents

The accompanying notes form part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
Non-current assets			
Property, plant and equipment	12	**1,720,671**	1,478,057
Right-of-use assets	13	**45,408**	–
Prepaid lease payments	14	**208,342**	212,557
Goodwill	15	**533,515**	533,515
Intangible assets	16	**219,871**	244,004
Financial assets at fair value through other comprehensive income	17	**170,707**	158,264
Investment in an associate	18	**27,726**	28,450
Deposits for acquisition of property, plant and equipment		**49,080**	103,833
Deposits for acquisition of leasehold land		**53,589**	7,394
Deferred tax assets	19	**39,779**	28,101
		3,068,688	2,794,175
Current assets			
Inventories	20	**765,848**	764,423
Trade and other receivables	21	**500,223**	617,469
Prepaid lease payments	14	**–**	5,273
Tax recoverable		**15,445**	10,184
Cash and bank balances	22	**331,820**	586,799
		1,613,336	1,984,148
Current liabilities			
Bank overdraft, unsecured		**3,592**	–
Trade and other payables	23	**641,807**	621,086
Contract liabilities	24	**181,395**	180,152
Warranty provision	25	**16,358**	16,191
Lease liabilities	26	**12,130**	–
Tax liabilities		**17,233**	19,930
Bank borrowings	27	**1,919,858**	1,894,522
		2,792,373	2,731,881
Net current liabilities		**(1,179,037)**	(747,733)
Total assets less current liabilities		**1,889,651**	2,046,442

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
Non-current liabilities			
Deferred revenue	28	**78,839**	82,007
Deferred tax liabilities	19	**89,541**	59,097
Lease liabilities	26	**33,871**	–
Other payable	23	**–**	341,751
		202,251	482,855
Net assets		**1,687,400**	1,563,587
Capital and reserves			
Total equity attributable to owners of the Company			
Share capital	29(b)	**55,011**	55,011
Share premium and reserves		**1,637,689**	1,503,906
		1,692,700	1,558,917
Non-controlling interests		**(5,300)**	4,670
Total equity		**1,687,400**	1,563,587

The consolidated financial statements on pages 61 to 181 were approved and authorised for issue by the Board of Directors on 27 March 2020 and are signed on its behalf by:

Ye Maoxin
Director

Guan Youping
Director

The accompanying notes form part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Attributable to owners of the Company											
	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Capital redemption reserve HK$'000	Fair value reserve (non-recycling) HK$'000	Translation reserve HK$'000	Retained profits HK$'000	Contributed surplus HK$'000 (Note)	Share option reserve HK$'000	Subtotal HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2018	55,011	152,122	(581)	2,504	–	51,272	1,328,005	25,582	16,614	1,630,529	21,062	1,651,591
Impact on initial application of HKFRS 9	–	–	–	–	(7,254)	–	–	–	–	(7,254)	–	(7,254)
Adjusted balances at 1 January 2018	55,011	152,122	(581)	2,504	(7,254)	51,272	1,328,005	25,582	16,614	1,623,275	21,062	1,644,337
Profit for the year	–	–	–	–	–	–	141,017	–	–	141,017	(16,395)	124,622
Exchange difference arising on translation	–	–	–	–	–	(68,776)	–	–	–	(68,776)	–	(68,776)
Exchange difference reclassified to profit or loss upon deregistration of a subsidiary	–	–	–	–	–	(920)	–	–	–	(920)	–	(920)
Share of translation reserve of an associate	–	–	–	–	–	(1,196)	–	–	–	(1,196)	–	(1,196)
Remeasurement gain on defined benefit plan	–	–	–	–	–	–	253	–	–	253	–	253
Fair value loss on financial assets at fair value through other comprehensive income	–	–	–	–	(13,713)	–	–	–	–	(13,713)	–	(13,713)
Other comprehensive (expense) income for the year, net of tax	–	–	–	–	(13,713)	(70,892)	253	–	–	(84,352)	–	(84,352)
Total comprehensive (expense) income for the year	–	–	–	–	(13,713)	(70,892)	141,270	–	–	56,665	(16,395)	40,270
Capital contribution from a non-controlling interest of a newly incorporated subsidiary	–	–	–	–	–	–	–	–	–	–	3	3
Release of reserves upon deregistration of a subsidiary	–	–	581	–	–	(9)	(572)	–	–	–	–	–
Transfer of share option reserve upon the lapse of share options	–	–	–	–	–	–	16,614	–	(16,614)	–	–	–
Final dividend for 2017 paid (Note 10)	–	–	–	–	–	–	(88,017)	–	–	(88,017)	–	(88,017)
Interim dividend for 2018 paid (Note 10)	–	–	–	–	–	–	(33,006)	–	–	(33,006)	–	(33,006)
At 31 December 2018	55,011	152,122	–	2,504	(20,967)	(19,629)	1,364,294	25,582	–	1,558,917	4,670	1,563,587

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Attributable to owners of the Company											
	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Capital redemption reserve HK$'000	Fair value reserve (non-recycling) HK$'000	Translation reserve HK$'000	Retained profits HK$'000	Contributed surplus HK$'000 (Note)	Share option reserve HK$'000	Subtotal HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2019	55,011	152,122	–	2,504	(20,967)	(19,629)	1,364,294	25,582	–	1,558,917	4,670	1,563,587
Profit for the year	–	–	–	–	–	–	168,836	–	–	168,836	(9,970)	158,866
Exchange difference arising on translation	–	–	–	–	–	(25,984)	–	–	–	(25,984)	–	(25,984)
Share of translation reserve of an associate	–	–	–	–	–	(612)	–	–	–	(612)	–	(612)
Remeasurement loss on defined benefit plan	–	–	–	–	–	–	(2,363)	–	–	(2,363)	–	(2,363)
Fair value gain on financial assets at fair value through other comprehensive income	–	–	–	–	15,910	–	–	–	–	15,910	–	15,910
Other comprehensive income (expense) for the year, net of tax	–	–	–	–	15,910	(26,596)	(2,363)	–	–	(13,049)	–	(13,049)
Total comprehensive income (expense) for the year	–	–	–	–	15,910	(26,596)	166,473	–	–	155,787	(9,970)	145,817
Final dividend for 2018 paid (Note 10)	–	–	–	–	–	–	(22,004)	–	–	(22,004)	–	(22,004)
At 31 December 2019	55,011	152,122	–	2,504	(5,057)	(46,225)	1,508,763	25,582	–	1,692,700	(5,300)	1,687,400

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

The accompanying notes form part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	2019 HK$'000	2018 HK$'000
OPERATING ACTIVITIES		
Profit before tax	**217,499**	153,811
Adjustments for:		
Interest expense	**51,753**	34,107
Interest expense on lease liabilities	**885**	–
Interest income	**(4,134)**	(9,577)
Depreciation and amortisation	**81,458**	65,960
Allowance (reversal of allowance) for doubtful debts, net	**1,072**	(2,158)
Allowance for inventories, net	**6,458**	7,731
Share of results of an associate	**113**	72
Loss (gain) on disposal of property, plant and equipment	**400**	(385)
Gain on deregistration of a subsidiary	**–**	(920)
Compensation in excess of costs incurred related to the urban renewal project (Note 23 (iii))	**(316,246)**	–
Recognition of government grants	**(3,559)**	(1,421)
Warranty provision expense	**29,078**	29,478
Impairment loss on goodwill	**–**	4,535
Impairment loss on intangible assets	**14,973**	14,837
Exchange differences	**(10,465)**	(4,063)
Operating cash flows before movements in working capital	**69,285**	292,007
Increase in inventories	**(9,220)**	(350)
Decrease in trade and other receivables	**74,964**	92,717
Decrease in trade and other payables	**(116,477)**	(78,632)
Increase (decrease) in contract liabilities	**1,243**	(98,882)
Utilisation of warranty provision	**(28,680)**	(28,913)
Cash (used in) generated from operations	**(8,885)**	177,947
Hong Kong Profits Tax paid	**(11,887)**	(10,114)
Hong Kong Profits Tax refunded	**5**	–
Overseas income tax and the PRC Corporate Income Tax paid	**(34,491)**	(40,395)
Overseas income tax and the PRC Corporate Income Tax refunded	**3,329**	7
NET CASH (USED IN) GENERATED FROM OPERATING ACTIVITIES	**(51,929)**	127,445

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	2019 HK$'000	2018 HK$'000
INVESTING ACTIVITIES		
Deposits paid for acquisition of property, plant and equipment	**(49,080)**	(103,833)
Deposits paid for acquisition of leasehold land	**(46,477)**	–
Loan advance to a related party	**–**	(131,857)
Loan repaid by a related party	**45,652**	78,932
Proceeds from disposal of property, plant and equipment	**4,679**	2,474
Payments for acquisition of a subsidiary that is not a business (Note 30)	**–**	(325,293)
Interest received	**4,134**	9,577
Purchases of property, plant and equipment	**(213,201)**	(220,246)
Purchases of intangible assets	**–**	(11,417)
Receipt of government grants	**2,161**	47,034
NET CASH USED IN INVESTING ACTIVITIES	**(252,132)**	(654,629)
FINANCING ACTIVITIES		
Repayment of bank borrowings	**(1,815,844)**	(1,163,156)
Dividends paid	**(22,004)**	(121,023)
Interest paid on bank borrowings and other loans	**(75,435)**	(54,450)
Loan received from immediate holding company	**65,000**	–
Loan received from a fellow subsidiary	**70,000**	–
New bank borrowings raised	**1,841,180**	1,896,791
Capital element of lease rentals paid	**(6,785)**	–
Interest element of lease rentals paid	**(885)**	–
Non-controlling interest's capital contribution	**–**	3
NET CASH GENERATED FROM FINANCING ACTIVITIES	**55,227**	558,165
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(248,834)**	30,981
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**586,799**	573,198
Exchange loss on cash and cash equivalents	**(9,737)**	(17,380)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**328,228**	586,799
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**331,820**	586,799
Bank overdraft, unsecured	**(3,592)**	–
	328,228	586,799

The accompanying notes form part of the consolidated financial statements.

1 GENERAL

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

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

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

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

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

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

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

2 INITIAL APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND POSSIBLE IMPACT OF NEW AND AMENDMENTS TO HKFRSs ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2019

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

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

The Group had to change its accounting policies following the adoption of HKFRS 16. For details, please refer to Note 3(b). The other new and amendments to HKFRSs listed above did not have any significant impact on the amounts recognised in prior periods and are not expected to significantly affect the current period.

The following HKFRSs in issue at 31 December 2019 have not been applied in the preparation of the Group's consolidated financial statements for the year ended since they were not yet effective for the annual period beginning on 1 January 2019:

HKFRS 17	Insurance Contracts[2]
Amendments to HKFRS 3	Definition of a Business[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[1]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 Effective for annual periods beginning on or after a date to be determined

The Group is in the process of making an assessment of what the impact of these new and amendments to HKFRSs is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

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

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

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

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

The principal accounting policies are set out below.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Changes in accounting policies

The HKICPA has issued a new HKFRS, HKFRS 16 "Leases", and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. Except for HKFRS 16 "Leases", none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16 "Leases"

HKFRS 16 replaces HKAS 17 "Leases", and the related interpretations, HK(IFRIC) – Int 4 "Determining whether an arrangement contains a lease", HK(SIC) – Int 15 "Operating leases – incentives", and HK(SIC) – Int 27 "Evaluating the substance of transactions involving the legal form of a lease". It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

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

New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to right-of-use assets as disclosed in Note 13. For an explanation of how the Group applies lessee accounting, see Note 3(q).

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 3.52% per annum.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(1) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019; and

(2) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment).

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Lessee accounting and transitional impact *(Continued)*

The following table reconciles the operating lease commitments as disclosed in Note 36 as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	HK$'000
Operating lease commitments at 31 December 2018	26,218
Less: Commitments relating to leases exempt from capitalisation:	
– short-term leases and other leases with remaining lease term ended on or before 31 December 2019	(9,009)
Add: Lease payments for the additional periods where the Group considers it reasonably certain that it will exercise the extension options	23,794
	41,003
Less: Total future interest expenses	(2,574)
Total lease liabilities recognised at 1 January 2019	38,429

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position at 31 December 2018.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Lessee accounting and transitional impact *(Continued)*

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	At 31 December 2018 HK$'000	Adoption of HKFRS 16 HK$'000		At 1 January 2019 HK$'000
Non-current assets:				
Right-of-use assets	–	38,429	(a)	38,429
Prepaid land lease payments	212,557	5,273	(b)	217,830
Current assets:				
Prepaid land lease payments	5,273	(5,273)	(b)	–
Current liabilities:				
Lease liabilities	–	(6,405)	(a)	(6,405)
Non-current liabilities:				
Lease liabilities	–	(32,024)	(a)	(32,024)

(a) Capitalisation of lease contracts
(b) Reclassification from current to non-current

Impact on the profit or loss and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a negative impact on the reported profit before tax in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

In the consolidated statement of cash flows, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element (see Note 22(b)). These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the consolidated statement of cash flows.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Basis of consolidation

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

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Basis of consolidation *(Continued)*

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

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

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

Changes in the Group's interests in existing subsidiaries

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Business combinations

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

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 “Income Taxes” and HKAS 19 (2011) “Employee Benefits” respectively;

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Business combinations *(Continued)*

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Business combinations *(Continued)*

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

(e) Property acquisitions and business combinations

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

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

(f) Property, plant and equipment

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

(g) Prepaid lease payments

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

(h) Goodwill

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Intangible assets

Intellectual property rights

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

Trademarks and licenses

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

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

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

Concession rights and operation rights

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Intangible assets *(Continued)*

Research and development expenditure

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

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Service concession arrangements

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

Consideration received or receivable by the Group for the construction services

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

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

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

Construction or upgrade services

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

Operating services

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Service concession arrangements *(Continued)*

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

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

(k) Inventories

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

(l) Other investments in equity securities

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

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

For an explanation of how the Group determines fair value of financial instruments, see Note 33(c). These investments are subsequently accounted for as follows, depending on their classification.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Equity investments

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

(m) Trade and other receivables

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

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

(n) Credit losses and impairment of assets

(i) Credit losses from financial instruments

The Group recognises a loss allowance for expected credit losses ("ECLs") on financial assets measured at amortised cost (including trade and other receivables and cash and bank balances).

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

Measurement of ECLs

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

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

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

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

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

ECLs are measured on either of the following bases:

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

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

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

Significant increases in credit risk (Continued)

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

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

– significant financial difficulties of the debtor;

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

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

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

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

Write-off policy

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

(ii) Impairment of other non-current assets

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

- property, plant and equipment;
- right-of-use assets;
- intangible assets;
- goodwill; and
- investments in subsidiaries in the Company's statement of financial position.

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

- *Calculation of recoverable amount*

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

- *Recognition of impairment losses*

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

– *Reversals of impairment losses*

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

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

(o) Contract assets and contract liabilities

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

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

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

(p) Revenue recognition

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Revenue recognition *(Continued)*

Manufacture and sale of dyeing and finishing machines

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

Advance payment from customers on revenue recognition is recognised as contract liabilities in the consolidated statement of financial position (Note 24).

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

Trading of stainless steel supplies

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

Manufacture and sale of stainless steel casting products

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

Provision of environmental protection services

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Revenue recognition *(Continued)*

Provision of environmental protection services *(Continued)*

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

Interest income

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

Dividend income

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

(q) Leases

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(A) Policy applicable from 1 January 2019

The Group as lessee

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Leases *(Continued)*

(A) Policy applicable from 1 January 2019 *(Continued)*

The Group as lessee *(Continued)*

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (Note 3(n)(ii)). Right-of-use assets are depreciated on a straight-line basis over the lease terms.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group's right-of-use assets are not separately presented and are included under "property, plant and equipment", "prepaid lease payments" and "right-of-use assets" while the lease liabilities are separately presented in the consolidated statement of financial position.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Leases *(Continued)*

(B) Policy applicable prior to 1 January 2019

Leasing

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

The Group as lessee

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

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

Leasehold land and building

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Leases *(Continued)*

(B) Policy applicable prior to 1 January 2019 *(Continued)*

Leasehold land and building *(Continued)*

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

(r) Foreign currencies

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Foreign currencies *(Continued)*

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

(s) Borrowing costs

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

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

(t) Government grants

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

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

As explained in Note 28, certain government grants obtained are treated as deferred revenue in the consolidated statement of financial position and credited to profit or loss in accordance with conditions set by the government body.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Retirement benefits costs

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

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

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

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

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

(v) Equity-settled share-based payment transactions

Share options granted to consultants

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Taxation

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Taxation *(Continued)*

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

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

(x) Provisions

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

(y) Related parties

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

- (i) has control or joint control of the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(y) Related parties *(Continued)*

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

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

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

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

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

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

(vi) The entity is controlled or jointly controlled by a person identified in Note 3(y)(a);

(vii) A person identified in Note 3(y)(a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

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

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

4 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Income taxes

As at 31 December 2019, a deferred tax asset of approximately HK$19,673,000 (2018: approximately HK$8,807,000) in relation to unused tax losses of approximately HK$125,654,000 (2018: approximately HK$53,374,000) has been recognised in the Group's consolidated statement of financial position. No deferred tax asset has been recognised in respect of the tax losses of approximately HK$509,436,000 (2018: approximately HK$671,523,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are more or less than expected, a material recognition or reversal of deferred tax asset may arise, which would be recognised in profit or loss for the period in which such a recognition or reversal takes places. More details are given in Note 19.

Useful lives and impairment of property, plant and equipment

The Group's management determines the estimated useful lives of its property, plant and equipment based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated. The impairment loss for property, plant and equipment is recognised for the amount by which the carrying amount exceeds its recoverable amount. The carrying amount of property, plant and equipment at 31 December 2019 is approximately HK$1,720,671,000 (2018: approximately HK$1,478,057,000). More details are given in Note 12.

Impairment of goodwill and other intangible assets

Determining whether goodwill and other intangible assets are impaired requires an estimation of future cash flows expected to arise from the products developed and services provided and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. The carrying amounts of goodwill and other intangible assets at 31 December 2019 are approximately HK$533,515,000 (2018: approximately HK$533,515,000) and approximately HK$219,871,000 (2018: approximately HK$244,004,000) respectively. During the year ended 31 December 2019, impairment losses of approximately HK$Nil (2018: approximately HK$4,535,000) and approximately HK$14,973,000 (2018: approximately HK$14,837,000) have been recognised for goodwill and other intangible assets respectively. More details are given in Notes 15 and 16 respectively.

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

Allowances for inventories

The management reviews the condition of the inventories of the Group and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sale and use in production. The management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of each reporting period as well as ageing analysis of the inventory and makes allowance for obsolete items. If the market conditions were deteriorating and more obsolete and slow-moving inventory items are being identified, additional allowances may be required. As at 31 December 2019, the carrying amount of inventories is approximately HK$765,848,000 (2018: approximately HK$764,423,000). More details are given in Note 20.

Impairment of trade receivables

The Group estimates the loss allowances for trade receivables by assessing the ECLs. This requires the use of estimates and judgements. ECLs are based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, and an assessment of both the current and forecast general economic conditions at the end of reporting period. Where the estimation is different from the original estimate, such difference will affect the carrying amounts of trade receivables and thus the impairment loss in the period in which such estimate is changed. The Group keeps assessing the ECLs of trade receivables during their expected lives. As at 31 December 2019, the carrying amount of trade receivables is approximately HK$318,210,000 (2018: approximately HK$312,953,000). More details are given in Note 21.

Fair value measurements and valuation processes

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

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

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

Compensation in excess of costs incurred related to urban renewal project

As disclosed in Note 23 (iii), the Group and the Project Company entered into the Third Supplemental Agreement pursuant to which the Project Company has agreed to allocate an amount of RMB350 million as a compensation for the reallocation expenses incurred by the Group during the year. In view that the related expenses have been substantially incurred during the year and after consideration of the management's estimation of future reallocation expenses, the Group recognised a surplus of HK$316,246,000 in the profit or loss during the year. If the circumstances arise that may change the estimation of compensation and estimation of total reallocation expenses upon the completion of the project, the estimated total surplus may be revised. This revision may result in the increase or decrease in surplus or deficit reflected in the period in which the circumstances that give rise to the revision become known by the management.

Provision for warranties

The policy for provision of warranties of the Group is based on the management's best estimate of the Group's liabilities under a 12-month warranty period granted on the sale of dyeing and finishing machines based on past experience. The actual settlement may differ from the estimation made by the management. If the amounts are settled for an amount greater than management's estimation, a future charge to profit or loss will result. Likewise, if the amounts are settled for an amount that is less than estimation, a future credit to profit or loss will result. As at 31 December 2019, the carrying amount of warranty provision is approximately HK$16,358,000 (2018: approximately HK$16,191,000). The movement of the warranty provision for the year is set out in Note 25.

Determining the lease term

As explained in policy Note 3(q), the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

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

Classification between business combination and asset acquisition

During the year ended 31 December 2018, the Group entered into an equity transfer agreement with an independent third party for the acquisition of equity interests in a company. As at the date of acquisition, this company merely held commercial properties without business activities in Hong Kong. Therefore, the Directors of the Company consider that the acquisition was asset acquisition. Further details of the acquisition are given in Note 30 to the consolidated financial statements.

5 REVENUE AND SEGMENT INFORMATION

(a) Revenue

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

Disaggregation of revenue

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

	2019 **HK$'000**	2018 HK$'000
Revenue from contracts with customers within the scope of HKFRS 15		
Sales of dyeing and finishing machines	**1,941,214**	2,695,020
Sales of stainless steel supplies	**216,310**	262,273
Sales of stainless steel casting products	**505,705**	494,393
Provision of environmental protection services	**30**	20,811
	2,663,259	3,472,497

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

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment reporting

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

1. Manufacture and sale of dyeing and finishing machines

2. Trading of stainless steel supplies

3. Manufacture and sale of stainless steel casting products

4. Provision of environmental protection services

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment reporting *(Continued)*

(i) Segment revenues and results

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

For the year ended 31 December 2019

	Manufacture and sale of dyeing and finishing machines HK$'000	Trading of stainless steel supplies HK$'000	Manufacture and sale of stainless steel casting products HK$'000	Provision of environmental protection services HK$'000	Total HK$'000
REVENUE					
Point in time	1,941,214	216,310	505,705	–	2,663,229
Over time	–	–	–	30	30
External sales	1,941,214	216,310	505,705	30	2,663,259
Inter-segment sales	502	163,842	19,993	–	184,337
Segment revenue	1,941,716	380,152	525,698	30	2,847,596
Elimination					(184,337)
Group revenue					2,663,259
Segment profit (loss)	204,447	6,479	83,298	(21,883)	272,341
Interest income					4,134
Finance costs					(58,863)
Share of results of an associate					(113)
Profit before tax					217,499

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment reporting *(Continued)*

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

For the year ended 31 December 2018

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

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

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

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment reporting *(Continued)*

(ii) Segment assets and liabilities

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

As at 31 December 2019

	Manufacture and sale of dyeing and finishing machines HK$'000	Trading of stainless steel supplies HK$'000	Manufacture and sale of stainless steel casting products HK$'000	Provision of environmental protection services HK$'000	Total HK$'000
ASSETS					
Segment assets	3,100,154	159,609	657,392	179,392	4,096,547
Unallocated corporate assets					585,477
Consolidated total assets					4,682,024
LIABILITIES					
Segment liabilities	780,292	37,769	68,947	77,392	964,400
Unallocated corporate liabilities					2,030,224
Consolidated total liabilities					2,994,624

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment reporting *(Continued)*

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

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

As at 31 December 2018

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

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

- all assets are allocated to operating segments other than financial assets at FVOCI, investment in an associate, deferred tax assets, tax recoverable as well as cash and bank balances; and

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

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment reporting *(Continued)*

(iii) Other segment information

For the year ended 31 December 2019

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

	Manufacture and sale of dyeing and finishing machines HK$'000	Trading of stainless steel supplies HK$'000	Manufacture and sale of stainless steel casting products HK$'000	Provision of environmental protection services HK$'000	Total HK$'000
Additions to non-current assets excluding investment in an associate, deferred tax assets and financial assets at FVOCI	199,682	16,912	138,785	516	355,895
Depreciation and amortisation	64,503	2,443	10,501	4,011	81,458
Loss (gain) on disposal of property, plant and equipment	408	(7)	(1)	–	400
Allowance for inventories, net	6,241	–	217	–	6,458
Allowance (reversal of allowance) for doubtful debts, net	1,609	(421)	(116)	–	1,072

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment reporting *(Continued)*

(iii) Other segment information *(Continued)*

For the year ended 31 December 2018

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

	Manufacture and sale of dyeing and finishing machines HK$'000	Trading of stainless steel supplies HK$'000	Manufacture and sale of stainless steel casting products HK$'000	Provision of environmental protection services HK$'000	Total HK$'000
Additions to non-current assets excluding investment in an associate, deferred tax assets and financial assets at FVOCI	584,855	105	27,349	11,873	624,182
Depreciation and amortisation	47,624	1,397	11,307	5,632	65,960
(Gain) loss on disposal of property, plant and equipment	(327)	88	(146)	–	(385)
Allowance for inventories, net	8,421	–	(690)	–	7,731
Reversal of allowance for doubtful debts, net	(28)	(1,759)	(371)	–	(2,158)

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment reporting *(Continued)*

(iii) Other segment information *(Continued)*

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

	2019	2018
	HK$'000	HK$'000
Earnings before interest, tax, depreciation and amortisation and share of results of an associate of business segments	**353,799**	252,667
Depreciation of owned assets	**(51,805)**	(52,848)
Depreciation of right-of-use assets	**(23,878)**	–
Amortisation of prepaid lease payments	**–**	(5,413)
Amortisation of intangible assets	**(5,775)**	(7,699)
Operating profit	**272,341**	186,707
Interest income	**4,134**	9,577
Finance costs	**(58,863)**	(42,401)
Share of results of an associate	**(113)**	(72)
Profit before tax	**217,499**	153,811

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment reporting *(Continued)*

(iii) Other segment information *(Continued)*

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

Segment assets are summarised as below:

	2019 HK$'000	2018 HK$'000
Segment assets as allocated by business segments	**4,096,547**	3,966,525
Unallocated assets:		
Financial assets at FVOCI	**170,707**	158,264
Investment in an associate	**27,726**	28,450
Deferred tax assets	**39,779**	28,101
Tax recoverable	**15,445**	10,184
Cash and bank balances	**331,820**	586,799
Total assets as per consolidated statement of financial position	**4,682,024**	4,778,323

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment reporting *(Continued)*

(iii) Other segment information *(Continued)*

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

Segment liabilities are summarised as below:

	2019	2018
	HK$'000	HK$'000
Segment liabilities as allocated by business segments	**964,400**	1,241,187
Unallocated liabilities:		
Tax liabilities	**17,233**	19,930
Deferred tax liabilities	**89,541**	59,097
Bank borrowings	**1,919,858**	1,894,522
Bank overdraft, unsecured	**3,592**	–
Total liabilities as per consolidated statement of financial position	**2,994,624**	3,214,736

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment reporting *(Continued)*

(iv) Geographical information

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

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

	Revenue from external customers		Non-current assets	
	2019 **HK$'000**	2018 HK$'000	**2019** **HK$'000**	2018 HK$'000
The PRC	**1,274,518**	1,354,621	**2,290,327**	2,076,875
Hong Kong	**155,231**	261,911	**336,451**	327,155
Asia Pacific (other than the PRC and Hong Kong)	**673,676**	970,080	**593**	78
Europe	**300,216**	506,195	**199,528**	173,052
North and South America	**209,190**	327,091	**3,577**	2,200
Others	**50,428**	52,599	**–**	–
	2,663,259	3,472,497	**2,830,476**	2,579,360

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

No revenue generated from any single customer amounted to 10% or more of the Group's revenue for the years ended 31 December 2019 and 2018.

6 FINANCE COSTS

	2019 HK$'000	2018 HK$'000
Interest on borrowings	**75,435**	54,400
Less: Interest capitalised (Note i)	**(23,682)**	(20,293)
	51,753	34,107
Interest on lease liabilities (Note ii)	**885**	–
Bank charges	**6,225**	8,294
	58,863	42,401

Notes:

(i) Finance costs on funds borrowed generally are capitalised at a rate ranging from 3.45% to 4.48% (2018: 2.25% to 3.91%) per annum.

(ii) The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated.

7 INCOME TAX EXPENSE

	2019 HK$'000	2018 HK$'000
Hong Kong Profits Tax:		
Current year	**7,978**	11,018
Over-provision in prior years	**(436)**	(91)
PRC Corporate Income Tax:		
Current year	**29,891**	22,964
Over-provision in prior years	**(142)**	(2,969)
Overseas income tax:		
Current year	**302**	3,243
Under (over)-provision in prior years	**1,324**	(1,522)
	38,917	32,643
Deferred tax (Note 19):		
Current year	**19,716**	(3,454)
	58,633	29,189

7 INCOME TAX EXPENSE *(Continued)*

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

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

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

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

	2019 **HK$'000**	2018 HK$'000
Profit before tax	**217,499**	153,811
Tax at the Hong Kong Profits Tax rate of 16.5%	**35,887**	25,379
Tax effect of:		
– expenses that are not deductible for tax purpose	**24,086**	19,008
– income that are not taxable for tax purpose	**(8,431)**	(13,365)
– tax losses not recognised	**16,743**	4,230
– different tax rates of subsidiaries operating in other jurisdictions	**211**	(438)
– utilisation of tax losses previously not recognised	**(709)**	(2,199)
– other deferred tax temporary differences previously not recognised	**(246)**	(2,046)
Under (over) provision in prior years, net	**746**	(4,582)
Withholding tax	**(5,264)**	8,497
Tax concession	**(4,035)**	(4,748)
Others	**(355)**	(547)
Income tax expense for the year	**58,633**	29,189

8 PROFIT FOR THE YEAR

	2019 HK$'000	2018 HK$'000
Profit for the year has been arrived at after (crediting) charging:		
Other income:		
Claims and compensation received	**(862)**	–
Income from scraps sale	**(3,755)**	(1,593)
Government grants	**(14,178)**	(12,574)
Write off of other payables	**–**	(2,716)
Others	**(14,895)**	(9,177)
Total other income	**(33,690)**	(26,060)
Other (gains) losses:		
Loss (gain) on disposal of property, plant and equipment	**400**	(385)
Foreign exchange loss, net	**11,986**	13,142
Gain on deregistration of a subsidiary	**–**	(920)
Compensation in excess of costs incurred related to urban renewal project (Note 23 (iii))	**(316,246)**	–
Total other (gains) losses	**(303,860)**	11,837
Amortisation of intangible assets	**5,775**	7,699
Amortisation of prepaid lease payments	**–**	5,413
Depreciation		
– owned assets	**51,805**	52,848
– right-of-use assets*	**23,878**	–
Total depreciation and amortisation	**81,458**	65,960

8 PROFIT FOR THE YEAR *(Continued)*

	2019 HK$'000	2018 HK$'000
Allowance for inventories (included in cost of sales)	**6,458**	7,731
Allowance (reversal of allowance) for doubtful debts, net	**1,072**	(2,158)
Auditor's remuneration	**3,185**	3,196
Cost of inventories recognised as an expense	**1,231,555**	1,526,127
Cost of construction services	**–**	4,670
Research and development costs	**53,868**	30,747
Lease payments not included in lease liabilities	**9,837**	–
Total minimum lease payments for leases previously classified as operating leases under HKAS 17*	**–**	20,255
Staff costs, including directors' emoluments		
Salaries, wages and other benefits	**727,519**	707,142
Retirement benefits scheme contributions	**53,251**	51,172
Total staff costs	**780,770**	758,314

* The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated.

9 DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

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

2019	Note	Fees HK$'000	Salaries and other benefits HK$'000	Retirement benefits scheme contributions HK$'000	Total emoluments HK$'000
Executive Directors					
Ye Maoxin		–	–	–	–
Guan Youping	(i)	–	838	–	838
Du Qianyi		–	2,381	18	2,399
Wu Xudong	(ii)	–	–	–	–
Ji Xin	(iii)	–	4,265	15	4,280
Non-executive Director					
Fong Kwok Leung, Kevin		180	1,200	–	1,380
Independent Non-executive Directors					
Li Jianxin		200	–	–	200
Ying Wei		200	–	–	200
Yuen Ming Fai		180	–	–	180
Total		760	8,684	33	9,477

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

(a) Directors' emoluments *(Continued)*

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

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

Notes:

(i) Appointed on 18 October 2019

(ii) Appointed on 26 July 2019

(iii) Resigned on 18 October 2019

For the years ended 31 December 2019 and 2018 no Director waived any emoluments and no incentive was paid to any Directors as an induction to join the Company.

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

(b) Employees' emoluments

The five individuals whose emoluments were the highest in the Group for the year include two (2018: two) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2018: three) individuals during the year are as follows:

	2019 **HK$'000**	2018 HK$'000
Salaries and other benefits	**8,411**	7,654
Retirement benefits scheme contribution	**329**	336
	8,740	7,990

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

Emolument bands	**Number of individual**	
	2019	2018
HK$		
2,000,001 – 2,500,000	**1**	2
2,500,001 – 3,000,000	**–**	–
3,000,001 – 3,500,000	**2**	1

(c) Senior management's emoluments

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

Emolument bands	**Number of individual**	
	2019	2018
HK$		
Below 1,000,000	**2**	1
1,000,001 – 1,500,000	**–**	–
1,500,001 – 2,000,000	**2**	1
2,000,001 – 2,500,000	**3**	5
2,500,001 – 3,000,000	**–**	–
3,000,001 – 3,500,000	**2**	1

10 DIVIDENDS

	2019 HK$'000	2018 HK$'000
Proposed final dividend:		
2 HK cents (2018: 2 HK cents) per share	**22,004**	22,004
Interim dividend:		
Nil HK cents (2018: 3 HK cents) per share	**–**	33,006
	22,004	55,010

The final dividend in respect of the year ended 31 December 2019 of 2 HK cents (2018: 2 HK cents) per share has been proposed by the Board of Directors and is subject to the approval at the forthcoming annual general meeting of the Company.

No interim dividend was declared and paid in respect of the year ended 31 December 2019 (2018: 3 HK cents per share was paid).

11 EARNINGS PER SHARE

(a) Basic earnings per share

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

	2019 HK$'000	2018 HK$'000
Profit for the year attributable to owners of the Company for the purpose of calculation of basic earnings per share	**168,836**	141,017
	'000	'000
Number of ordinary shares for the purpose of basic earnings per share	**1,100,217**	1,100,217

(b) Diluted earnings per share

Diluted earnings per share for the year ended 31 December 2019 is same as the basic earnings per share as the Group has no potential ordinary shares in issue during the year (2018: Diluted earnings per share was same as the basic earnings per share as the Group had no dilutive potential ordinary shares in issue during the year).

12 PROPERTY, PLANT AND EQUIPMENT

	Freehold land HK$'000	Buildings HK$'000	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture and equipment HK$'000	Motor vehicles HK$'000	Moulds and tools HK$'000	Construction in progress HK$'000	Total HK$'000
COST										
At 1 January 2018	8,719	468,232	–	15,821	443,802	168,334	37,889	83,825	569,007	1,795,629
Currency realignment	(299)	(18,745)	–	(1,362)	(14,539)	(6,183)	(964)	(3,276)	(28,067)	(73,435)
Reclassification	–	1,120	–	–	4,047	34	35	715	(5,951)	–
Additions	–	315	894	371	5,021	34,878	1,860	4,481	240,203	288,023
Acquisition of a subsidiary that is not a business (Note 30)	–	–	324,742	–	–	–	–	–	–	324,742
Disposals/write off	–	–	–	(2,413)	(6,351)	(7,093)	(2,278)	(823)	–	(18,958)
At 31 December 2018 and 1 January 2019	8,420	450,922	325,636	12,417	431,980	189,970	36,542	84,922	775,192	2,316,001
Currency realignment	(217)	(10,154)	–	(258)	(9,288)	(5,398)	(514)	(1,269)	(22,979)	(50,077)
Reclassification	–	71,096	–	–	21,193	(21,106)	–	–	(71,183)	–
Additions	–	231	–	3,794	43,975	36,498	3,528	2,135	250,555	340,716
Disposals/write off	–	–	–	–	(3,738)	(6,256)	(805)	(3,143)	–	(13,942)
At 31 December 2019	8,203	512,095	325,636	15,953	484,122	193,708	38,751	82,645	931,585	2,592,698
ACCUMULATED DEPRECIATION										
At 1 January 2018	–	280,302	–	14,797	321,556	125,701	30,895	65,643	–	838,894
Currency realignment	–	(10,560)	–	(854)	(16,909)	(5,055)	(806)	(2,745)	–	(36,929)
Provided for the year	–	11,085	3,766	234	19,010	11,689	1,804	5,260	–	52,848
Eliminated on disposals/write off	–	–	–	(2,257)	(4,732)	(6,945)	(2,210)	(725)	–	(16,869)
At 31 December 2018 and 1 January 2019	–	280,827	3,766	11,920	318,925	125,390	29,683	67,433	–	837,944
Currency realignment	–	(6,374)	–	(269)	(8,588)	(3,017)	(423)	(1,478)	–	(20,149)
Reclassification	–	–	–	–	1,470	(1,470)	–	–	–	–
Provided for the year	–	11,532	11,290	422	20,032	12,941	2,297	4,581	–	63,095
Eliminated on disposals/write off	–	–	–	–	(3,375)	(1,931)	(730)	(2,827)	–	(8,863)
At 31 December 2019	–	285,985	15,056	12,073	328,464	131,913	30,827	67,709	–	872,027
CARRYING VALUE										
At 31 December 2019	8,203	226,110	310,580	3,880	155,658	61,795	7,924	14,936	931,585	1,720,671
At 31 December 2018	8,420	170,095	321,870	497	113,055	64,580	6,859	17,489	775,192	1,478,057

12 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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

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

At 31 December 2019, included in the property, plant and equipment is the Group's right-of-use assets, in respect of leasehold land and buildings under medium-term lease located in Hong Kong of approximately HK$310,580,000 (At 1 January 2019: approximately HK$321,870,000) of which the Group is the registered owner of these properties interests. The Group holds commercial properties for its operations in Hong Kong, where its office premises are located. Lump sum payments were made upfront to acquire these properties interests from their previous registered owner in Hong Kong, and there are no ongoing payments to be made under the terms of the land lease, other than payments based on rateable values set by the government authorities. These payments vary from time to time and are payable to the government authorities.

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

	2019 HK$'000	2018 HK$'000
Buildings on land under long-term leases located in the PRC	**631**	555
Buildings on land under medium-term leases located in the PRC	**219,531**	163,096
Freehold land and buildings in Europe	**14,151**	14,864
Leasehold land and buildings under medium-term lease located in Hong Kong	**310,580**	321,870
	544,893	500,385

None of the property, plant and equipment is pledged as at 31 December 2019 and 2018.

13 RIGHT-OF-USE ASSETS

	Leasehold properties HK$'000
COST	
At 31 December 2018	–
Impact on initial application of HKFRS 16 (Note)	38,429
At 1 January 2019	38,429
Addition	15,179
Currency realignment	(854)
At 31 December 2019	52,754
ACCUMULATED DEPRECIATION	
Charge for the year	7,380
Currency realignment	(34)
At 31 December 2019	7,346
CARRYING VALUE	
At 31 December 2019	45,408

Note: On 1 January 2019, the Group recognised rights-of-use assets of HK$38,429,000 newly capitalised on adoption of HKFRS 16.

The Group has entered into lease agreements to obtain the right to use properties as its office premises, factories, godowns and residential units for its employees and as a result incurred lease liabilities (Note 26). The leases typically run for an initial period of 2 to 10 years. Lease terms are negotiated on an individual/group basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

In addition to the above, the Group has right-of-use assets related to properties interests of which the Group is the registered owner. They are included in "property, plant and equipment" and "prepaid lease payments". Details of which are set out in Notes 12 and 14 respectively.

14 PREPAID LEASE PAYMENTS

	2019 HK$'000	2018 HK$'000
The Group's prepaid lease payments comprise:		
Leasehold land in the PRC:		
Long-term leases	**1,331**	1,387
Medium-term leases	**207,011**	216,443
	208,342	217,830
Analysed for reporting purposes as:		
Current asset	**–**	5,273
Non-current asset	**208,342**	212,557
	208,342	217,830

Movement in prepaid lease payments

	2019 HK$'000	2018 HK$'000
At beginning of the year	**217,830**	231,574
Currency realignment	**(4,280)**	(8,331)
Amortisation of prepaid lease payments	**(5,208)**	(5,413)
At end of the year	**208,342**	217,830

None of the prepaid lease payments is pledged as at 31 December 2019 and 2018.

15 GOODWILL

	2019 HK$'000	2018 HK$'000
At beginning of the year	**533,515**	538,050
Impairment loss recognised	**–**	(4,535)
At end of the year	**533,515**	533,515

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

	2019 HK$'000	2018 HK$'000
Dyeing and finishing machines	**533,515**	533,515
Environmental protection services	**–**	4,535
	533,515	538,050

The recoverable amount of the cash-generating unit related to dyeing and finishing machines has been determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The pre-tax discount rate applied to the cash flow projections is 13.64% (2018: 11.06%). The growth rate used to extrapolate the cash flows of the cash-generating unit beyond the five-year period is 3% (2018: 3%).

Assumptions were used in the value-in-use calculation of the cash-generating unit at 31 December 2019 and 31 December 2018. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing:

Budgeted sale growth rate – The budgeted sales annual growth rate of 3% (2018: 3%) is based on the historical sales data and market outlook perceived by management.

Discount rate – The discount rate used is before tax and reflects specific risks relating to the cash-generating unit.

Growth rate – The Group determines the growth rate which shall not exceed the long-term average gross growth rate of the business in which the cash-generating unit operates.

The values assigned to the key assumptions on discount rate and growth rate are consistent with external information sources.

16 INTANGIBLE ASSETS

	Intellectual property rights HK$'000	Trademarks and licenses HK$'000	Concession rights HK$'000	Operation rights HK$'000	Total HK$'000
COST					
At 1 January 2018	45,915	90,727	107,207	55,784	299,633
Currency realignment	(325)	–	(4,292)	(2,234)	(6,851)
Additions	–	–	11,417	–	11,417
At 31 December 2018 and 1 January 2019	45,590	90,727	114,332	53,550	304,199
Currency realignment	(235)	–	(2,505)	(1,173)	(3,913)
At 31 December 2019	45,355	90,727	111,827	52,377	300,286
ACCUMULATED AMORTISATION					
At 1 January 2018	36,679	–	1,096	268	38,043
Currency realignment	(130)	–	(181)	(73)	(384)
Provided for the year	2,523	–	3,570	1,606	7,699
At 31 December 2018 and 1 January 2019	39,072	–	4,485	1,801	45,358
Currency realignment	(142)	–	(99)	(37)	(278)
Provided for the year	2,065	–	2,200	1,510	5,775
At 31 December 2019	40,995	–	6,586	3,274	50,855
ACCUMULATED IMPAIRMENT					
Provided for the year	–	–	3,424	11,413	14,837
At 31 December 2018 and 1 January 2019	–	–	3,424	11,413	14,837
Currency realignment	–	–	(75)	(175)	(250)
Provided for the year	–	–	10,797	4,176	14,973
At 31 December 2019	–	–	14,146	15,414	29,560
CARRYING VALUE					
At 31 December 2019	4,360	90,727	91,095	33,689	219,871
At 31 December 2018	6,518	90,727	106,423	40,336	244,004

Amortisation of approximately HK$5,775,000 (2018: approximately HK$7,699,000) is included in "administrative and other expenses" in profit or loss.

Impairment loss of approximately HK$14,973,000 (2018: approximately HK$14,837,000) is included in profit or loss.

16 INTANGIBLE ASSETS *(Continued)*

Intellectual property rights

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

Trademarks and licenses

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

Impairment test for trademarks and licenses with indefinite useful lives

For the purposes of impairment testing, the carrying amount of goodwill and the intangible assets with indefinite useful lives is allocated to the cash-generating unit, i.e., dyeing and finishing machines. The key assumptions used in the impairment test of the intangible assets with indefinite useful lives are given in Note 15.

Concession rights

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

Kitchen wastes recycling treatment plant

Since January 2019, the kitchen wastes recycling treatment plant has been taken over by the Environmental Health Management Office of Taian City. The Group is now actively negotiating with the government so that the Group can continue its performance of concession agreement and normal operation to avoid causing losses to the Group.

At 31 December 2019, due to the uncertainty in the prospect of the operation, the Group has engaged an independent valuer to assess the recoverable amount of the concession rights of the kitchen wastes recycling treatment plant determined from the value-in-use calculation by taking into account the cash flow projections that based on the financial budgets for the period of the useful life of the kitchen wastes recycling treatment plant approved by senior management. The pre-tax discount rate applied to the cash flow projections is approximately 14%.

16 INTANGIBLE ASSETS *(Continued)*

Kitchen wastes recycling treatment plant *(Continued)*

The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing:

Budgeted revenue – The budgeted revenue is based on the projected kitchen wastes recycling treatment volume and the estimated selling prices.

Business environment – The Group expected to resume the operation of the kitchen wastes recycling treatment plant at a date determined by management.

Discount rate – The discount rate used is before tax and reflects specific risks relating to the concession rights.

At 31 December 2019, the recoverable amount of the concession rights of approximately HK$89,946,000 is lower than the carrying value by approximately HK$10,797,000. On this basis, an impairment loss of approximately HK$10,797,000 on the concession rights was recognised in profit or loss during the year ended 31 December 2019.

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

Municipal sewage sludge treatment plant

At 31 December 2019, in the opinion of the Directors, no indication of impairment is identified in respect of the concession rights of the municipal sewage sludge treatment plant.

At 31 December 2018, the recoverable amount of the concession rights of approximately HK$1,333,000 was lower than the carrying value by approximately HK$3,424,000 and an impairment loss of approximately HK$3,424,000 on the concession rights was recognised in profit or loss during the year ended 31 December 2018.

16 INTANGIBLE ASSETS *(Continued)*

Operation rights

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

During the last quarter of the year 2018, due to environmental problem, the operation of the animal carcasses processing facilities was suspended and the collection and transportation of animal carcasses were stopped. After that, the facility resumed operations in April 2019 but had been operating on an intermittent basis. The Group is now actively negotiating with the government in respect of collection and innocuous treatment of animal carcasses, seeking to reach a solution on resumption of operation so that the Group can continue its performance of concession agreement and normal operation to avoid causing losses to the Group.

At 31 December 2019, due to the aforesaid unfavourable business conditions, the Group has engaged an independent valuer to assess the recoverable amount of the operation rights of the animal carcass processing facilities determined from the value-in-use calculation by taking into account the cash flow projections that based on the financial budgets for the period of the useful life of the animal carcass processing facilities approved by senior management. The pre-tax discount rate applied to the cash flow projections is approximately 13% (2018: 11%).

The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing:

Budgeted revenue – The budgeted revenue is based on the projected animal carcass processing facilities volume and the estimated selling prices.

Business environment – The Group expected to resume the operation of the animal carcass processing facilities at a date determined by management.

Discount rate – The discount rate used is before tax and reflects specific risks relating to the operation rights.

16 INTANGIBLE ASSETS *(Continued)*

Operation rights *(Continued)*

At 31 December 2019, the recoverable amount of the operation rights of approximately HK$33,689,000 (2018: approximately HK$40,336,000) which is lower than the carrying value by approximately HK$4,176,000 (2018: approximately HK$11,413,000). On this basis, an impairment loss of approximately HK$4,176,000 (2018: approximately HK$11,413,000) on the operation rights was recognised in profit or loss during the year.

17 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Note	**2019 HK$'000**	2018 HK$'000
Financial assets at fair value through other comprehensive income	(i)		
Unlisted equity securities		**170,707**	158,264
		170,707	158,264

Note:

(i) The Group designated its investment at FVOCI (non-recycling) as the investment is held for strategic purposes. No dividends were received on this investment during the year (2018: Nil).

18 INVESTMENT IN AN ASSOCIATE

	2019 HK$'000	2018 HK$'000
At beginning of the year	**28,450**	29,718
Post-acquisition loss and reserve for the year	**(724)**	(1,268)
At end of the year	**27,726**	28,450

18 INVESTMENT IN AN ASSOCIATE *(Continued)*

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

Name of Company	Form of business structure	Place of incorporation/ operation	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by a subsidiary	Principal activities
Yantai Yelin Textile Technology Co., Ltd. 煙臺業林紡織科技有限公司 ("Yantai Yelin") (Note)	Incorporated	The PRC	25% (2018: 25%)	25% (2018: 25%)	Printing, dyeing and finishing of high-end fabrics business

Note:

Yantai Yelin was incorporated on 2 May 2017 by the Group and Yantai Yelin Textile Printing & Dyeing Co., Ltd.. As at 31 December 2019, the Group and Yantai Yelin Textile Printing & Dyeing Co., Ltd. paid a contribution of RMB25,000,000 (2018: RMB25,000,000) and RMB75,000,000 (2018: RMB7,350,000) respectively to Yantai Yelin. Yantai Yelin principally engages in the business of printing, dyeing and finishing of high-end fabrics.

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

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

	2019 HK$'000	2018 HK$'000
Gross amounts of the associate:		
Current assets	**116,906**	83,816
Non-current assets	**104,104**	30,496
Current liabilities	**(62,078)**	(511)
Non-current liabilities	**(48,027)**	–
Total equity	**110,905**	113,801

18 INVESTMENT IN AN ASSOCIATE *(Continued)*

	2019 HK$'000	2018 HK$'000
Revenue	**14,444**	14,174
Loss for the year	**(450)**	(287)
Reconciled to the Group's interest in the associate:		
Gross amounts of net assets of the associate	**110,905**	113,801
Group's effective interest	**25%**	25%
Group's share of net assets of the associate	**27,726**	28,450
Carrying amount of the Group's interest in the associate	**27,726**	28,450

19 DEFERRED TAXATION

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

	2019 HK$'000	2018 HK$'000
Deferred tax assets	**39,779**	28,101
Deferred tax liabilities	**(89,541)**	(59,097)
	(49,762)	(30,996)

19 DEFERRED TAXATION *(Continued)*

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

	Accelerated tax depreciation HK$'000	Provisions HK$'000	Allowance for doubtful debts HK$'000	Tax losses HK$'000	Distributable profit of PRC subsidiaries HK$'000	Defined benefit obligation HK$'000	Others HK$'000	Total HK$'000
At 1 January 2018	14,389	(5,778)	(4,724)	(2,084)	35,328	(2,793)	–	34,338
(Credit) charge to profit or loss (Note 7)	(83)	(1,527)	290	(5,331)	3,378	(181)	–	(3,454)
Charge to other comprehensive income	–	–	–	–	–	47	–	47
Acquisition of a subsidiary that is not a business (Note 30)	1,668	–	–	(1,392)	–	–	–	276
Currency realignment	(353)	231	–	–	(184)	95	–	(211)
At 31 December 2018 and 1 January 2019	15,621	(7,074)	(4,434)	(8,807)	38,522	(2,832)	–	30,996
(Credit) charge to profit or loss (Note 7)	(4,041)	173	69	(10,866)	(13,024)	(378)	47,783	19,716
Credit to other comprehensive income	–	–	–	–	–	(311)	–	(311)
Currency realignment	(164)	155	–	–	(702)	72	–	(639)
At 31 December 2019	11,416	(6,746)	(4,365)	(19,673)	24,796	(3,449)	47,783	49,762

At the end of the reporting period, the Group had unused tax losses of approximately HK$635,090,000 (2018: approximately HK$724,897,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK$125,654,000 (2018: approximately HK$53,374,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of approximately HK$509,436,000 (2018: approximately HK$671,523,000) due to the unpredictability of future profit streams.

The Group has tax losses arising in Switzerland of approximately HK$137,000 (2018: approximately HK$28,439,000) that will expire in one to seven years for offsetting against future taxable profits. The Group also has tax losses arising in the PRC of approximately HK$188,677,000 (2018: approximately HK$113,003,000) that will expire in one to five years for offsetting against future taxable profits. Other losses may be carried forward indefinitely.

19 DEFERRED TAXATION *(Continued)*

According to the Enterprise Income Tax Law, starting from 1 January 2008, a 10% withholding tax will be levied on the immediate holding company established out of the PRC when its PRC subsidiary declares dividends out of its profits earned after 1 January 2008. A lower withholding tax rate of 5% may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign immediate holding company. A deferred tax liability of approximately HK$24,796,000 (2018: approximately HK$38,522,000) has been provided for in the consolidated financial statements in respect of such temporary difference.

At the end of the reporting period, temporary difference relating to the undistributed profits of the Company's subsidiaries in the PRC was approximately HK$33,414,000 (2018: approximately HK$29,925,000). The related deferred tax liability of approximately HK$8,354,000 (2018: approximately HK$7,481,000) has not been recognised in respect of the withholding tax that would be payable on the distribution of these retained profits as the Group controls the dividend policy of the subsidiaries and the Directors have determined that these retained profits are not likely to be distributed in the foreseeable future.

20 INVENTORIES

	2019 HK$'000	2018 HK$'000
Raw materials	**462,213**	486,160
Work in progress	**150,654**	158,067
Finished goods	**152,981**	120,196
	765,848	764,423

The cost of inventories recognised as expenses and included in "cost of sales" amounted to approximately HK$1,231,555,000 (2018: approximately HK$1,526,127,000) (see Note 8). Allowance for inventories recognised during the year, as included in "cost of sales", amounted to approximately HK$6,458,000 (2018: approximately HK$7,731,000) (see Note 8).

21 TRADE AND OTHER RECEIVABLES

	2019 HK$'000	2018 HK$'000
Trade receivables	**323,532**	317,260
Less: Loss allowance	**(5,322)**	(4,307)
	318,210	312,953
Bills receivable	**49,879**	79,895
	368,089	392,848
Other receivables	**57,543**	112,612
Loan to a related party (Note i)	**–**	45,652
Prepayments	**74,591**	66,357
Total trade and other receivables	**500,223**	617,469

Note:

(i) The loan is unsecured, interest bearing at a fixed rate of 11% per annum and repayable within one year.

21 TRADE AND OTHER RECEIVABLES *(Continued)*

The Group allows an average credit period of 60 days (2018: 60 days) to its trade customers.

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

	2019 **HK$'000**	2018 HK$'000
0 – 60 days	**251,243**	292,705
61 – 90 days	**14,364**	2,912
Over 90 days	**52,603**	17,336
	318,210	312,953

Movement in the loss allowance for trade receivables

	2019 **HK$'000**	2018 HK$'000
At beginning of the year	**4,307**	8,719
Impairment losses recognised on trade receivables	**1,812**	26
Amounts written off as uncollectible	**(23)**	(2,130)
Amounts recovered during the year	**(740)**	(2,184)
Currency realignment	**(34)**	(124)
At end of the year	**5,322**	4,307

21 TRADE AND OTHER RECEIVABLES *(Continued)*

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

	2019	2018
	HK$'000	HK$'000
HKD	**15,426**	31,718
USD	**116,839**	165,191
EUR	**83,710**	93,167
RMB	**151,997**	102,613
Others	**117**	159
	368,089	392,848

22 CASH AND BANK BALANCES AND OTHER CASH FLOW INFORMATION

(a) Cash and bank balances

Bank balances, with original maturity less than 3 months, carry interest at market rates which range from 0.01% to 3.85% (2018: 0.01% to 1.42%) per annum.

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

	2019	2018
	HK$'000	HK$'000
HKD	**55,820**	73,459
USD	**78,217**	154,655
EUR	**25,780**	67,941
RMB	**164,206**	281,537
INR	**2,758**	4,251
Others	**5,039**	4,956
	331,820	586,799

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

22 CASH AND BANK BALANCES AND OTHER CASH FLOW INFORMATION

(Continued)

(b) Reconciliation of liabilities arising from financing activities

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

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

22 CASH AND BANK BALANCES AND OTHER CASH FLOW INFORMATION *(Continued)*

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

	Interest payable included in other payables HK$'000	Lease liabilities HK$'000	Loan from immediate holding company HK$'000	Loan from a fellow subsidiary HK$'000	Bank borrowings (Note i) HK$'000	Total HK$'000
At 31 December 2018	175	–	–	–	1,894,522	1,894,697
Impact on initial application of HKFRS (Note ii)	–	38,429	–	–	–	38,429
At 1 January 2019	175	38,429	–	–	1,894,522	1,933,126
Changes from financing cash flows:						
New bank borrowings raised	–	–	–	–	1,841,180	1,841,180
New loans raised	–	–	65,000	70,000	–	135,000
Repayment of bank borrowings	–	–	–	–	(1,815,844)	(1,815,844)
Interest paid	(75,435)	–	–	–	–	(75,435)
Capital element of lease rentals paid	–	(6,785)	–	–	–	(6,785)
Interest element of lease rentals paid	–	(885)	–	–	–	(885)
Total changes from financing cash flows	(75,435)	(7,670)	65,000	70,000	25,336	77,231
Other changes:						
Currency realignment	–	(822)	–	–	–	(822)
Increase in lease liabilities from entering into new leases during the year	–	15,179	–	–	–	15,179
Interest expenses	51,753	–	–	–	–	51,753
Interest expenses on lease liabilities	–	885	–	–	–	885
Interest capitalised	23,682	–	–	–	–	23,682
Total other changes	75,435	15,242	–	–	–	90,677
At 31 December 2019	175	46,001	65,000	70,000	1,919,858	2,101,034

Notes:

(i) Bank borrowings consist of bank loans, trust receipts loans and discounted bills with recourse as disclosed in Note 27.

(ii) The Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17.

22 CASH AND BANK BALANCES AND OTHER CASH FLOW INFORMATION

(Continued)

(c) Total cash outflow for leases

Amounts included in the consolidated statement of cash flows for leases comprise the following:

	2019 HK$'000	2018 HK$'000
Within:		
Operating cash flows	9,837	20,255
Investing cash flows	46,477	–
Financing cash flows	7,670	–
	63,984	20,255

These amounts relate to the following:

	2019 HK$'000	2018 HK$'000
Deposits paid for acquisition of leasehold land	46,477	–
Lease rentals paid	17,507	20,255
	63,984	20,255

23 TRADE AND OTHER PAYABLES

	2019 HK$'000	2018 HK$'000
Trade payables	**143,532**	230,772
Amount due to ultimate holding company (Note i)	**5,135**	5,250
Loan from immediate holding company (Note ii)	**65,000**	–
Loan from a fellow subsidiary (Note ii)	**70,000**	–
Other payables and accrued charges	**358,140**	726,815
	641,807	962,837
Amount due after one year included under non-current liabilities (Note iii)	**–**	(341,751)
	641,807	621,086

Notes:

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

(ii) The loans are unsecured, interest bearing at a fixed rate of 4.3% per annum and repayable within one year.

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

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

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

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

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

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

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

23 TRADE AND OTHER PAYABLES *(Continued)*

Notes: *(Continued)*

(iii) *(Continued)*

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

On 2 April 2015, it was conditionally agreed in writing ("Supplemental Agreement") to defer the second and third installment payments subject to the approval of the shareholders of the Company. The Supplemental Agreement was approved by the shareholders at the annual general meeting of the Company held on 21 May 2015. Details of the variation of the terms of the Urban Renewal Project were disclosed in the Company's circular dated 21 April 2015.

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

On 13 April 2016, it was conditionally agreed in writing ("Second Supplemental Agreement") to defer the third installment payment subject to the approval of the shareholders of the Company. The Second Supplemental Agreement was approved by the shareholders at the special general meeting of the Company held on 25 May 2016. Details of the further variation of the terms of the Urban Renewal Project were disclosed in the Company's circular dated 6 May 2016.

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

On 28 November 2019, it was agreed in writing ("Third Supplemental Agreement"), that the Project Company has agreed to advance FNES a further amount RMB50 million as part of the fourth installment before 31 December 2019 and the payment was made on 18 December 2019. In addition, in accordance with the Third Supplemental Agreement, the total amount of RMB350 million is non-refundable and used to compensate the reallocation expenses, including plant disposal, employees' compensation and business losses arising from the reallocation, incurred during the year ended 31 December 2019. In view that substantial reallocation costs have been incurred and the variation of the terms of the Urban Renewal Project, the Group recognised RMB350 million as income resulting in a gain of HK$316,246,000 during the year ended 31 December 2019. Details of variation of the terms of the Urban Renewal Project were disclosed in the Company's announcement dated 20 December 2019.

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

	2019	2018
	HK$'000	HK$'000
0 – 90 days	**111,576**	196,174
91 – 120 days	**484**	2,275
Over 120 days	**31,472**	32,323
	143,532	230,772

23 TRADE AND OTHER PAYABLES *(Continued)*

The average credit period on purchase of goods is 90 days (2018: 90 days). The Group has financial risk management policies in place to ensure that all payables are within the credit time frame.

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

	2019	2018
	HK$'000	HK$'000
HKD	**8,732**	13,673
USD	**9,386**	15,504
EUR	**28,691**	49,466
RMB	**94,836**	151,630
CHF	**81**	127
Others	**1,806**	372
	143,532	230,772

24 CONTRACT LIABILITIES

	2019	2018
	HK$'000	HK$'000
Receipts in advance	**181,395**	180,152

Note: Revenue of approximately HK$170,789,000 recognised for the year ended 31 December 2019 (2018: approximately HK$278,956,000) was related to carried forward contract liabilities that were satisfied in the prior year.

25 WARRANTY PROVISION

	2019 HK$'000	2018 HK$'000
At beginning of the year	**16,191**	15,963
Provision for the year	**29,078**	29,478
Utilisation of provision	**(28,680)**	(28,913)
Currency realignment	**(231)**	(337)
At end of the year	**16,358**	16,191

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

26 LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current and previous reporting periods and at the date of transition to HKFRS 16:

	Present value of minimum lease payments			Total minimum lease payments		
	At 31 December 2019 HK$'000	At 1 January 2019 HK$'000	At 31 December 2018 HK$'000	**At 31 December 2019 HK$'000**	At 1 January 2019 HK$'000	At 31 December 2018 HK$'000
Amounts payable:						
Within one year	**12,130**	6,405	–	**13,470**	7,167	–
In the second to fifth year	**25,732**	19,591	–	**27,399**	21,096	–
In the sixth to seventh year	**8,139**	12,433	–	**8,274**	12,740	–
	46,001	38,429	–	**49,143**	41,003	–
Less: Future finance charges				**(3,142)**	(2,574)	–
Present value of lease obligation				**46,001**	38,429	–
Less: current portion				**(12,130)**	(6,405)	–
Non-current portion				**33,871**	32,024	–

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17.

27 BANK BORROWINGS

	2019 **HK$'000**	2018 HK$'000
Unsecured bank borrowings comprise the following:		
– Bank loans	**1,864,577**	1,827,346
– Trust receipts loans	**46,492**	67,176
– Discounted bills with recourse	**8,789**	–
	1,919,858	1,894,522
Analysed for reporting purpose:		
– Current	**1,919,858**	1,894,522
	1,919,858	1,894,522

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

	2019 **HK$'000**	2018 HK$'000
Carrying amounts repayable*:		
Within one year	**98,813**	167,176
	98,813	167,176
Carrying amounts of bank borrowings contain a repayment on demand clause that are repayable (shown under current liabilities)*:		
Within one year	**1,049,188**	959,418
More than one year, but not exceeding two years	**353,857**	381,571
More than two years, but not exceeding five years	**418,000**	386,357
	1,821,045	1,727,346
	1,919,858	1,894,522
Less: Amounts due within one year shown under current liabilities	**(1,919,858)**	(1,894,522)
Amounts shown under non-current liabilities	**–**	–

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

27 BANK BORROWINGS *(Continued)*

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

	2019	2018
	%	%
Unsecured bank loans and trust receipts loans	**4.08**	3.54
Discounted bills with recourse	**1.15**	–

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

	2019	2018
	HK$'000	HK$'000
HKD	**1,813,385**	1,827,346
USD	**89,729**	67,176
RMB	**16,744**	–
	1,919,858	1,894,522

28 DEFERRED REVENUE

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

	2019	2018
	HK$'000	HK$'000
At beginning of the year	**82,007**	40,115
Received during the year	**2,161**	47,034
Recognised as other income during the year	**(3,559)**	(1,421)
Currency realignment	**(1,770)**	(3,721)
At end of the year	**78,839**	82,007

29 SHARE CAPITAL AND RESERVES

a. Movements in components of equity

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

b. Share capital of the Company

	2019 Number of shares	2019 HK$'000	2018 Number of shares	2018 HK$'000
Authorised:				
Ordinary shares of HK$0.05 each	**2,000,000,000**	**100,000**	2,000,000,000	100,000
Issued and fully paid:				
At 1 January and 31 December	**1,100,216,570**	**55,011**	1,100,216,570	55,011

30. ACQUISITION OF A SUBSIDIARY THAT IS NOT A BUSINESS

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

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

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

	2018 HK$'000
Property, plant and equipment (Note 12)	324,742
Other receivables	827
Deferred tax liabilities (Note 19)	(276)
	325,293
Consideration transferred:	
Satisfied by cash consideration	325,293
Net cash outflow arising on acquisition:	
Cash consideration paid	325,293
Net cash outflow arising on acquisition	325,293

31 SERVICE CONCESSION ARRANGEMENTS

The Group entered into several service concession arrangements with local governments (the "Grantor") to construct and operate the kitchen wastes recycling treatment plant and municipal sewage sludge treatment plant during the concession period, which is normally for 30 years of operation. The Group is responsible for construction and maintenance of the plants during the concession period. At the end of the concession period, the Group needs to transfer the plants to the Grantor at nil consideration. Service concession construction revenue recorded during the year represents the revenue recognised during the construction stage of the service concession period. The same amount of cost is recorded since substantially all construction activities are sub-contracted. During the year ended 31 December 2019, revenue and cost of service concession of approximately HK$Nil (2018: approximately HK$4,670,000) and approximately HK$Nil (2018: approximately HK$4,670,000) have been recognised in profit or loss respectively.

The Group has recognised intangible assets (Note 16) related to the service concession arrangements representing the rights the Group receives to charge a fee for provision of services. The Group has not recognised service concession receivables as the Grantor will not provide the Group any guaranteed minimum payment for the operating period of the plants.

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

32 CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which includes bank borrowings disclosed in Note 27, less cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits.

Certain bank borrowings of the Group include covenants that require the maintenance of certain financial ratios. As at 31 December 2019, no financial ratio covenant was breached.

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

33 FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	Financial assets		
	Amortised cost	Financial assets at fair value through other comprehensive income	Total
	HK$'000	HK$'000	HK$'000
2019			
Financial assets at FVOCI	–	170,707	170,707
Trade and other receivables	408,937	–	408,937
Cash and bank balances	331,820	–	331,820
	740,757	170,707	911,464

	Financial liabilities	
	Financial liabilities at amortised cost	Total
	HK$'000	HK$'000
2019		
Bank overdraft, unsecured	3,592	3,592
Trade and other payables	641,807	641,807
Lease liabilities	46,001	46,001
Bank borrowings	1,919,858	1,919,858
	2,611,258	2,611,258

33 FINANCIAL INSTRUMENTS *(Continued)*

a. Categories of financial instruments *(Continued)*

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

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

33 FINANCIAL INSTRUMENTS *(Continued)*

b. Financial risk management objectives and policies

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

Market risk (currency risk)

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

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

	Liabilities		Assets	
	2019	2018	**2019**	2018
	HK$'000	HK$'000	**HK$'000**	HK$'000
USD	**104,022**	104,966	**191,140**	307,910
HKD	**5,530**	190	**12,810**	32,364
EUR	**8,940**	14,832	**34,514**	19,059
RMB	**12**	1,932	**5,806**	13,111

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

33 FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk (currency risk) *(Continued)*

The following table details the Group's sensitivity to a 5% increase and decrease in the relevant functional currencies against the foreign currencies. 5% is the sensitivity rate which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive (negative) number below indicates an increase (decrease) in post-tax profit where respective functional currencies weakening 5% against the relevant foreign currencies. For a 5% strengthen of respective functional currencies against the relevant foreign currencies, there would be an equal and opposite impact on the post-tax profit (2018: profit).

	USD		HKD		EUR		RMB	
	2019 HK$'000	2018 HK$'000	**2019 HK$'000**	2018 HK$'000	**2019 HK$'000**	2018 HK$'000	**2019 HK$'000**	2018 HK$'000
Increase in profit for the year*	**997**	6,870	**304**	1,343	**1,068**	176	**242**	467

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

Market risk (interest rate risk)

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

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

33 FINANCIAL INSTRUMENTS *(Continued)*

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

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

Sensitivity analysis

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

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2019 would decrease/increase by approximately HK$6,608,000 (2018: approximately HK$5,479,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank balances and bank borrowings.

Market risk (equity price risk)

The Group is exposed to equity price risk mainly through its investment in unlisted financial assets at FVOCI. The investment is held for long term strategic purposes. Its performance is assessed at least bi-annually against performance of similar listed entities, based on the limited information available to the Group, together with an assessment of its relevance to the Group's long term strategic plans.

Sensitivity analysis

The sensitivity analysis as stated in Note 33(c)(i) below has been determined based on the exposure to equity price risk at the end of the reporting period.

33 FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables, bills receivable and other receivables and deposits with banks. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. As at 31 December 2019, the Group does not provide any guarantees which would expose the Group to credit risk.

(i) Trade receivables

Individual credit evaluations are performed on all customers requiring credit terms. These evaluations focus on the customer's past history of making payments and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. The Group has large number of customers and in the opinion of the Directors, there was no concentration of credit risk. As at 31 December 2019, 8% (2018: 6%) of the total trade receivables were concentrated in one customer, and 32% (2018: 19%) of the total trade receivables were concentrated in five customers of the Group.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix.

33 FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk *(Continued)*

(i) Trade receivables (Continued)

As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2019:

	Expected loss rate %	Gross carrying amount HK$'000	Loss allowance HK$'000
2019			
Current (not past due)	**0% – 5%**	**225,299**	**2,533**
1-30 days past due	**0% – 2%**	**68,820**	**2**
31-60 days past due	**0% – 54%**	**18,986**	**143**
61-180 days past due	**88% – 100%**	**10,427**	**2,644**
		323,532	**5,322**
2018			
Current (not past due)	0%	242,362	–
1-30 days past due	0% – 27%	43,045	34
31-60 days past due	0% – 50%	10,184	945
61-180 days past due	19% – 100%	21,669	3,328
		317,260	4,307

Expected loss rates are based on actual loss experience over the past 3 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

33 FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk *(Continued)*

(i) Trade receivables (Continued)

Movement in the loss allowance account in respect of trade receivables during the year is disclosed in Note 21.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in Note 21.

(ii) Bills receivables

The credit risk on bill receivables are limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

(iii) Other receivables

To manage the risk arising from other receivables, the Group only transacts with reputable parties that have no default history and have a strong capacity to meet its contractual cash flow obligations in the near term. The credit risk on other receivables are limited because the counterparties are individuals with high internal credit ratings assessed by the management.

The Group measures the loss allowance equal to 12-month ECLs of other receivables. For those balances expected to have significant increase in credit risk since initial recognition, the Group applies lifetime ECLs based on ageing for classes with different credit risk characteristics and exposures. The 12-month ECLs calculated by the Group is not significant and there has been no significant increase in credit risk since initial recognition.

33 FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk *(Continued)*

(iv) Deposits with banks

The Group expects that there is no significant credit risk associated with cash deposits at banks since they are substantially deposited at state-owned banks and other medium or large-sized listed banks with high credit ratings assigned by international credit-rating agencies. Management does not expect that there will be any significant losses from non-performance by these counterparties.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position after deducting any impairment allowance.

Liquidity risk

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

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

33 FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk *(Continued)*

Liquidity tables

	Weighted average interest rate %	On demand or within 1 year HK$'000	1 – 2 years HK$'000	2 – 5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
2019							
Non-derivative financial liabilities							
Bank overdraft, unsecured	7.24	3,592	–	–	–	3,592	3,592
Trade and other payables	–	506,807	–	–	–	506,807	506,807
Loan from immediate holding company							
– fixed rate	4.3	67,795	–	–	–	67,795	65,000
Loan from a fellow subsidiary							
– fixed rate	4.3	73,010	–	–	–	73,010	70,000
Lease liabilities (Note)	3.52	13,470	11,434	15,965	8,274	49,143	46,001
Bank borrowings							
– variable rate	4.08	1,912,216	–	–	–	1,912,216	1,911,069
– fixed rate	1.15	8,794	–	–	–	8,794	8,789
		2,585,684	11,434	15,965	8,274	2,621,357	2,611,258
2018							
Non-derivative financial liabilities							
Trade and other payables	–	621,086	–	–	–	621,086	621,086
Bank borrowings							
– variable rate	3.54	1,895,881	–	–	–	1,895,881	1,894,522
		2,516,967	–	–	–	2,516,967	2,515,608

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Under this approach, the comparative information is not restated.

33 FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk *(Continued)*

Liquidity tables (Continued)

Bank loans with a repayment on demand clause are included in the "on demand or within 1 year" time band in the above maturity analysis. As at 31 December 2019 and 2018, the aggregate undiscounted principal amounts of these bank loans amounted to approximately HK$1,821,045,000 and approximately HK$1,727,346,000 respectively. Taking into account the Group's financial position, the Directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The Directors believe that such bank loans will be repaid within 3 years after the reporting date in accordance with the scheduled repayment dates set out in the loan agreements as set out in this table below:

	Weighted average interest rate %	On demand or within 1 year HK$'000	1 – 2 years HK$'000	2 – 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
2019						
Bank borrowings						
– variable rate	4.08	1,092,465	365,276	424,508	1,882,249	1,821,045
2018						
Bank borrowings						
– variable rate	3.61	970,155	443,148	398,150	1,811,453	1,727,346

At that time, the aggregate principal and interest cash outflows will amount to approximately HK$1,882,249,000 (2018: approximately HK$1,811,453,000).

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

33 FINANCIAL INSTRUMENTS *(Continued)*

c. Fair value estimation

(i) Financial instruments carried at fair value

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, "Fair Value Measurement". The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

– Level 1 valuations: fair values measured using Level 1 inputs, i.e. unadjusted quoted prices in active markets for identical assets and liabilities at the measurement date

– Level 2 valuations: fair values measured using Level 2 inputs, i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

– Level 3 valuations: fair values measured using significant unobservable inputs

		Fair value measurement categorised into		
	Fair value HK$'000	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000
2019				
Financial assets at FVOCI	170,707	–	–	170,707
2018				
Financial assets at FVOCI	158,264	–	–	158,264

Information about Level 3 fair value measurements is as follows:

	Valuation technique	Significant unobservable input	Percentage
Financial assets at FVOCI	Market comparable companies	Discount for lack of marketability	15

33 FINANCIAL INSTRUMENTS *(Continued)*

c. Fair value estimation *(Continued)*

(i) Financial instruments carried at fair value *(Continued)*

The fair value of unlisted financial assets at FVOCI was determined using the price to book ratio of comparable listed companies adjusted by lack of marketability discount.

The fair value measurement is negatively correlated to the discount for lack of marketability. As at 31 December 2019, it was estimated that with all other variables held constant, a decrease/increase in discount for lack of marketability by 5% would have decreased/increased the Group's other comprehensive expense by approximately HK$1,442,000 (2018: approximately HK$2,494,000).

The movements during the year ended 31 December 2019 in the balance of these Level 3 fair value measurements are as follows:

	HK$'000
Unlisted financial assets at FVOCI:	
Impact on initial application of HKFRS 9	179,078
Change in fair value recognised in other comprehensive expense	(13,713)
Currency realignment	(7,101)
At 31 December 2018 and 1 January 2019	158,264
Change in fair value recognised in other comprehensive expense	15,910
Currency realignment	(3,467)
At 31 December 2019	170,707

During the years ended 31 December 2019 and 2018, there were no transfers between financial instruments in Level 1 and Level 2, or transfers into or out of Level 3.

(ii) Fair value of financial instruments carried at other than fair value

The carrying amounts of the Group's financial instruments carried at amortised cost were not materially different from their fair values as at 31 December 2019 and 2018.

34 SHARE OPTION SCHEME

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

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

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

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

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

34 SHARE OPTION SCHEME *(Continued)*

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

A summary of the movements of the share options, which were granted under the Scheme during the year ended 31 December 2018, was as follows:

	Number of share options								
	As at 1 January 2018	Granted	Exercised	Lapsed	As at 31 December 2018	% of issued share capital	Date of grant	Exercise price (Note ii) HK$	Note
Grantee (Note i):									
Qi Yuan Investment (Hong Kong) Limited	27,500,000	–	–	(27,500,000)	–	–	22 April 2015	1.95	(iii)
Qi Yuan Investment (Hong Kong) Limited	27,500,000	–	–	(27,500,000)	–	–	22 April 2015	2.50	(iii)
Total	55,000,000	–	–	(55,000,000)	–	–			

Notes:

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

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

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

34 SHARE OPTION SCHEME *(Continued)*

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

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

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

No share option expense has been recognised in profit or loss for the year ended 31 December 2019 and 2018 and no corresponding amount of which has been credited to share option reserve.

35 CAPITAL COMMITMENTS

	2019 HK$'000	2018 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of the acquisition of:		
Property, plant and equipment	**28,859**	111,868
Leasehold land	**106,310**	108,690
	135,169	220,558

36 OPERATING LEASES

At 31 December 2018, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018 HK$'000
Within one year	15,475
In the second to fifth year inclusive	10,743
	26,218

The Group is the lessee in respect of a number of properties for its office premises, factories, godowns and residential units for its employees, which were previously classified as operating leases under HKAS 17. The leases have varying terms, escalation clauses and renewal rights. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see Note 3(b)). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the consolidated statement of financial position in accordance with the policies set out in Note 3(q), and the details regarding the Group's future lease payments are disclosed in Note 26.

37 RETIREMENT BENEFITS SCHEME

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

Schemes in Hong Kong

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

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

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

The aggregate employers' contributions which have been dealt with in profit or loss of the Group amounted to approximately HK$3,778,000 (2018: approximately HK$4,069,000).

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

37 RETIREMENT BENEFITS SCHEME *(Continued)*

Scheme in the PRC

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

The total cost charged to profit or loss for the scheme in the PRC amounted to approximately HK$40,183,000 (2018: approximately HK$36,864,000).

Scheme in Germany

In Germany, the Group is obliged to contribute to a social pension programme for employees on a monthly basis at around 9.3% of the employees' gross income. The only obligation of the Group with respect to this retirement benefit scheme is to make the specified contribution.

The total cost charged to profit or loss for the scheme in Germany amounted to approximately HK$6,013,000 (2018: approximately HK$6,726,000).

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

The movements of the defined benefit obligations are as follows:

	2019 **HK$'000**	2018 HK$'000
At beginning of the year	**29,223**	33,252
Remeasurement loss (gain)	**2,674**	(300)
	31,897	32,952
Currency realignment	**(520)**	(1,018)
Benefits paid by the plans	**(1,418)**	(3,634)
Current service cost	**483**	503
Interest cost	**472**	420
At end of the year	**30,914**	29,223

At the end of the reporting period, the amount of the defined benefit obligations is included in other payables (Note 23).

37 RETIREMENT BENEFITS SCHEME *(Continued)*

Scheme in Germany *(Continued)*

For the year ended 31 December 2019, the defined benefit plan is valued using the projected unit credit method in accordance with HKAS 19, which was prepared by a qualified actuary. A portion of the above liability is expected to be settled after more than one year. However, it is not practicable to segregate this amount from the amounts payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions, and therefore the obligations are classified as current liabilities at the end of the reporting period.

The material actuarial assumptions used in valuing these obligations are as follows:

(i) Discount rates adopted (per annum):

	2019	2018
Discount rate	**0.5%**	1.7%

(ii) Mortality: Heubeck mortality tables;

(iii) Cost of living increase rate: 1.5%;

(iv) Pensionable income increase rate: 2.5%; and

(v) Adjustment of current pensions according to Section 16 of German Company Pensions Act (BetrAVG) : 1.5%.

Scheme in Switzerland

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

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

The total cost charged to profit or loss for the Plan in Switzerland amounted to approximately HK$114,000 (2018: approximately HK$92,000).

Scheme in Austria

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

The total cost charged to profit or loss for the scheme in Austria amounted to approximately HK$3,018,000 (2018: approximately HK$3,306,000).

38 RELATED PARTY TRANSACTIONS DISCLOSURE

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

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

	2019 HK$'000	2018 HK$'000
Related parties in which a close member of a Director of the Company has control		
Rental paid	**8,996**	12,120
Release fee paid	**260**	2,043
Related parties in which a Director of the Company has significant influence		
Purchase of materials	**20,974**	20,365
Sales of goods	**1,539**	2,716
Fellow subsidiary which has significant influence on the Company		
Interest expense paid	**995**	–
Fellow subsidiaries		
Sales of goods	**68**	1,618
Interest income received	**1,876**	7,521
Commission paid	**57**	59
Research and development costs	**769**	3,599
Purchase of materials	**312**	38
Immediate holding company		
Other income received	**2**	–
Interest expense paid	**978**	–
Ultimate holding company		
Other income received	**–**	246
Associate		
Sales of goods	**48,557**	–

38 RELATED PARTY TRANSACTIONS DISCLOSURE *(Continued)*

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

All the above transactions also constituted related party transactions as defined in HKAS 24 and connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

The Group entered into operating lease agreements with a related party which a substantial shareholder of the Company has control. At 31 December 2018, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018 HK$'000
Within one year	8,820

Outstanding balances with related parties

Apart from disclosed elsewhere in these consolidated financial statements, the Group had no other outstanding balances with related parties at 31 December 2019 and 2018.

Compensation of key management personnel

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

	2019 **HK$'000**	2018 HK$'000
Short-term benefits	**41,902**	40,168
Post-employment benefits	**1,187**	1,212
	43,089	41,380

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

38 RELATED PARTY TRANSACTIONS DISCLOSURE *(Continued)*

Government-related entities operated in the PRC

The Group has entered into various transactions, including deposits placements, bank borrowings and other general banking facilities, with certain banks and financial institutions which are state-controlled entities in its ordinary course of business. About 24% (2018: 31%) of its bank deposits and bank borrowings are with government-related entities. In view of the nature of those banking transactions, the Directors of the Company are of the opinion that separate disclosure would not be meaningful.

39 PARTICULARS OF PRINCIPAL SUBSIDIARIES

Name of Company	Place of incorporation or registration/ operations	Nominal value of issued capital/ registered capital	Equity interest attributable to the Company Direct 2019	Direct 2018	Indirect 2019	Indirect 2018	Principal activities
Fong's Manufacturers Company Limited	British Virgin Islands	US$10,000	**100%**	100%	**–**	–	Investment holding
Falmer Investments Ltd.	British Virgin Islands/Hong Kong	US$1	**–**	–	**100%**	100%	Research and development
Fong's National Engineering Company, Limited	Hong Kong	Ordinary – HK$100 Deferred – HK$8,000,000 (Note i)	**–**	–	**100%**	100%	Trading of dyeing and finishing machines
Fong's National Engineering (Shenzhen) Co., Ltd.* 立信染整機械(深圳)有限公司	The PRC	US$22,500,000	**–**	–	**100%**	100%	Manufacture and trading of dyeing and finishing machines
Fong's Steels Supplies Company Limited	Hong Kong	HK$10,000	**–**	–	**100%**	100%	Trading of stainless steel supplies
Leefull Metal (Shenzhen) Co., Ltd.* 立豐行金屬材料(深圳)有限公司	The PRC	RMB2,500,000	**–**	–	**100%**	100%	Trading of stainless steel supplies
Goller (HK) Limited	Hong Kong	HK$1	**–**	–	**100%**	100%	Trading of textile machinery
Tycon Alloy Industries (Hong Kong) Co., Ltd.	Hong Kong	HK$10,000	**100%**	–	**–**	100%	Trading of stainless steels casting products

39 PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of Company	Place of incorporation or registration/ operations	Nominal value of issued capital/ registered capital	Equity interest attributable to the Company Direct 2019	Direct 2018	Indirect 2019	Indirect 2018	Principal activities
Tycon Alloy Industries (Shenzhen) Co., Ltd.* 泰鋼合金（深圳）有限公司	The PRC	US$16,550,000	**–**	–	**100%**	100%	Manufacture and trading of stainless steels casting products
Fong's Europe GmbH	Germany	EUR1,900,000	**–**	–	**100%**	100%	Manufacture and trading of textile machinery and technical parts
Fong's National Dyeing and Finishing Machinery (Macao Commercial Offshore) Co., Ltd.	Macau	MOP100,000	**–**	–	**100%**	100%	Trading of textile machinery
Fong's National Engineering (Guangdong) Co., Ltd.* 立信染整機械（廣東）有限公司	The PRC	US$39,000,000	**–**	–	**100%**	100%	Manufacture and trading of dyeing and finishing machinery
Tycon Alloy Industries (Zhongshan) Co., Ltd.* 泰鋼合金（中山）有限公司	The PRC	US$25,000,000	**–**	–	**100%**	100%	Not yet commenced business
Monforts Fong's Textile Machinery Co., Limited	Hong Kong	HK$18,400,000	**–**	–	**100%**	100%	Manufacture and trading of textile machinery
Fong's Projects Holding Limited	British Virgin Islands	US$1,000	**100%**	–	**–**	100%	Investment holding
Monforts Fong's Textile Machinery (Macao Commercial Offshore) Co., Ltd.	Macau	MOP100,000	**–**	–	**100%**	100%	Manufacture and trading of textile machinery
Monforts Fong's Textile Machinery (Zhongshan) Co., Ltd.* 立信門富士紡織機械（中山）有限公司	The PRC	US$26,500,000	**–**	–	**100%**	100%	Manufacture and trading of textile machinery
A. Monforts Textilmaschinen GmbH & Co KG**	Germany	N/A	**–**	–	**100%**	N/A	Manufacture and trading of textile machinery

39 PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of Company	Place of incorporation or registration/ operations	Nominal value of issued capital/ registered capital	Equity interest attributable to the Company				Principal activities
			Direct		Indirect		
			2019	2018	**2019**	2018	
Beijing CSCE Environmental Engineering Technology Co., Ltd. 北京中科潔能環境工程技術有限公司	The PRC	RMB30,000,000	**–**	–	**51%**	51%	Investment holding and consultancy service
Taian China Science Environmental Engineering Co., Ltd. 泰安中科環保工程有限公司	The PRC	RMB60,000,000	**–**	–	**51%**	51%	Providing services on kitchen wastes recycling and innocuous treatment
Taian CSCE Environmental Engineering Technology Co., Ltd. 泰安中科潔能環境工程技術有限公司	The PRC	RMB10,000,000	**–**	–	**51%**	51%	Providing services on animal carcasses innocuous treatment
PT Harvest Holdings Limited (Note ii)	Hong Kong	HK$10,000	**–**	–	**100%**	–	Property investment

* A wholly foreign-owned enterprise in the PRC.

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

Notes:

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

(ii) On 23 August 2018, the Company acquired the entire interest in PT Harvest Holdings Limited. Please refer to Note 30 for details.

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

39 PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

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

Principal activities	Principal place of business	Number of subsidiaries	
		2019	2018
Manufacture and sale of dyeing and finishing machines	British Virgin Islands	**6**	6
	Chile	**0**	1
	Germany	**1**	1
	Hong Kong	**14**	15
	India	**1**	1
	Luxembourg	**1**	1
	Switzerland	**1**	1
	The PRC	**4**	5
		28	31
Trading of stainless steel supplies	Hong Kong	**1**	1
		1	1
Manufacture and sale of stainless steel casting products	Hong Kong	**2**	2
	The United States of America	**2**	2
		4	4
Provision of environmental protection services	The PRC	**3**	3
		3	3

39 PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

The following table lists out the information relating to the subsidiaries of the Group which have non-controlling interests as at 31 December 2019. The summarised financial information presented below represents the amounts before any inter-company elimination.

	2019		2018	
	Tycon Alloy USA LLC HK$'000	**CSCE Group HK$'000**	Tycon Alloy USA LLC HK$'000	CSCE Group HK$'000
Non-controlling interests percentage	**40%**	**49%**	40%	49%
Current assets	**4,731**	**32,300**	13,991	39,911
Non-current assets	**1,811**	**151,054**	1,420	174,016
Current liabilities	**(10,599)**	**(171,255)**	(19,142)	(174,862)
Non-current liabilities	**–**	**(19,603)**	–	(26,489)
Net (liabilities) assets	**(4,057)**	**(7,504)**	(3,731)	12,576
Carrying amount of non-controlling interests	**(1,623)**	**(3,677)**	(1,492)	6,162

	2019		2018	
	Tycon Alloy USA LLC HK$'000	**CSCE Group HK$'000**	Tycon Alloy USA LLC HK$'000	CSCE Group HK$'000
Revenue	**4,919**	**30**	937	20,811
Loss for the year	**(326)**	**(20,080)**	(3,739)	(30,408)
Loss allocated to non-controlling interests	**(131)**	**(9,839)**	(1,495)	(14,900)
Cash flows generated from (used in) operating activities	**1,599**	**(1,409)**	(3,494)	(9,708)
Cash flows used in investing activities	**(1,117)**	**–**	(2,311)	(19,201)
Cash flows (used in) generated from financing activities	**(9,618)**	**516**	17,071	22,619

40 INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2019 HK$'000	2018 HK$'000
Unlisted investments in subsidiaries	**39,447**	36,585
Cash and cash equivalents	**240**	2,650
Amounts due from subsidiaries	**292,364**	289,798
Other receivables	**677**	407
Total assets	**332,728**	329,440
Current liabilities	**(1,755)**	(1,966)
Net assets	**330,973**	327,474
Share capital (Note 29(b))	**55,011**	55,011
Reserves	**275,962**	272,463
Total equity (Note a)	**330,973**	327,474

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

Note:

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

	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Retained profits HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000	Total HK$'000
At 1 January 2018	55,011	152,122	2,504	148,975	23,033	16,614	398,259
Profit and total comprehensive income for the year	–	–	–	50,238	–	–	50,238
Transfer of share option reserve upon the lapse of share options	–	–	–	16,614	–	(16,614)	–
Final dividend for 2017 paid (Note 10)	–	–	–	(88,017)	–	–	(88,017)
Interim dividend for 2018 paid (Note 10)	–	–	–	(33,006)	–	–	(33,006)
At 31 December 2018 and 1 January 2019	55,011	152,122	2,504	94,804	23,033	–	327,474
Profit and total comprehensive income for the year	–	–	–	25,503	–	–	25,503
Final dividend for 2018 paid (Note 10)	–	–	–	(22,004)	–	–	(22,004)
At 31 December 2019	55,011	152,122	2,504	98,303	23,033	–	330,973

FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2015	2016	2017	2018	**2019**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Revenue	3,223,012	3,125,687	3,403,822	3,472,497	**2,663,259**
Profit before tax	211,334	151,113	350,792	153,811	**217,499**
Income tax expense	(45,488)	(59,824)	(67,704)	(29,189)	**(58,633)**
Profit for the year	165,846	91,289	283,088	124,622	**158,866**
Profit (loss) attributable to:					
Owners of the Company	166,029	91,289	281,263	141,017	**168,836**
Non-controlling interests	(183)	–	1,825	(16,395)	**(9,970)**
	165,846	91,289	283,088	124,622	**158,866**

ASSETS AND LIABILITIES

	As at 31 December				
	2015	2016	2017	2018	**2019**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	3,238,879	3,522,422	4,271,110	4,778,323	**4,682,024**
Total liabilities	(1,866,449)	(2,188,328)	(2,619,519)	(3,214,736)	**(2,994,624)**
	1,372,430	1,334,094	1,651,591	1,563,587	**1,687,400**
Equity attributable to:					
Owners of the Company	1,372,430	1,334,094	1,630,529	1,558,917	**1,692,700**
Non-controlling interests	–	–	21,062	4,670	**(5,300)**
	1,372,430	1,334,094	1,651,591	1,563,587	**1,687,400**