Freetech
英達科技

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

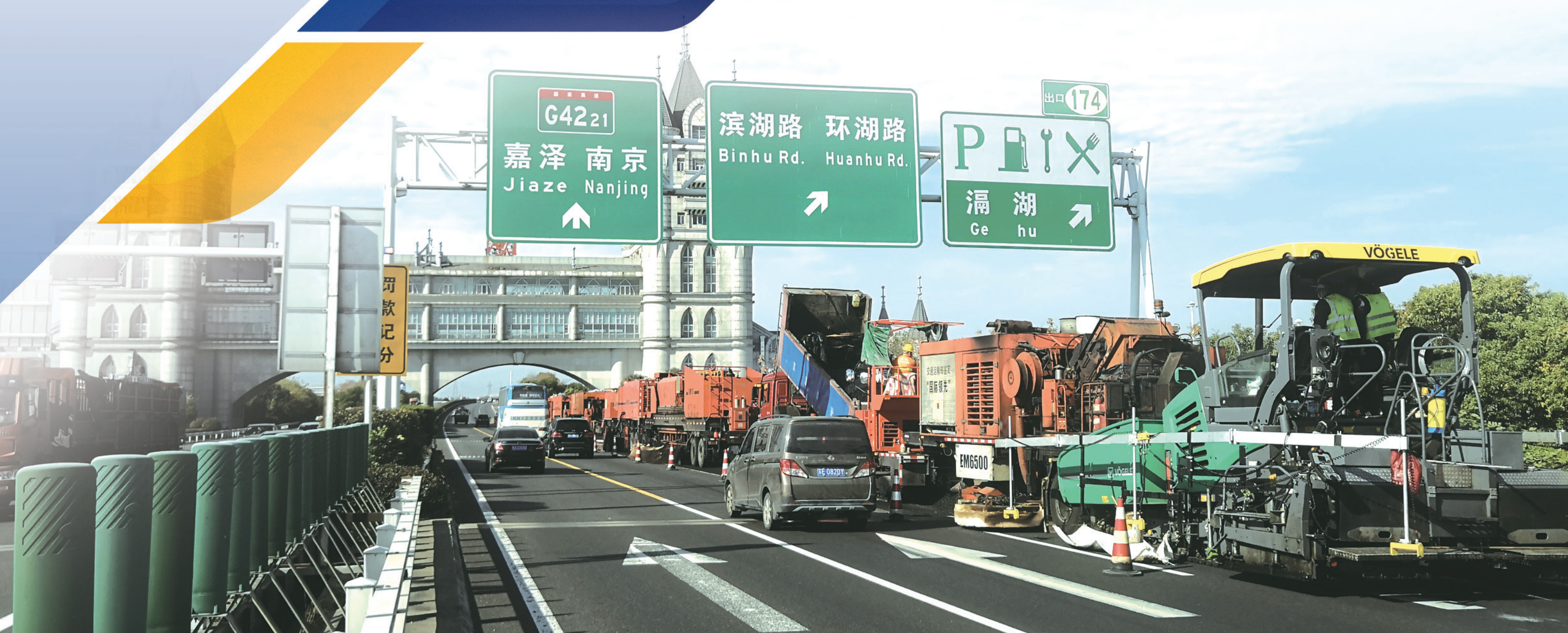
(Incorporated in the Cayman Islands with limited liability)
(於開曼群島註冊成立的有限公司)
Stock Code 股份代號：6888

2019 ANNUAL REPORT
年報

公路醫生®

CONTENTS

This Annual Report is printed on environmentally friendly paper



CORPORATE INFORMATION

BOARD OF DIRECTORS

Chairman

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

Executive Directors

Ms. Sze Wan Nga
Mr. Chan Kai King
Mr. Zhang Yifu *(resigned with effect from 2 July 2019)*

Non-executive Directors

Prof. Tong Wai Cheung Timothy
(appointed with effect from 2 July 2019)
Dr. Chan Yan Chong
Mr. Wang Lei

Independent Non-executive Directors

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

Audit Committee

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

Nomination Committee

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

Remuneration Committee

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

Authorised Representatives

Ms. Sze Wan Nga
Mr. Lim Eng Sun

Company Secretary

Mr. Lim Eng Sun

Registered Office

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

Group Headquarters and Principal Place of Business in Hong Kong

29/F, Chinachem Century Tower
178 Gloucester Road, Wanchai
Hong Kong

PRC Headquarters

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

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East, Hong Kong

Cayman Islands Share Register and Transfer Office

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

Auditor

BDO Limited
Certified Public Accountants

Principal Bankers

Bank of Communications
Bank of Beijing

Company Website Address

www.freetech-holdings.hk

FINANCIAL AND OPERATING HIGHLIGHTS

RESULTS

	Year ended 31 December		
	2019 **HK$'000**	2018 HK$'000	Increase/ (decrease)
Revenue	**487,323**	522,433	(6.7%)
Gross profit	**103,388**	102,099	1.3%
Profit/(Loss) attributable to owners of the Company	**4,145**	(139,130)	103.0%
Earnings/(Loss) per share — Basic (HK cents)	**0.39**	(13.11)	103.0%

FINANCIAL POSITION

	31 December		
	2019 **HK$'000**	2018 HK$'000	Increase/ (decrease)
Financial assets at fair value through profit or loss, time deposits, pledged bank deposits and bank balances and cash	**256,026**	192,439	33.0%
Bank borrowings	**110,880**	123,012	(9.9%)
Equity attributable to owners of the Company	**697,841**	702,679	(0.7%)

KEY FINANCIAL RATIOS

Gross profit margin	**21.2%**	19.5%	8.7%
Net profit/(loss) margin	**1.9%**	(27.6%)	106.9%
Return on assets	**0.7%**	(11.7%)	106.0%
Current ratio	**1.6**	1.5	6.7%
Gearing ratio [1]	**N/A**	**N/A**	**N/A**

Note:

[1] The calculation of the gearing ratio is based on the net bank borrowings (total bank borrowings minus bank balances and cash, time deposits, pledged bank deposits and financial assets at fair value through profit or loss) divided by equity attributable to owners of the Company multiplied by 100%.

CHAIRMAN’S STATEMENT

Dear Shareholders,

On behalf of the board of directors (the “Board”), I am pleased to present the annual report of Freetech Road Recycling Technology (Holdings) Limited (the “Group”) for the financial year ended 31 December 2019.

PERFORMANCE

The year of 2019 is the 70th anniversary of the founding of new China. With strong determination, it is also a crucial year for the People’s Republic of China’s (the “PRC”) government to continue implementing the requirements put forth at the National Conference on Ecological and Environmental Protection in order to prevent and treat pollution. However, due to the escalation of trade war between the PRC and the United States, and the backdrop of slowed global economic growth, the economy in the PRC faced greater downward pressure. In order to reduce the operational cash flow risk of the Group, the Group has delayed some of the “Hot-in-Place” road maintenance projects until the customers’ funds for these projects are officially in place, the asphalt pavement maintenance (“APM”) services sector recorded a decrease in revenue. In addition, the APM equipment segment recorded an increase in revenue, contributed by the launching of the new APM product in the recent years, as well as the increase in the number of the standard series equipment sold in the PRC. The Group also recorded a reversal of expected credit loss of trade receivables and contract assets for the year ended 31 December 2019 due to collection of these outstanding balances had improved significantly in 2019 after Premier Li Keqiang has emphasised the settlement of overdue debts of local government to private enterprises during the State Council Executive Meeting of the People’s Republic of China on 30 January 2019.

In 2019, the Group’s operating revenue was approximately HK$487.3 million, representing a decrease of approximately 6.7% as compared to 2018. Since there was a reversal of expected credit loss of trade receivables and contract assets, the total profit attributable to owners of the Company was approximately HK$4.2 million, representing an increase of approximately 103.0% as compared to total loss attributable to owners of the Company of approximately HK$139.1 million for the year ended 31 December 2018. The Group’s operating cash flow was significantly improved from cash outflow of approximately HK$10.9 million to cash inflow of approximately HK$112.1 million in 2019.

OUTLOOK

The COVID-19 outbreak in early 2020 is a black swan event that has caused significant and far-reaching impacts on the economy of the PRC and the globe. The Group's operations were inevitably affected to some extent, but it's controllable in general and losses are limited.

With the spread of the epidemic, social and economic activities were suspended, which heavily shocked the service sector and caused huge losses. However, the PRC government that has weathered the "Darkest Hour" rapidly adjusted and launched a series of "bailout" policies in supply and demand to ensure the economy getting back to normal, such as large-scale infrastructure investment, social security, tax and fee reductions, credit easing, etc., all of which are beneficial to the Group. Take Nanjing where the Group's headquarter in Mainland China is located for example, the Nanjing Government will invest RMB545.4 billion in new infrastructure to meet the needs of the "Four News" campaign of "weathering the epidemic, expanding domestic demands and stabilizing growth", and there will be a substantial "bailout" funds across the whole country which will create numerous opportunities. In addition, at the executive meeting of the State Council convened on 8 January 2020, Premier Li Keqiang reiterated that local governments shall settle their overdue debts due to private enterprises by the end of the year. Against this backdrop, the Group's accounts receivable position will also be improved.

In the early stage, the Group has taken advantage of its outstanding innovation ability to independently develop the "Truck Mounted Attenuator (TMA)", which has been launched on the market, and now it ranks high in terms of the PRC market share and has become the "invisible sales champion" of this kind of products. Based on the keen insight of the market, the R&D personnel are conducting development of products related to public hygiene according to the frontline needs of epidemic prevention. We believe that the new product will continue the boast sales trend of TMA and become another "invisible sales champion" under the tremendous advantages of differentiation, intelligence and automation.

The year of 2020 is the final year of the "13th Five-Year Plan" and the decisive year for completing the building of a moderately prosperous society in all respects. It also coincides with the national inspection on highways for every five years, which marks the golden season of road maintenance industry. The Group has made sophisticated planning in 2019, and will fully capitalise this opportunity to implement deployment in key markets and take key cities as the breakthrough points for formulating a large-scale road maintenance on the basis of fanning out from a point to an area, with an aim to continue to maintain the leading position in the industry.

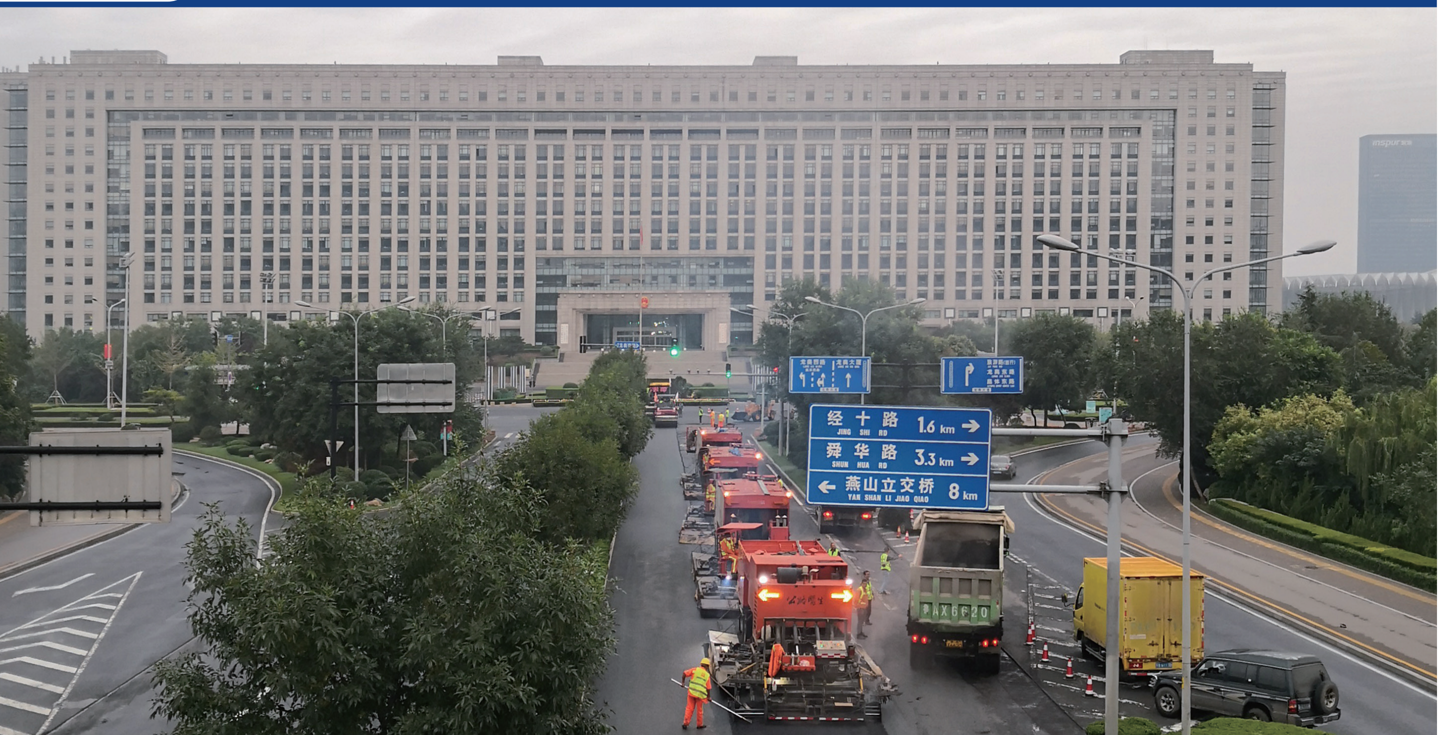
With entering into a strategic cooperation framework agreement with the Transport Management Institute of the Ministry of Transport (交通運輸部管理幹部學院) in 2019, the Group has become the first domestic private enterprise signing contract with it. In 2020, the Group will proactively carry out activities such as the joint program of school-running and technical exchange by fully leveraging on the strategic partnership to vigorously expand education and training in the transportation industry. Such efforts are expected to achieve multiple purposes, specifically, cultivating our networks through influencing insiders imperceptibly while affecting our customers' mind in a special way, which is conducive for the promotion of the Group's various businesses, and even probably making education and training become a new profit growth point of the Group.

In September 2019, the Central Committee of the Communist Party of China and the State Council issued the "Outline for the Construction of China into a Transportation Powerhouse" (the "Outline"), a programmatic document for the development of China's transportation industry for a long period of time from 2020 to the middle of this century. The Outline not only plays a vital role in the future development and pattern of the domestic transportation industry, but also plays a decisive role in the rapid, orderly and healthy development of the Group in the medium and long term. In particular, the seventh section headed "Green Development, Economy-Intensive, Low-Carbon and Environmental Protection" of the Outline mentions "promoting resource-saving and intensive use, strengthening energy conservation, emission reduction and pollution prevention and control, and strengthening transportation ecological environmental protection and restoration", which is quite consistent with the Group's main business, and provides a stable and long-term guarantee for its expansion in the long run.

ACKNOWLEDGEMENT

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

Chairman
Mr. Sze Wai Pan
7 May 2020



BUSINESS REVIEW

The year of 2019 is the 70th anniversary of the founding of new China. With strong determination, it is also a crucial year for the People's Republic of China's (the "PRC") government to continue implementing the requirements put forth at the National Conference on Ecological and Environmental Protection in order to prevent and treat pollution. However, due to the escalation of trade war between the PRC and the United States, and the backdrop of slowed global economic growth, the economy in the PRC faced greater downward pressure. In order to reduce the operational cash flow risk of the Group, the Group has delayed some of the "Hot-in-Place" road maintenance projects until the customers' funds for these projects are officially in place, the asphalt pavement maintenance ("APM") services sector recorded a decrease in revenue. In addition, the APM equipment segment recorded an increase in revenue, contributed by the launching of the new APM product in the recent years, as well as the increase in the number of the standard series equipment sold in the PRC. The Group also recorded a reversal of expected credit loss of trade receivables and contract assets for the year ended 31 December 2019 due to collection of these outstanding balances had improved significantly in 2019 after Premier Li Keqiang has emphasised the settlement of overdue debts of local government to private enterprises during the State Council Executive Meeting of the People's Republic of China on 30 January 2019.

In 2019, the Group's operating revenue was approximately HK$487.3 million, representing a decrease of approximately 6.7% as compared to 2018. Since there was a reversal of expected credit loss of trade receivables and contract assets, the total profit attributable to owners of the Company was approximately HK$4.2 million, representing an increase of approximately 103.0% as compared to total loss attributable to owners of the Company of approximately HK$139.1 million for the year ended 31 December 2018. As at 31 December 2019, the Group maintained a healthy financial position as it had cash on hand in the sum of approximately HK$256.0 million and the Group's operating cash flow was significantly improved from cash outflow of approximately HK$10.9 million in 2018 to cash inflow of approximately HK$112.1 million in 2019.

Asphalt Pavement Maintenance Services

Revenue for this segment decreased in the year of 2019 compared to 2018 due to the decrease in the revenue of "Hot-in-Place" projects as the Group has delayed some of the road maintenance projects until the customers' funds for these projects are officially in place in order to reduce the operational cash flow risk of the Group. Therefore, the total serviced area of "Hot-in-Place" projects decreased by 14.7% from 3.4 million square meters in 2018 to 2.9 million square meters in 2019.

The revenue of non-"Hot-in-Place" projects contributed by Tianjin Expressway Maintenance was increased by 6.3% as more road maintenance projects were performed to cater for road inspections on highway in the second half of 2020. APM services segment of the Group recorded revenue of approximately HK$415.3 million, representing a decrease of 11.3% as against 2018. Despite the decrease in the total serviced area of "Hot-in-Place" projects, the Group has continued to be a leading integrated solution provider using "Hot-in-Place" recycling technology in the APM industry in the PRC.

APM Equipment

During the year under review, our APM equipment segment generated a revenue of HK$72.0 million, representing an increase of 32.3% as against 2018. This increase was attributable to the Group's diversify product range strategy, more revenue contributed by the new product launched in the market in the recent years and the increase in the number of the standard series equipment sold in the PRC.

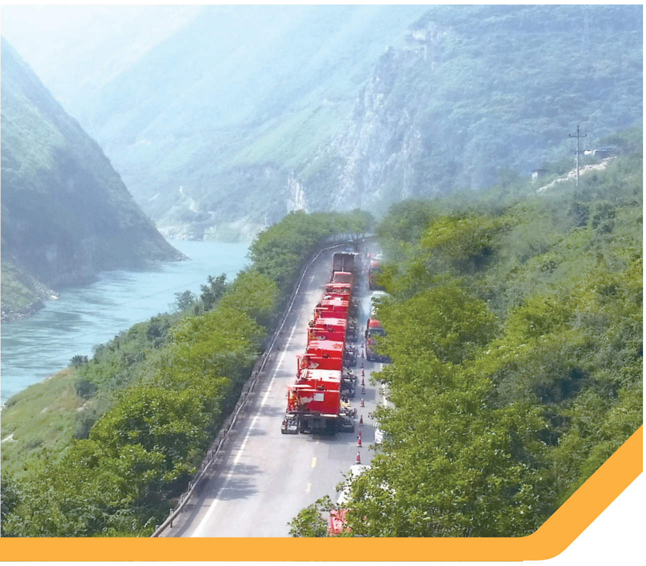
Research and Development

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

New Patents

The Group continued to pay efforts and invest significant resources in our research and development. As of 31 December 2019, we had registered 168 patents (2018: 148), of which 18 were invention patents (2018: 17), 127 were utility model patents (2018: 113) and 23 were design patents (2018: 18), and we had 24 pending patent applications, of which 10 are invention patents, 12 are utility model patents and 2 are design patent (2018: 18 pending patent applications, of which 7 are invention patents, 9 are utility model patents and 2 are design patent).

During the year under review, the Group consistently enhanced its investment in research and development, further strengthening its research and development capabilities, and enabling it to overcome certain technological limitations in the APM service industry. The Group does not only keep improving its current products like pavement maintenance and safety attenuator vehicles, the Group also diversified its product range in road industry. During the year under review, high performance vacuum sweepers and snow removal vehicles were developed and targeted to high-end customers like airports, highways which are not satisfied with traditional domestic equipment. The Group embedded automated and smart functions in its products in order to reduce cost and provide higher quality services.



Geopolymer Injection Road Base Repair technology provides a fast, durable with minimum invasion of pavement method to repair road base. Together with the Group's designed equipment integrates drilling, mixing and injection functions, a new and independent business line is developed. In addition, a semi-flexible pavement material, its application process and equipment are developed. This pavement surface combines the driving comfort of asphalt pavement and excellent stiffness of concrete. With these equipment, it is also expected to expand the opportunities of the Group's "Hot-in Place" technology application for the roads with base problems.

Others

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

OUTLOOK

2020 is the last year of China's "13th Five-year Plan", it will be a crucial year for the building of ecological civilization by the PRC government. The ecological and environmental industry is also entering critical year which the environmental protection efforts are expected to enter into mature phase of the country's battle against pollution. In addition, during the PRC State Council Executive Meeting on 8 January 2020, Premier Li Keqiang has reiterated that the settlement of overdue debts of local government to private enterprises must be cleared by the end of this year.

Furthermore, the COVID-19 outbreak has brought additional uncertainties in the Group's operating environment in China. As far as the Group's businesses are concerned, the outbreak has so far caused operational delays. The Group has put in place contingency measures to reduce the impact arising from this outbreak. However, the situation remains fluid at this stage.

However, with our patented Hot-in-Place recycling technology and other new products, the Group will benefit from the increasing demand for APM and the favourable environment in the PRC, especially those using the recycling technologies.

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

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

In addition, the Group has started planning the development of the investment property acquired by the Group at lot 04-05 and 04-06 of Jiangxinzhou, Jianye District, Nanjing, the PRC (中國南京市建鄴區江心洲) in December 2016. The investment property will be developed into the global technology research and development centre of the Group. The investment property does not only enable the Group to enhance its research and development capabilities, but also has good potential as a long term investment.

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

FINANCIAL PERFORMANCE REVIEW

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

The following table is a description of the Group's operating activities during the year under review, with comparisons to those of 2018.

1. Revenue

a. APM Services

	Year ended 31 December				
	2019		2018		
	HK$'000	**Area serviced (square meters '000)**	HK$'000	Area serviced (square meters '000)	Increase/ (decrease)
Revenue (net of VAT)					
"Hot-in-Place" Projects	**200,232**	**2,880**	265,755	3,443	(24.7%)
Non-"Hot-in-Place" Projects	**215,092**	**–**	202,253	–	6.3%
Total	**415,324**		468,008		(11.3%)

	Year ended 31 December				
	2019		2018		Increase/
	HK$'000	**Margin**	HK$'000	Margin	(decrease)
Gross profit					
"Hot-in-Place" Projects	**56,951**	**28.4%**	62,807	23.6%	(9.3%)
Non-"Hot-in-Place" Projects	**12,867**	**6.0%**	16,421	8.1%	(21.6%)
Total	**69,818**	**16.8%**	79,228	16.9%	(11.9%)

Revenue for this segment decreased in the year of 2019 compared to 2018 due to the decrease in the revenue of "Hot-in-Place" projects as the Group has delayed some of the road maintenance projects until the customers' funds for these projects are officially in place in order to reduce the operational cash flow risk of the Group. Therefore, the total serviced area of "Hot-in-Place" projects decreased by 14.7% from 3.4 million square meters in 2018 to 2.9 million square meters in 2019. The revenue of non-"Hot-in-Place" projects contributed by Tianjin Expressway Maintenance was increased by 6.3% as more road maintenance projects were performed to cater for road inspections on highway in the second half of 2020. The gross profit margin of "Hot-in-Place" projects increased from 23.6% in 2018 to 28.4% in 2019 due to the Group's marketing strategy to offer lower gross profit margin on some of the high profile projects and new markets in 2018.

b. APM Equipment

	Year ended 31 December				
	2019		2018		Increase/
	HK$'000	**Units/sets**	HK$'000	Units/sets	(decrease)
Revenue (net of VAT)					
Standard series	**65,819**	**63**	48,722	48	35.1%
Modular series	**–**	**–**	–	–	–
Repair and maintenance	**6,180**	**N/A**	5,703	N/A	8.4%
Total	**71,999**		54,425		32.3%

	Year ended 31 December				
	2019		2018		Increase/
	HK$'000	**Margin**	HK$'000	Margin	(decrease)
Gross profit					
Standard series	**29,796**	**45.3%**	18,517	38.0%	60.9%
Modular series	**–**	**N/A**	–	N/A	–
Repair and maintenance	**3,774**	**61.1%**	4,354	76.3%	(13.3%)
Total	**33,570**	**46.6%**	22,871	42.0%	46.8%

Revenue for the APM equipment segment for 2019 increased by approximately 32.3% as compared to 2018. This increase was attributable to the Group's diversified product range strategy, more revenue contributed by the new product launched into the market in the recent years and the increase in the number of the standard series equipment sold in China.

Overall gross profit margin for this segment increased from approximately 42.0% in 2018 to approximately 46.6% in 2019 due to the increase in the revenue generated from higher gross profit margin standard series equipment.

2. Other Gains and Losses, Net

Other gains and losses, net for the year under review significantly decreased by approximately HK$4.7 million, from approximately HK$7.4 million in 2018 to approximately HK$2.7 million in 2019, primarily due to the net effect of (i) the decrease in the recognition of loss on disposal of property, plant and equipment; and (ii) the recognition of impairment loss on property, plant and equipment in 2019 as a result of unsatisfactory business performance of a subsidiary of the Company.

3. Reversal of/(Provision For) Impairment Losses on Financial Assets

Expected credit loss allowance on financial assets reversed of approximately HK$20.0 million for the year under review, primarily due to the net effect of (i) the expected credit loss allowance of trade receivables and contract assets reversed; and (ii) the recognition of expected credit loss allowance of other receivables. In 2018, expected credit loss allowance on financial assets recognised of approximately HK$136.0 million.

4. Fair Value Change of Investment Property

The Group's investment property was revalued as at 31 December 2019 on an open market basis by an independent property valuer. During the year under review, the architecture and consultancy fees were incurred on the investment property and the Group did not record changes in fair value of investment property.

5. Selling and Distribution Costs

Selling and distribution costs for the year under review increased by approximately 10.1% or approximately HK$1.8 million, from approximately HK$17.8 million in 2018 to approximately HK$19.6 million in 2019, primarily due to the more marketing expenses incurred in order to promote the new product range of the Group.

6. Administrative Expenses

Administrative expenses decreased by approximately 7.3%, or approximately HK$5.7 million, from approximately HK$78.4 million in 2018 to approximately HK$72.7 million in 2019, primarily due to the decrease in the administrative head count and resulted decrease in staff cost and staff quarter rental cost.

7. Share of Losses of Joint Ventures

The Group's share of losses from joint ventures decreased by approximately HK$0.9 million, from approximately HK$4.2 million in 2018 to approximately HK$3.3 million in 2019 primarily due to the some of the road maintenance project of the joint ventures delayed to 2020.

8. Finance Costs

Finance costs decreased by approximately HK$1.2 million, from approximately HK$7.4 million in 2018 to approximately HK$6.2 million in 2019 primarily due to the decrease in bank borrowings.

9. Income Tax Expense

Income tax expense decreased by approximately HK$8.6 million, from approximately HK$13.1 million in 2018 to approximately HK$4.5 million in 2019, mainly due to the deferred tax expense arising from changes in fair value of investment property in 2018.

10. Profit

Profit attributable to owners of the Company amounted to HK$4.2 million for the year ended 31 December 2019 compared with the loss attributable to owners of the Company of approximately HK$139.1 million for the year ended 31 December 2018, primarily due to the net effect of (i) decrease in the revenue of "Hot-in-Place" projects as the Group has delayed some of the road maintenance projects; (ii) increase in the revenue of the APM equipment due to the revenue contributed by the new product launched into the market in the recent years and the increase in the number of the standard series equipment sold in the PRC; (iii) the expected credit loss on trade receivables and contract assets reversed; (iv) the recognition of expected credit loss of other receivables; and (iii) the decrease in the recognition of loss on disposal of property, plant and equipment.

11. Financial Position

As at 31 December 2019, the total equity of the Group amounted to approximately HK$729.0 million (2018: HK$729.4 million). Decrease in the total equity of the Group was due to the net effect of (i) profit attributable to owners of the Company for the year ended 31 December 2019; and (ii) changes in foreign currency translation reserve as a result of the depreciation of RMB against Hong Kong dollar as the assets and liabilities of the Group are denominated in RMB, but for the purpose of presenting consolidated financial statements, these assets and liabilities are translated into Hong Kong dollars.

The Group's net current assets as at 31 December 2019 amounted to approximately HK$258.1 million (2018: HK$239.7 million). The current ratio, which is the amount of the current assets divided by the amount of the current liabilities as at 31 December 2019, was 1.6 (31 December 2018: 1.5). The improvement in the net current assets and current ratio was mainly due to the expected credit loss on financial assets reversed and increase in cash and bank deposit balances as the collection of the outstanding trade receivable balances had improved significantly in 2019.

12. Liquidity and Financial Resources and Capital Structure

As at 31 December 2019, the Group's bank balances and cash, time deposits, pledged bank deposits and financial assets at fair value through profit or loss amounted to approximately HK$256.0 million (2018: HK$192.4 million). The increase was primarily due to the effect of net cash from operating activities, purchase of property, plant and equipment, addition to investment property and repayment of bank borrowings. As at 31 December 2019, the bank borrowings of the Group amounted to HK$110.9 million (2018: HK$123.0 million). As at 31 December 2018 and 2019, the Group was in a net cash position.

During the State Council Executive Meeting of the PRC on 30 January 2019, Premier Li Keqiang has emphasised the settlement of overdue debts of local government to private enterprises. Therefore, the collection of the Group's outstanding trade receivables balances had improved in 2019. In addition, the Group has delayed some of the road maintenance projects until the customers' funds for these projects are officially in place in order to reduce the operational cash flow risk of the Group. Thus, the trade receivables and contract assets balances were reduced from HK$850.4 million as at 31 December 2018 to HK$778.8 million as at 31 December 2019. As at the latest practicable date, third party customers had settled trade receivables amounting to approximately HK$142.3 million (RMB127.1 million).

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

As at 31 December 2019, the Group's liquidity position remained strong and the management of the Company believes that this will enable the Group to expand in accordance with their plans. The Group strives to efficiently use its financial resources and adopts a prudent financial policy in order to maintain a healthy capital ratio and support its business expansion requirements.

13. Interest-Bearing Bank Borrowings

As at 31 December 2019, the Group had total debt of HK$110.9 million (2018: HK$123.0 million) which was unsecured interest-bearing bank borrowings.

As at 31 December 2019, bank balance of approximately HK$24.1 million (2018: HK$24.4 million) was pledged to secure general banking facilities granted to the Group.

The maturity profile of the interest-bearing bank borrowings as at 31 December 2018 and 2019 were repayable within one year or on demand.

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

The Group received approximately HK$687.0 million net proceeds, after deducting underwriting fees and other related expenses, from the Company's IPO. These net proceeds were applied in the year ended 31 December 2019 in the manner as stated in the prospectus of the Company dated 14 June 2013, as follows:

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

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

15. Material Acquisitions and Disposals

During the year under review, there were no material acquisitions or disposals of any subsidiaries, associates or joint ventures.

16. Capital Commitments and Contingent Liabilities

The Group's capital commitments as at 31 December 2019 are set out in note 40 to the financial statements. As at 31 December 2019, the Group did not have any material contingent liabilities.

17. Financial Risk Management

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

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank borrowings with a floating interest rate. As at 31 December 2019, 69.7% and 30.3% (2018: 18.5% and 81.5%) of the Group's bank borrowings are at fixed interest rate and floating interest rate, respectively. The Group has not used any interest rate swaps to hedge its interest rate risk.

The Group collects most of its revenue in RMB and most of its expenditures as well as capital expenditures are also denominated in RMB. The Group's exposure to foreign currency risk arises mainly from certain bank deposits and interest-bearing bank borrowings denominated in foreign currency of the relevant group entities. As at 31 December 2019, certain time deposit, bank balances and cash, pledged bank deposits and financial assets at fair value through profit or loss of approximately HK$238,215,000 (2018: HK$178,237,000) are denominated in RMB, the remaining balances are mainly denominated in Hong Kong dollars. As at 31 December 2019, the Group's bank borrowings denominated in RMB amounted to HK$110,880,000 (equivalent to RMB99,000,000) (2018: HK$123,012,000 (equivalent to RMB108,000,000)). The Group has not hedged its foreign currency risk. The changes in foreign currency translation reserve during the year under review was the result of the appreciation of RMB against Hong Kong dollar as the assets and liabilities of the Group are denominated in RMB, but for the purpose of presenting consolidated financial statements, these assets and liabilities are translated into Hong Kong dollars.

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

18. Employees and Remuneration

As at 31 December 2019, the Group had a total of 550 full time employees (2018: 572). The Group provides competitive remuneration packages to retain its employees including discretionary bonus schemes, medical insurance and other allowances and benefits in kind as well as mandatory provident fund schemes for employees in Hong Kong and state-managed retirement benefit schemes for employees in the PRC.

19. Environmental Policy

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

20. Compliance with Relevant Laws and Regulations

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

21. Relationships with Stakeholders

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

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

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

22. Principal Risks and Uncertainties

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

(i) Industry risk in the PRC

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

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

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

(ii) Financial credit risk

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

(iii) Environmental and regulations compliance risks

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

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

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

DIRECTORS — BIOGRAPHIES

Mr. Sze Wai Pan ("Mr. Sze"), aged 54, is the founder of our Group and one of our executive directors. He is the Chairman, chief executive officer, chief engineer and a member of the nomination committee of the Company. He is responsible for overall research and development activities, overall corporate strategies planning and business development of the Group. He is a director of all our major PRC operating subsidiaries of our Group. Mr. Sze obtained a master's degree in science (with distinction) from The University of Warwick, the United Kingdom in July 1991, and a master's degree in arts from the City Polytechnic of Hong Kong (currently known as City University of Hong Kong) in December 1994. He has been a member of Nanjing Political Consultative Conference (南京市政治協商會議) since January 2008. Mr. Sze received a Nanjing Science and Technology Achievement Award (南京市科技功臣獎) from the Nanjing Municipal Government in May 2009 in recognition of his achievement in the APM industry and was nominated for the Young to Middle-aged Expert with Outstanding Contributions in Jiangsu Province for 2012 (2012江蘇省有突出貢獻中青年專家) from the Nanjing Municipal Bureau of Human Resources and Social Security (南京市人力資源和社會保障局) in February 2013. Further, Mr. Sze is an inventor of all our 168 registered patents and an inventor of our Hot-in-Place technology. Mr. Sze has over 20 years of experience in engineering, overall corporate strategies, planning and business development of our Group. Mr. Sze is the brother of Ms. Sze Wan Nga.

Ms. Sze Wan Nga ("Ms. Sze"), aged 46, was appointed as an executive director and a member of remuneration committee of the Company in June 2011 and June 2013, respectively. She joined our Group in September 2000. She is also a director of several major PRC operating subsidiaries of our Group. Ms. Sze obtained the Master of Business Administration degree from Hong Kong Baptist University in November 2004, and a Bachelor of Combined Science degree from Hong Kong Baptist University in November 1995, majoring in applied physics. She has over 16 years of experience in executive management and is primarily responsible for finance and overall operation of our Group. Ms. Sze is the sister of Mr. Sze.

Mr. Chan Kai King ("Mr. Chan"), aged 52, was appointed as an executive director of the Company in August 2012. He joined our Group in September 2000. Mr. Chan became the head of the engineering and mechanical design institute of a major operating subsidiary of our Group in May 2005. Mr. Chan received a master's degree in mechanical engineering in October 2011 from Hong Kong Polytechnic University and a bachelor's degree in manufacturing engineering in December 1994 from the City Polytechnic of Hong Kong (currently known as City University of Hong Kong). Mr. Chan has over 10 years of experience in the mechanical engineering industry and is primarily responsible for the research and development of products and technology of our Group.

Prof. Tong Wai Cheung Timothy ("Prof. Tong"), BBS, aged 67, was appointed as a non-executive director of the Company in July 2019. Prof. Tong has over 30 years of teaching experience in universities in Hong Kong and United States. Prof. Tong was the president of The Hong Kong Polytechnic University from 2009 to 2018 and dean of the School of Engineering and Applied Science at The George Washington University, United States. Being an expert in the field of heat transfer, Prof. Tong has published over 80 technical articles. He is a fellow of the American Society of Mechanical Engineers, the Hong Kong Academy of Engineering Sciences and the International Thermal Conductivity Conference. Prof. Tong is actively engaged in public service in Hong Kong. He is currently the chairman of the Citizens Advisory Committee on Community Relations of Hong Kong Independent Commission Against Corruption. He has been a member of the Chinese People's Political Consultative Conference since 2012. He is also a member of the Committee of 100, Board of Counselors of the International Institute of Management, and chairman of the Council of the Hong Kong Laureate Forum. Prof. Tong was awarded the Bronze Bauhinia Star from the Government of Hong Kong S.A.R. in July 2019. Prof. Tong holds a Bachelor of Science degree in Mechanical Engineering from Oregon State University, United States, and a Master's and a Doctoral degree in the same discipline from the University of California, Berkeley, United States. Prof. Tong is currently an independent non-executive director of Gold Peak Industries (Holdings) Limited (Stock Code: 40) and Xiaomi Corporation (Stock Code: 1810), both of which are listed on the Main Board of the Stock Exchange.

Dr. Chan Yan Chong ("Dr. Chan"), aged 68, was appointed as a non-executive director of the Company in October 2016. He graduated from Nanyang University in Singapore with a degree in Mathematics. Then he obtained a Master degree in Operational Research at Lancaster University and Doctorate in Management Sciences at Manchester University. Dr. Chan worked as programme director for the master of business administration programme and associate professor in the Department of Management Sciences at City University of Hong Kong. He is currently a director of Au Chan Investment Limited. In 2001, Dr. Chan won the best commercial application research award from City University of Hong Kong. In 2007, Dr. Chan was awarded the Medal of Honor (M.H.) from the Government of Hong Kong S.A.R., and Nanyang Alumnus Award from Nanyang Technological University, and obtained the International Financial Awards of Excellence for his Distinguished Financial Research by Chinese Institute of Certified Financial Planners. He has published 50 professional books and more than 5,000 articles, and is also a feature column writer for many newspapers and magazines. Between July 2009 to July 2019, Dr. Chan was an independent non-executive director of Shanghai Jiaoda Withub Information Industrial Company Limited* (上海交大慧谷信息產業股份有限公司) (Stock Code: 8205), the shares of which are listed on the GEM of the Stock Exchange.

Mr. Wang Lei, aged 43, was appointed as a non-executive director of the Company in December 2013. He has been with CICC Jia Cheng Investment Management Co. Ltd. (中金佳成投資管理有限公司), a wholly-owned subsidiary of China International Capital Corporation Limited (中國國際金融股份有限公司), since 2009 and is now an executive director. He obtained a master's degree in business administration in 2005 from Saïd Business School, University of Oxford. Mr. Wang has over 12 years of experience in investment banking and private equity.

Ms. Yeung Sum ("Ms. Yeung"), aged 46, joined in August 2012 as an independent non-executive director of the Company. She is also a member of the audit committee and remuneration committee of the Company. Ms. Yeung worked in Ernst & Young between January 1995 and April 2012 where she was subsequently promoted as a partner in January 2006, mainly responsible for risk management and internal control services. Ms. Yeung obtained a bachelor of commerce majoring in finance and accounting from University of Auckland in May 1995. She has been a certified public accountant certified by the American Institute of Certified Public Accountants since April 2006, and a certified internal auditor awarded by the Institute of Internal Auditors since November 2002. Ms. Yeung has around 18 years of experience in finance and risk management.

* *For identification purpose only*

Mr. Tang Koon Yiu Thomas ("Mr. Tang"), aged 72, joined in August 2012 as an independent non-executive director of the Company. He is also a member of audit committee, nomination committee and remuneration committee of the Company. Mr. Tang has been the vice chairman of Greater China Leapfrog Teaching Foundation Limited and is mainly responsible for the development of strategic initiatives, partnerships in the promotion of innovative technologies and methodologies for the improvement of teaching efficiency in schools. Between March 2003 and February 2005, Mr. Tang was the chairman and managing director of Elec & Eltek International Holdings Limited (依利安達國際控股集團) (a company previously listed on the Stock Exchange, the listing of which was withdrawn in March 2005) and Elec & Eltek International Company Limited (a company currently listed on the mainboard of the Singapore Exchange Securities Trading Limited). Between January 1997 and March 2003, Mr. Tang was the chief executive of Hong Kong Productivity Council (香港生產力促進局). Mr. Tang obtained a master's degree in science, majoring in industrial engineering and administration from Cranfield Institute of Technology (currently known as Cranfield University) in May 1976. Mr. Tang has extensive experience in technologies and various industries.

Dr. Lau Ching Kwong ("Dr. Lau"), aged 77, joined in August 2012 as an independent non-executive director of the Company. He is also a member of the audit committee and the nomination committee of the Company. Dr. Lau has been an executive director of transportation of AECOM Asia Co. Ltd (艾奕康有限公司) since June 2003, mainly focusing on consulting work for infrastructure constructions in the PRC. Dr. Lau worked in the Hong Kong Government for over thirty years, mainly responsible for the design and construction of public works, and he served many roles including the chief engineer of Tsing Ma Bridge, the deputy director of Highways Department (路政署), the director of Civil Engineering and Development Department (土木工程署), respectively. Dr. Lau obtained a doctorate degree in engineering from Tsinghua University (清華大學) in June 1998, a master's degree majoring in bridge engineering in December 1970 from the University of Surrey, and a diploma in building in July 1963 from Hong Kong Technical College (now known as Hong Kong Polytechnic University). Dr. Lau is a first class registered structural engineer recognised by the National Administration Board of Engineering Registration (Structural) of the PRC (全國註冊工程師管理委員會（結構）) in March 2002. He is a council member of China Civil Engineering Society (中國土木工程學會) since 2002 and a standing committee member since December 2008. Dr. Lau has over 40 years of experience in civil engineering.

SENIOR MANAGEMENT — BIOGRAPHIES

Mr. Jiang Yong He ("Mr. Jiang"), aged 60, joined our Group in September 2000 as technical manager. He was appointed as the assistant president of major operating subsidiaries of our Group and the head of APM service project business department of a major operating subsidiary of our Group in January 2011. He has over 20 years of experience in mechanical engineering and is primarily responsible for the management of APM service projects, and also responsible for formulating the APM service business strategy of our Group. Mr. Jiang graduated from Central South Mining and Metallurgy College (中南礦冶學院), which is now known as Central South University (中南大學), with a bachelor's degree in July 1982, majoring in mining equipment.

Mr. Huang Liang Zhong ("Mr. Huang"), aged 57, joined our Group in September 2000 as production manager. Mr. Huang was appointed as the assistant president of major operating subsidiaries of our Group since January 2011. He has over 20 years of experience in mechanical engineering and is primarily responsible for manufacturing and human resources of our Group. Mr. Huang graduated from Xi'an Road College (西安公路學院) (now known as Chang An University (長安大學)) with a bachelor's degree in July 1984, majoring in road construction equipment.

Mr. Lim Eng Sun ("Mr. Lim"), aged 43, is the chief financial officer and company secretary of our Company. Mr. Lim joined our Group in December 2011 as financial controller of our Group and is primarily responsible for the finance and accounting affairs of our Group. He has over nine years of experience in finance and accounting. Prior to joining our Group, between October 2006 and May 2011, Mr. Lim worked in Ernst & Young as a senior accountant and then a manager, mainly responsible for providing supervision of audit engagement. Mr. Lim received a bachelor of business degree in November 2001 and a master's of business law in November 2005 from Monash University. Since July 2006, Mr. Lim has been an associate member of the Hong Kong Institute of Certified Public Accountants.

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

1. COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board is committed to achieving high standards of corporate governance to safeguard the interests of the Company's shareholders and to enhance corporate value and accountability. The Company has applied the principles and complied with the applicable code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except code provision A.2.1 as more particularly described below.

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

2. MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

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

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

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

3. BOARD OF DIRECTORS

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

Executive Directors:

Mr. Sze Wai Pan *(Chairman and Chief Executive Officer)*
Ms. Sze Wan Nga
Mr. Chan Kai King
Mr. Zhang Yifu *(resigned with effect from 2 July 2019)*

Non-executive Directors:

Prof. Tong Wai Cheung Timothy *(appointed with effect from 2 July 2019)*
Dr. Chan Yan Chong
Mr. Wang Lei

Independent non-executive Directors:

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

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

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

Chairman and Chief Executive Officer

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

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

Independent Non-executive Directors

During the year ended 31 December 2019, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors representing one-third of the Board. These independent non-executive directors are seasoned individuals from diversified backgrounds and industries and one member has appropriate accounting and related financial management expertise.

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

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

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

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

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

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

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

Responsibilities, Accountabilities and Contributions of the Board and Management

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

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

The Board reserves for its decision all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors, announcements of interim and final results and payment of dividends.

Directors' Continuous Professional Development

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

	Attending seminars/ Briefings	Reading materials
Executive Directors:		
Mr. Sze Wai Pan	✓	✓
Ms. Sze Wan Nga	✓	✓
Mr. Zhang Yifu (resigned with effect from 2 July 2019)	✓	✓
Mr. Chan Kai King	✓	✓
Non-executive Directors:		
Prof. Tong Wai Cheung Timothy (appointed with effect from 2 July 2019)	✓	✓
Dr. Chan Yan Chong	✓	✓
Mr. Wang Lei	✓	✓
Independent Non-executive Directors:		
Ms. Yeung Sum	✓	✓
Mr. Tang Koon Yiu Thomas	✓	✓
Dr. Lau Ching Kwong	✓	✓

4. BOARD COMMITTEES

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

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

Remuneration Committee

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

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

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

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

Members of the committee are:

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

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

Details of directors' remuneration are set out in note 13 to the financial statements. Details of five highest paid employees are set out in note 13 to the financial statements. In addition, the remuneration of the three (2018: three) senior management fell within the band of less than HK$1,000,000 and none of the (2018: none) senior management fell within the band of HK$1,000,001 to HK$1,500,000 for the year under review.

Nomination Committee

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

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

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

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

Members of the committee are:

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

Audit Committee

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

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

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

Members of the committee are:

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

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

The committee meets as and when required to perform its responsibilities, and at least twice in each financial year of the Company. Two meetings were held during the year under review. The committee reviewed, together with senior management and the external auditors, the financial statements for the six months ended 30 June 2019 and for the year ended 31 December 2019, the accounting principles and practices adopted by the Company, statutory compliance, other financial reporting matters, internal control and risk management systems and continuing connected transactions of the Company.

The committee has recommended to the Board (which endorsed the recommendation) that, subject to shareholders' approval at the forthcoming annual general meeting, BDO Limited be re-appointed as the Company's external auditors for 2020.

5. ATTENDANCE RECORDS OF DIRECTORS AND COMMITTEE MEMBERS

	Number of meetings held during the year attended			
	Board	Remuneration committee	Nomination committee	Audit committee
Executive Directors:				
Mr. Sze Wai Pan	4/4		2/2	
Ms. Sze Wan Nga	4/4	2/2		
Mr. Zhang Yifu (resigned with effect from 2 July 2019)	3/3			
Mr. Chan Kai King	4/4			
Non-executive Directors:				
Prof. Tong Wai Cheung Timothy (appointed with effect from 2 July 2019)	1/1			
Dr. Chan Yan Chong	4/4			
Mr. Wang Lei	4/4			
Independent Non-executive Directors:				
Ms. Yeung Sum	4/4	2/2		2/2
Mr. Tang Koon Yiu Thomas	4/4	2/2	2/2	2/2
Dr. Lau Ching Kwong	4/4		2/2	2/2

6. CORPORATE GOVERNANCE FUNCTIONS

The Board has the following responsibilities:

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

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

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

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

7. FINANCIAL REPORTING

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

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

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

8. INTERNAL CONTROLS

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

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

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

9. COMPANY SECRETARY

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

10. AUDITORS' REMUNERATION

For the year, BDO Limited charged the Group HK$1,380,000 for the provision of audit services, and other certified public accountant firms charged HK$677,000 for the provision of audit services to the Company's subsidiaries located in Hong Kong and China.

11. SHAREHOLDERS' RIGHTS

Procedures for Shareholders to Convene an Extraordinary General Meeting

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

Procedures for Putting Forward Proposals at General Meetings

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

Procedures for Directing Shareholders' Enquiries to the Board

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

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

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

12. COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

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

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

The directors present their report and the audited financial statements of the Group and of the Company for the year ended 31 December 2019.

1. PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries are set out in note 46 to the financial statements. During the year under review, there were no significant changes in the nature of the Group's principal activities.

Detailed business review, including further discussions of the risks and uncertainties that the Group might face, likely future development of the Group's business, and analysis on the financial key performance indicators, are set out in the Chairman's Statement on pages 4 to 6 and the Management Discussion and Analysis on pages 7 to 18. These discussions form part of this Report of the Directors.

2. SEGMENT INFORMATION

An analysis of the Group's revenue and contribution to results by principal operating activities and the Group's revenue and non-current assets by geographical area of operations for the year ended 31 December 2019 is set out in note 5 and note 6 to the financial statements. The Group's revenue from external customers is derived substantially from its operations in the PRC, and the non-current assets of the Group are substantially located in the PRC.

3. RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2019 and the state of affairs of the Group and of the Company at that date are set out in the financial statements on pages 49 to 163.

Directors of the Company did not recommend the payment of interim dividend for the six months ended 30 June 2019.

The directors do not recommend the payment of any dividend for the year ended 31 December 2019. As at the date of this report, there was no arrangement with any shareholder of the Company under which he/she/it has waived or agreed to waive any dividends.

In respect of code provision E.1.5 of Appendix 14 of the Listing Rules, the Company does not have a dividend policy. The Board will decide on the declaration/recommendation of any future dividends after taking into consideration a number of factors, including the prevailing market conditions, the Group's operating results, future growth requirements, liquidity position, and other factors that the Board considers relevant. The recommendation of the payment of any dividend is subject to the discretion of the Board, and any declaration of dividend will be subject to the approval of the Company's shareholders at the annual general meeting of the Company.

4. FIVE YEARS FINANCIAL INFORMATION

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the past five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out on page 164. This summary does not form part of the audited financial statements.

5. PROPERTY, PLANT AND EQUIPMENT

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

6. BANK BORROWINGS

Particulars of the bank borrowings of the Group as at 31 December 2019 are set out in note 33 to the financial statements.

7. SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 35 to the financial statements.

8. PRE-EMPTIVE RIGHTS

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

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

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

10. RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 47 to the financial statements and in the consolidated statement of changes in equity, respectively.

11. DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company's reserves available for distribution, calculated in accordance with the Companies Law of the Cayman Islands amounted to approximately HK$575.1 million (2018: HK$592.2 million), of which none (2018: none) was proposed as a final dividend for the year. Under the laws of Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

12. MAJOR CUSTOMERS AND MAJOR SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 46.4% of the total sales for the year and sales to the largest customer included therein amounted to approximately 35.5%. Purchases from the Group's five largest suppliers accounted for approximately 32.8% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 12.2%.

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

13. CHARITABLE DONATION

Charitable donation made by the Group during the year under review amounted to HK$34,000.

14. DIRECTORS

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

Executive Directors:

Mr. Sze Wai Pan
Ms. Sze Wan Nga
Mr. Chan Kai King
Mr. Zhang Yifu (resigned with effect from 2 July 2019)

Non-executive Directors:

Prof. Tong Wai Cheung Timothy (appointed with effect from 2 July 2019)
Dr. Chan Yan Chong
Mr. Wang Lei

Independent Non-executive Directors:

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

Pursuant to Article 84(1) of the Articles of Association of the Company, Ms. Sze Wan Nga, Mr. Chan Kai King and Dr. Chan Yan Chong are subject to retirement by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. Prof. Tong Wai Cheung Timothy was appointed as non-executive Director on 2 July 2019. Pursuant to Article 83(3) of the Articles of Association of the Company, Prof. Tong Wai Cheung Timothy shall hold office only until the forthcoming annual general meeting and, being eligible, offer himself for re-election.

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

15. DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract for an initial term of three years commencing from 7 June 2013, which has been automatically renewed for a consecutive term of three years on 7 June 2016 and 7 June 2019, respectively, and is subject to termination by either party giving not less than three months' written notice.

Mr. Wang Lei has entered into a letter of appointment for an initial term of one year commencing on 31 October 2013. Mr. Wang Lei has entered into renewal contract with the Company on 31 October 2014, 31 October 2016 and 31 October 2018 for a term of 2 years each, and is subject to termination by either party giving not less than three months' written notice. Dr. Chan Yan Chong has entered into a letter of appointment for an initial term of two years commencing on 23 December 2016. Dr. Chan Yan Chong has entered into renewal contract with the Company on 23 December 2018, for a term of 2 years, and is subject to termination by either party giving not less than three months' written notice. Prof. Tong Wai Cheung Timothy has entered into a service contract with the Company for a term of three years effective from 2 July 2019 and is subject to termination by either party giving not less than three months' written notice.

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

16. DIRECTORS' INTERESTS IN CONTRACTS

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

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

As at 31 December 2019, the interests and short positions of the directors and the chief executive of the Company in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

(i) Long Positions in the Shares of the Company

	Personal Interests				
Name of director	Number of shares held	Number of awarded share held	Corporate Interests	Total	Approximate percentage of existing issued share capital of the Company
Mr. Sze Wai Pan ("Mr. Sze")	–	–	529,688,260[(1)]	529,688,260	49.09%
Ms. Sze Wan Nga ("Ms. Sze")	–	–	29,640,000[(2)]	29,640,000	2.75%
Mr. Chan Kai King	2,300,000	166,667	–	2,466,667	0.23%
Dr. Chan Yan Chong	50,000	–	–	50,000	0.00%

Notes:

1. Mr. Sze is the beneficial owner of all the issued share capital of Freetech (Cayman) Ltd. ("Freetech Cayman"), Freetech (BVI) Limited ("Sze BVI") and Freetech Technology Limited ("Freetech Technology") and therefore is deemed to be interested in a total of 529,688,260 shares of the Company held by Freetech Cayman, Sze BVI and Freetech Technology. Mr. Sze is the director of Freetech Cayman, Sze BVI and Freetech Technology.

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

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

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

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

18. INTEREST AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2019, so far as is known to the directors of the Company, the following persons or corporations (other than directors or the chief executive of the Company) had interests and short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO or as otherwise notified to the Company:

Name of shareholder	Capacity	Number of shares or underlying shares held in the Company	Approximate percentage of existing issued share capital of the Company
Freetech Technology[1]	Interest in controlled corporation	529,688,260	49.09%
Sze BVI[1]	Interest in controlled corporation	529,688,260	49.09%
Freetech Cayman[1]	Beneficial owner	529,688,260	49.09%
China International Capital Corporation Limited[2]	Interest in controlled corporation	58,219,200	5.40%
CICC Growth Capital Fund GP, L.P.[2]	Interest in controlled corporation	58,219,200	5.40%
CICC Growth Capital Fund I, L. P.[2]	Interest in controlled corporation	58,219,200	5.40%
Future Blossom Investment Limited[2]	Beneficial owner	58,219,200	5.40%

Notes:

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

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

Save as disclosed above, as at 31 December 2019, the directors of the Company are not aware of any other persons (other than the directors of the Company whose interests are set out in the section "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares" above) who held any interests or short positions in the shares, or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

19. SHARE OPTION SCHEME

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

Movement of the share options under the Share Option Scheme for the year ended 31 December 2019 are as follows:

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

Further details of the Share Option Scheme are disclosed in note 36 to the financial statements.

20. SHARE AWARD SCHEME

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

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

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

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

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

Further details of the Share Award Scheme are disclosed in note 37 to the financial statements.

21. DEED OF NON-COMPETITION

The controlling shareholders of the Company, being Freetech Cayman, Sze BVI, Freetech Technology and Mr. Sze (together, the "Controlling Shareholders"), have confirmed to the Company of their compliance with the terms of the non-competition undertaking provided to the Company under a deed of non-competition dated 7 June 2013 (the "Deed"). The independent non-executive directors of the Company have reviewed the confirmation given by the Controlling Shareholders and confirmed that all the undertaking under the Deed have been complied with by the Controlling Shareholders and duly enforced during the year ended 31 December 2019 and up to the date of the Annual Report. None of the new opportunities in any business, which is or may be in competition with the business of any member of the Company and its subsidiaries, that have been referred from any of our Controlling Shareholders under the Deed has been rejected by the Company during the year ended 31 December 2019 and up to the date of the Annual Report.

22. CONNECTED TRANSACTIONS

Reference is made to the announcements of the Company dated 31 August 2015, 29 March 2018, 4 April 2019, 14 June 2019, 28 October 2019 and 28 November 2019, in relation to, among others, the continuing connected transactions between the Group and Tianjin Expressway Group Company Limited* (天津高速公路集團有限公司) ("Tianjin Expressway Group") and its wholly-owned subsidiaries and associates. During the year under review, Tianjin Expressway Maintenance Company Limited* (天津市高速公路養護有限公司) ("Tianjin Expressway Maintenance") is owned as to 55% and 45% by Freetech Smart Road Recycling Engineering Investment Limited (a non-wholly owned subsidiary of the Company) and Tianjin Expressway Group, respectively. As Tianjin Expressway Group is a substantial shareholder of Tianjin Expressway Maintenance, Tianjin Expressway Group and its subsidiaries and associates are connected persons of the Company at the subsidiary level. On 29 March 2018, 4 April 2019, 14 June 2019, and 28 October 2019, Tianjin Expressway Maintenance and Tianjin Expressway Group and its wholly-owned subsidiaries and associates finalised and entered into certain services agreements in relation to the transactions of the Group conducted on a regular and continuing basis. Details of the continuing connected transactions are as set out below:

Connected person	Services period	Actual transaction amount during the year RMB'000	Actual transaction amount during the year HK$'000	Basis for determining the consideration	Terms of the relevant service agreement
Tianjin Expressway Group	1 January 2019–1 April 2019	19,346	21,975	Note (1)	Note (2)
Tianjin Expressway Group	8 April 2019–31 December 2019	63,824	72,498	Note (1)	Note (2)
Tianjin Expressway Group	17 June 2019–20 September 2019	13,766	15,637	Note (1)	Note (3)
Tianjin Expressway Group	17 June 2019–20 September 2019	27,239	30,941	Note (1)	Note (3)
Tianjin Expressway Group	17 June 2019–20 September 2019	19,352	21,982	Note (1)	Note (3)
Tianjin Expressway Group	17 June 2019–20 September 2019	8,718	9,903	Note (1)	Note (3)
Tianjin Tianlang Expressway Co. Ltd.* (天津天朗高速公路有限公司)	1 November 2019–31 December 2019	888	1,009	Note (1)	Note (2)
Tianjin Jinfu Expressway Co. Ltd.* (天津津富高速公路有限公司)	1 November 2019–31 December 2019	2,660	3,022	Note (1)	Note (2)
Tianjin Tian'ang Expressway Co. Ltd.* (天津天昂高速公路有限公司)	29 October 2019–31 December 2019	2,857	3,245	Note (1)	Note (2)
Tianjin Tian'ang Expressway Co. Ltd.* (天津天昂高速公路有限公司)	1 November 2019–15 December 2019	2,888	3,281	Note (1)	Note (4)
Tianjin Xinzan Expressway Co. Ltd. * (天津新展高速公路有限公司)	1 November 2019–31 December 2019	15,729	17,867	Note (1)	Note (4)
Tianjin Xinyu Expressway Co. Ltd.* (天津鑫宇高速公路有限責任公司)	1 November 2019–15 December 2019	6,165	7,003	Note (1)	Note (4)
Tianjin Xinyu Expressway Co. Ltd.* (天津鑫宇高速公路有限責任公司)	1 November 2019–31 December 2019	2,366	2,687	Note (1)	Note (2)
Tianjin Tianyong Expressway Co. Ltd.* (天津天永高速公路有限公司)	29 October 2019–31 December 2019	4,768	5,416	Note (1)	Note (4)

* for identification purpose only

Notes:

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

The Company referred to the supplemental requirement on budget preparation and estimate for highway construction projects (天津市執行交通部《公路基本建設工程概算、預算編制辦法》的補充規定) issued by Tianjin local government and the budget for highway construction (公路工程預算定額) issued by the Ministry of Transport of the PRC on 1 December 2018 (with effect from 1 May 2019) (the "Pricing Guidelines"). The Pricing Guidelines apply to all highway construction and maintenance projects in the PRC and provide price reference for highway construction and maintenance contracts, including the range of labour costs per day, the range of the cost per meter for certain raw materials and the range of the cost per machines used. The Pricing Guidelines are for reference purpose only and there is no requirement for Tianjin Expressway Maintenance to strictly follow these Pricing Guidelines. As the price references set out in the Pricing Guidelines are not up to-date, Tianjin Expressway Maintenance would adjust the labour costs and estimate the raw material costs set out in the Pricing Guidelines upward or downward by comparing them with the prevailing market prices of labour costs and raw material costs and taking into account any recent or anticipated changes in the market based on the Group's knowledge. The prevailing market prices of the raw materials were determined by the purchasing team of Tianjin Expressway Maintenance through conducting market research and obtaining 10-15 quotes from different raw material suppliers in Tianjin.

Tianjin Expressway Maintenance has entered into transactions with Tianjin Expressway Group (including its subsidiaries and associated companies) from time to time since August 2015. Tianjin Expressway Maintenance has made reference to the consideration of certain historical transactions for similar services provided to Tianjin Expressway Group (including its subsidiaries and associated companies) when determining the consideration of the Continuing Connected Transactions. Tianjin Expressway Maintenance used the aggregate consideration, the consideration per kilometres and per square meters as reference point and made appropriate adjustments based on the factors mentioned above, including the prices set out in the Pricing Guidelines, the prevailing market prices of relevant raw materials, the duration and location of the projects.

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

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

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

(4) Provision of renovation maintenance services by Tianjin Expressway Maintenance and the consideration shall be paid in the following manners: 20% of the consideration as prepayment shall be paid upon commencement of the provision of the services, 75% of the consideration shall be paid upon completion of the provision of the services. The remaining 5% of the consideration shall be paid after 2 years from completion of the provision of the services as warranty deposit.

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

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

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

23. RELATED PARTY TRANSACTIONS

The details of the related party transactions are set out in note 45 to the financial statements. Save for those set out in the above section headed "Connected Transactions" in the Report of the Directors, none of the related party transactions constitute connected transactions under Chapter 14A of the Listing Rules.

24. SUFFICIENCY OF PUBLIC FLOAT

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

25. AUDIT COMMITTEE

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

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

26. AUDITORS

The consolidated financial statements for the year ended 31 December 2019 have been audited by BDO Limited ("BDO"), who will retire, and being eligible, offer themselves for re-appointment as auditors of the Company at the forthcoming annual general meeting of the Company. A resolution for the re-appointment of BDO as auditors of the Company is to be proposed at the forthcoming annual general meeting of the Company.

BDO have been appointed as the auditors of the Company with effect from 3 January 2020 to fill the casual vacancy following the resignation of Messrs. Deloitte Touche Tohmatsu which took effect from 2 January 2020. Save for the above, there had been no other change in auditors of the Company in any of the preceding three years of this annual report.

27. PERMITTED INDEMNITY PROVISIONS

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

28. DIRECTORS' RIGHTS TO ACQUIRE SHARES

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

On behalf of the Board

Mr. Sze Wai Pan
Chairman and Chief Executive Officer
Hong Kong, 7 May 2020

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TO THE SHAREHOLDERS OF FREETECH ROAD RECYCLING TECHNOLOGY (HOLDINGS) LIMITED
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Freetech Road Recycling Technology (Holdings) Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 49 to 163, 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 judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment on trade receivables and contract assets

As at 31 December 2019, the Group had trade receivables and contract assets of approximately HK$447 million and HK$332 million respectively, and the balance of loss allowance of trade receivables and contract assets were approximately HK$335 million and HK$45 million respectively. The management of the Group estimates the amounts of lifetime ECL of trade receivables and contract assets based on provision matrix through grouping of various debtors that have similar loss patterns, after considering internal credit ratings of trade receivables and contract assets, ageing, repayment history and/or past due status of respective trade receivables and contract assets. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information. In addition, trade receivables and contract assets that are credit impaired are assessed for ECL individually.

We identified the provision of expected credit losses for trade receivables and contract assets as a key audit matter because of the involvement of subjective judgement and management estimates in evaluating the expected credit losses ("ECL") of the Group's trade receivables and contract assets at the end of the reporting period.

Refer to notes 25, 27 and 43 to the consolidated financial statements, and the accounting policies in Note 3 to the consolidated financial statements.

Our response:

- obtaining an understanding of management's process of assessing the expected credit losses of trade receivables;
- evaluating the reasonableness of management's determination and reassessment of the internal credit rating of individual debtors based on of the historical default rates applied for individual debtor and examining documents that reflect debtors' historical default rates for a selection of debtors;
- evaluating the forward-looking information provided by management to supporting documents, including credit search on debtors; and
- evaluating management's calculation of the expected credit losses for trade receivables, based on the internal credit rating of the debtors and forward looking information.

OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises the information included in the Company's 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.

DIRECTORS' RESPONSIBILITIES 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.

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibility in this regard.

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 the terms of our engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

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

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

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

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

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

We communicate with the Audit Committee 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 the Audit Committee 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 the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year 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.

BDO Limited
Certified Public Accountants
Tang Tak Wah
Practising Certificate no. P06262

Hong Kong, 7 May 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Revenue	5	**487,323**	522,433
Cost of sales		**(383,935)**	(420,334)
Gross profit		**103,388**	102,099
Other income	7	**7,763**	9,688
Other gains and losses, net	8	**(2,650)**	(7,359)
Reversal of/(provision for) impairment losses on financial assets	9	**19,962**	(135,955)
Changes in fair value of investment property		**–**	21,076
Selling and distribution costs		**(19,581)**	(17,848)
Administrative expenses		**(72,711)**	(78,431)
Research and development costs		**(12,542)**	(12,122)
Other expenses		**(562)**	(839)
Share of losses of joint ventures		**(3,289)**	(4,213)
Finance costs	10	**(6,167)**	(7,378)
Profit/(loss) before income tax expense		**13,611**	(131,282)
Income tax expense	11	**(4,541)**	(13,083)
Profit/(loss) for the year		**9,070**	(144,365)
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Fair value gain/(loss) on investments in equity instruments at fair value through other comprehensive income ("FVTOCI")		**1,005**	(844)
Transferred to retained earnings on disposal of equity instrument at FVTOCI		**–**	385
Exchange differences arising from translation		**(10,443)**	(39,143)
Other comprehensive income for the year		**(9,438)**	(39,602)
Total comprehensive income for the year		**(368)**	(183,967)
Profit/(loss) for the year attributable to:			
Owners of the Company		**4,145**	(139,130)
Non-controlling interests		**4,925**	(5,235)
		9,070	(144,365)
Total comprehensive income attributable to:			
Owners of the Company		**(4,838)**	(177,284)
Non-controlling interests		**4,470**	(6,683)
		(368)	(183,967)
Earnings/(loss) per share	15		
— Basic (HK cents)		**0.39**	(13.11)
— Diluted (HK cents)		**0.38**	(13.11)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	**164,588**	174,002
Right-of-use assets	17	**15,093**	–
Investment property	18	**244,173**	229,281
Goodwill	19	**6,150**	6,150
Other intangible assets	20	**228**	354
Deferred tax assets	21	**942**	1,422
Interests in joint ventures	22	**27,542**	29,846
Prepaid lease payments	23	**–**	9,900
Prepayments and deposits for acquisition of land use rights and other intangible assets		**6,123**	36,762
Other receivables — non-current	28	**9,168**	–
Equity instruments at FVTOCI	24	**7,976**	6,955
Contract assets	25	**17,329**	20,577
		499,312	515,249
Current assets			
Inventories	26	**44,261**	47,496
Bills and trade receivables	27	**112,595**	131,072
Contract assets	25	**269,402**	276,163
Prepayments, deposits and other receivables	28	**44,216**	70,219
Prepaid lease payments	23	**–**	290
Financial assets at fair value through profit or loss ("FVTPL")	29	**39,200**	11,417
Time deposits	30	**15,120**	1,976
Pledged bank deposits	30	**24,135**	24,432
Bank balances and cash	30	**177,571**	154,614
		726,500	717,679
Total assets		**1,225,812**	1,232,928

As at 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
LIABILITIES			
Current liabilities			
Bills, trade and other payables	31	**346,674**	346,530
Contract liabilities	32	**3,601**	2,035
Taxation payable		**4,819**	6,412
Bank borrowings	33	**110,880**	123,012
Lease Liabilities	34	**2,445**	–
		468,419	477,989
Net current assets		**258,081**	239,690
Total assets less current liabilities		**757,393**	754,939
Non-current liabilities			
Lease Liabilities	34	**3,103**	–
Deferred tax liabilities	21	**25,254**	25,535
		28,357	25,535
Total liabilities		**496,776**	503,524
NET ASSETS		**729,036**	729,404
EQUITY			
Capital and reserves			
Share capital	35	**107,900**	107,900
Reserves		**589,941**	594,779
Attributable to owners of the Company		**697,841**	702,679
Non-controlling interests		**31,195**	26,725
TOTAL EQUITY		**729,036**	729,404

The consolidated financial statements on pages 49 to 163 were approved and authorised for issue by the board of directors on 7 May 2020 and are signed on its behalf by:

Mr. Sze Wai Pan
Director

Ms. Sze Wan Nga
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Attributable to owners of the Company											
	Share capital HK$'000	Share premium HK$'000	Shares held under the share award scheme HK$'000 (Note c)	Contributed surplus HK$'000 (Note a)	Reserve funds HK$'000 (Note b)	Share-based compensation reserve HK$'000	Foreign currency translation reserve HK$'000	Retained earnings/ (accumulated losses) HK$'000	Investment revaluation reserve HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
As at 1 January 2018	107,900	732,463	(26,584)	25,328	89,143	590	(36,049)	(13,277)	449	879,963	33,408	913,371
Loss for the year	–	–	–	–	–	–	–	(139,130)	–	(139,130)	(5,235)	(144,365)
Other comprehensive income for the year:	–	–	–	–	–	–	(37,695)	385	(844)	(38,154)	(1,448)	(39,602)
Total comprehensive income for the year	–	–	–	–	–	–	(37,695)	(138,745)	(844)	(177,284)	(6,683)	(183,967)
Transfer from retained earnings	–	–	–	–	2,199	–	–	(2,199)	–	–	–	–
Transfer of share-based compensation reserve upon forfeiting of share options	–	–	–	–	–	(120)	–	120	–	–	–	–
As at 31 December 2018 and 1 January 2019	**107,900**	**732,463**	**(26,584)**	**25,328**	**91,342**	**470**	**(73,744)**	**(154,101)**	**(395)**	**702,679**	**26,725**	**729,404**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**4,145**	**–**	**4,145**	**4,925**	**9,070**
Other comprehensive income for the year:	**–**	**–**	**–**	**–**	**–**	**–**	**(9,988)**	**–**	**1,005**	**(8,983)**	**(455)**	**(9,438)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**(9,988)**	**4,145**	**1,005**	**(4,838)**	**4,470**	**(368)**
Transfer from retained earnings	**–**	**–**	**–**	**–**	**513**	**–**	**–**	**(513)**	**–**	**–**	**–**	**–**
Transfer of share-based compensation reserve upon forfeiting of share options	**–**	**–**	**–**	**–**	**–**	**(470)**	**–**	**470**	**–**	**–**	**–**	**–**
As at 31 December 2019	**107,900**	**732,463**	**(26,584)**	**25,328**	**91,855**	**–**	**(83,732)**	**(149,999)**	**610**	**697,841**	**31,195**	**729,036**

For the year ended 31 December 2019

Notes:

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

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

(c) The amount represents payments by the Group to the trustee of the Share Award Scheme (as defined in note 37), net off with the vested portion to selected employees who have been awarded shares under the Share Award Scheme. Details of the Share Award Scheme is set out in note 37.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	2019 HK$'000	2018 HK$'000
Operating activities		
Profit/(loss) before income tax expense	**13,611**	(131,282)
Adjustments for:		
Interest income	**(5,036)**	(6,828)
Finance costs	**6,167**	7,378
Share of losses of joint ventures	**3,289**	4,213
Depreciation of property, plant and equipment	**25,431**	31,853
Depreciation of right-of-use assets	**1,811**	–
Amortisation of prepaid lease payments	**–**	290
Amortisation of other intangible assets	**122**	165
Loss on disposal of property, plant and equipment	**28**	7,325
Impairment loss on property, plant and equipment	**2,452**	–
Impairment loss recognised in respect of goodwill	**–**	731
Impairment losses on financial assets, net		
— trade receivables	**(20,708)**	76,745
— contract assets	**(18,892)**	55,707
— other receivables	**19,638**	3,503
Changes in fair value of investment property	**–**	(21,076)
Dividend income from equity instruments at FVTOCI	**–**	(662)
Unrealised exchange differences	**234**	16,663
Operating cash flows before movements in working capital	**28,147**	44,725
Decrease/(increase) in inventories	**2,500**	(5,604)
Decrease/(increase) in bills and trade receivables	**37,242**	(67,053)
Decrease in contract assets	**24,385**	36
Decrease/(increase) in prepayments, deposits and other receivables	**17,901**	(85)
Increase in bills, trade and other payables	**5,952**	20,375
Increase in contract liabilities	**1,584**	361
Cash generated from/(used in) operations	**117,711**	(7,245)
Income tax paid	**(5,576)**	(3,632)
Net cash generated from/(used in) operating activities	**112,135**	(10,877)

For the year ended 31 December 2019

	2019 HK$'000	2018 HK$'000
Investing activities		
Interest received	**5,036**	6,828
Purchase of equity instruments at FVTOCI	**–**	(1,933)
Dividend income from equity instruments at FVTOCI	**–**	662
Proceeds on disposal of property, plant and equipment	**1,149**	81
Purchase of property, plant and equipment	**(22,864)**	(30,994)
Purchase of investment property	**(7,756)**	(2,369)
Prepayment for acquisition of other intangible assets	**(2,499)**	–
Placement of pledged bank deposits	**(24,478)**	(23,293)
Withdrawal of pledged bank deposits	**24,366**	4,559
Placement of financial assets at FVTPL	**(39,757)**	(11,417)
Withdrawal of financial assets at FVTPL	**11,386**	38,919
Placement of time deposits	**(15,335)**	–
Withdrawal of time deposits	**1,971**	13,938
Net cash used in investing activities	**(68,781)**	(5,019)
Financing activities		
Bank borrowings raised	**112,455**	127,883
Repayments of bank borrowings	**(122,678)**	(151,565)
Repayment of principal portion of the lease liabilities	**(1,330)**	–
Interest paid	**(6,167)**	(7,378)
Net cash used in financing activities	**(17,720)**	(31,060)
Net increase/(decrease) in cash and cash equivalents	**25,634**	(46,956)
Cash and cash equivalents at beginning of year	**154,614**	200,037
Effects of exchange rate changes on the balance of cash held in foreign currencies	**(2,677)**	1,533
Cash and cash equivalents at end of year, represented by bank balances and cash	**177,571**	154,614

1. GENERAL INFORMATION

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

The Company is an investment holding company. Its subsidiaries (the Company and its subsidiaries are collectively referred to as the "Group") are principally engaged in the manufacturing and sale of road maintenance equipment and provision of road maintenance services in the People's Republic of China (the "PRC"). Details of its subsidiaries are set out in note 46.

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

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

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

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) Adoption of new/revised HKFRSs — effective 1 January 2019

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

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

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

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(a) Adoption of new/revised HKFRSs — effective 1 January 2019 *(Continued)*

(i) Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of 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.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the financial statements would not differ materially from individual leases within the portfolio.

The Group has elected to separate non-lease component.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(a) Adoption of new/revised HKFRSs — effective 1 January 2019 *(Continued)*

(i) Key changes in accounting policies resulting from application of HKFRS 16 *(Continued)*

As a lessee (Continued)

Right-of-use assets

Except for short-term leases and leases of low value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Except for those that are classified as investment properties and measured under fair value model, right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;

- any lease payments made at or before the commencement date, less any lease incentives received;

- any initial direct costs incurred by the Group; and

- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Leasehold land and buildings

For payments of a property interest which includes both leasehold land and buildings elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and buildings elements, except for those that are classified and accounted for as investment property.

For the year ended 31 December 2019

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(a) Adoption of new/revised HKFRSs — effective 1 January 2019 *(Continued)*

(i) Key changes in accounting policies resulting from application of HKFRS 16 *(Continued)*

As a lessee (Continued)

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 "Financial Instruments" ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

For the year ended 31 December 2019

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(a) Adoption of new/revised HKFRSs — effective 1 January 2019 *(Continued)*

(i) Key changes in accounting policies resulting from application of HKFRS 16 *(Continued)*

As a lessee (Continued)

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

(ii) Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

HKFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces HKAS 17 *Leases* ("HKAS 17") and HK(IFRIC) 4 *Determining whether an Arrangement contains a Lease Involving the Legal Form of a Lease*. From a lessee's perspective, almost all leases are recognised in the statement of financial position as right-of-use assets and lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor's perspective, the accounting treatment is substantially unchanged from HKAS 17. For details of HKFRS 16 regarding its new definition of a lease, its impact on the Group's accounting policies and the transition method adopted by the Group as allowed under HKFRS 16, please refer to the following of this note.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

For the year ended 31 December 2019

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(a) Adoption of new/revised HKFRSs — effective 1 January 2019 *(Continued)*

(ii) Transition and summary of effects arising from initial application of HKFRS 16 *(Continued)*

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained earnings and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

iv. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of properties in the PRC/properties in Hong Kong was determined on a portfolio basis; and

v. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

The Group recognised lease liabilities of approximately HK$2,848,000 and right-of-use assets of approximately HK$13,038,000 at 1 January 2019.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 5%.

For the year ended 31 December 2019

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(a) Adoption of new/revised HKFRSs — effective 1 January 2019 *(Continued)*

(ii) Transition and summary of effects arising from initial application of HKFRS 16 *(Continued)*

As a lessee (Continued)

	1 January 2019 HK$'000
Operating lease commitments disclosed as at 31 December 2018	5,361
Less: Recognition exemption — short-term leases	(923)
Less: Reassessment — service agreements	(1,363)
Less: Future interest expenses	(227)
Lease liabilities as at 1 January 2019	2,848
Analysed as	
Current	891
Non-current	1,957
	2,848

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Right-of-use assets HK$'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	2,848
Reclassified from prepaid lease payments (Note)	10,190
Right-of-use assets as at 1 January 2019	13,038
By class:	
Leasehold land	10,190
Buildings	2,848
	13,038

Note: Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the prepaid lease payments amounting to approximately HK$10,190,000 were reclassified to right-of-use assets.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(a) Adoption of new/revised HKFRSs — effective 1 January 2019 *(Continued)*

(ii) Transition and summary of effects arising from initial application of HKFRS 16 *(Continued)*

As a lessee (Continued)

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018 HK$'000	Adjustments HK$'000	Carrying amounts under HKFRS 16 at 1 January 2019 HK$'000
Non-current Assets			
Prepaid lease payments	9,900	(9,900)	–
Right-of-use assets	–	13,038	13,038
Current assets			
Prepaid lease payments	290	(290)	–
Current Liabilities			
Lease liabilities	–	(891)	(891)
Non-current Liabilities			
Lease liabilities	–	(1,957)	(1,957)
	10,190	–	10,190

Note:

For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(a) Adoption of new/revised HKFRSs — effective 1 January 2019 *(Continued)*

HK(IFRIC)-Int 23 — Uncertainty over Income Tax Treatments

The Interpretation supports the requirements of HKAS 12, *Income Taxes*, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes. Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the "most likely amount" or the "expected value" approach, whichever better predicts the resolution of the uncertainty.

Amendments to HKFRS 9 — Prepayment Features with Negative Compensation

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if specified conditions are met — instead of at fair value through profit or loss.

Amendments to HKAS 19 — Plan amendments, curtailment or settlement

The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, a company should use updated actuarial assumptions to determine its current service cost and net interest for the period. Additionally, the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.

Amendments to HKAS 28 — Long-term Interests in Associates and Joint Ventures

The amendment clarifies that HKFRS 9 applies to long-term interests ("LTI") in associates or joint ventures which form part of the net investment in the associates or joint ventures and stipulates that HKFRS 9 is applied to these LTI before the impairment losses guidance within HKAS 28.

Annual Improvements to HKFRSs 2015–2017 Cycle — Amendments to HKFRS 3, Business Combinations

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 3 which clarifies that when a joint operator of a business obtains control over a joint operation, this is a business combination achieved in stages and the previously held equity interest should therefore be remeasured to its acquisition date fair value.

Annual Improvements to HKFRSs 2015–2017 Cycle — Amendments to HKFRS 11, Joint Arrangements

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 11 which clarify that when a party that participates in, but does not have joint control of, a joint operation which is a business and subsequently obtains joint control of the joint operation, the previously held equity interest should not be remeasured to its acquisition date fair value.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(a) Adoption of new/revised HKFRSs — effective 1 January 2019 *(Continued)*

Annual Improvements to HKFRSs 2015–2017 Cycle — Amendments to HKAS 12, Income Taxes

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 12 which clarify that all income tax consequences of dividends are recognised consistently with the transactions that generated the distributable profits, either in profit or loss, other comprehensive income or directly in equity.

Annual Improvements to HKFRSs 2015–2017 Cycle — Amendments to HKAS 23, Borrowing Costs

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 23 which clarifies that a borrowing made specifically to obtain a qualifying asset which remains outstanding after the related qualifying asset is ready for its intended use or sale would become part of the funds an entity borrows generally and therefore included in the general pool.

(b) New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

Amendments to HKFRS 3	Definition of a business[1]
Amendments to HKAS 1 and HKAS 8	Definition of material[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]

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 The amendments were originally intended to be effective for periods beginning on or after 1 January 2018. The effective date has now been deferred/removed. Early application of the amendments continue to be permitted.

Amendments to HKFRS 3 — Definition of a business

The amendments clarify that a business must include, as a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs, together with providing extensive guidance on what is meant by a "substantive process".

Additionally, the amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs, whilst narrowing the definition of "outputs" and a "business" to focus on returns from selling goods and services to customers, rather than on cost reductions.

An optional concentration test has also been added that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(b) New/revised HKFRSs that have been issued but are not yet effective *(Continued)*

Amendments to HKAS 1 and HKAS 8 — Definition of material

The amendments clarify the definition and explanation of "material", aligning the definition across all HKFRS Standards and the Conceptual Framework, and incorporating supporting requirements in HKAS 1 into the definition.

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 — Interest Rate Benchmark Reform

The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainties caused by interest rate benchmark reform. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.

Amendments to HKFRS 10 and HKAS 28 — Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors' interests in the joint venture or associate.

The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group's accounting policies and financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 Share-based Payment, leasing transactions that are within the scope of HKAS 17 *Leases* or HKFRS 16 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

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

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

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

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

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

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

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

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

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

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

Changes in the Group's interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations

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

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

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

- Liabilities or equity instruments related to share-based payment arrangements of the acquire or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date; and

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

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

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

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

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

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

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

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

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

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

Investments in joint ventures

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in joint ventures *(Continued)*

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue from contracts with customers

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

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

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

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

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

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

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

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

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

Output method

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Existence of significant financing component

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

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

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

Leasing (accounting policies applied from 1 January 2019)

All leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee; and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Except for right-of-use asset that meets the definition of an investment property or a class of property, plant and equipment to which the Group applies the revaluation model, the Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability. For right-of-use asset that meets the definition of an investment property, they are carried at fair value.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing (accounting policies applied from 1 January 2019) *(Continued)*

Lease liability

The lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, the Group measures the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

Leasing (accounting policies applied until 31 December 2018)

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

The Group as lessee

Assets held under finance leases are initially recognised as assets at their fair value or, if lower, the present value of the minimum lease payments. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to profit or loss over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

The land and buildings elements of property leases are considered separately for the purposes of lease classification.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasehold land (accounting policies applied until 31 December 2018)

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

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

Upon the adoption of HKFRS 16, all leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities. The leasehold land for own use would be under the scope of HKFRS 16 and relevant accounting policy is disclosed as above under "Leasing".

Foreign currencies

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

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

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see the accounting policies below); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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

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

Borrowing costs

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

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

Government grants

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

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

Retirement benefit costs

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

Short-term benefits

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Equity-settled share-based payment transactions

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

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

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

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

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

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis. Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties

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

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

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

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

Intangible assets

Intangible assets acquired separately

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

Internally-generated intangible assets — research and development expenditure

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets *(Continued)*

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

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

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Impairment of tangible and intangible assets other than goodwill

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of tangible and intangible assets other than goodwill *(Continued)*

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

Inventories

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

Financial instruments

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets

Classification and subsequent measurement of financial assets

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

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

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

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

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

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

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

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term;

- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (Continued)

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

(i) Amortised cost and interest income

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

(ii) Equity instruments designated as at FVTOCI

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

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

(iii) Financial assets at FVTPL

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets

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

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

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

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

(i) Significant increase in credit risk

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

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

(i) Significant increase in credit risk *(Continued)*

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

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

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

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

(ii) Definition of default

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

(iii) Credit-impaired financial assets

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

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

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

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

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

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

(iv) Write-off policy

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

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

(v) Measurement and recognition of ECL

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments

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

Equity instruments

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

Financial liabilities at amortised cost

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

Derecognition of financial liabilities

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

4. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

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

Deferred taxation on investment property

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

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

Critical judgements in applying accounting policies *(Continued)*

Deferred taxation on investment property *(Continued)*

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

Key sources of estimation uncertainty

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

Provision of ECL for trade receivables and contract assets

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

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables and contract assets are disclosed in notes 27, 25 and 43 respectively.

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

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

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

At 31 December 2019, the carrying amount of property, plant and equipment amounted to approximately HK$164,588,000 (2018: HK$174,002,000), details of which are set out in note 16.

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

Key sources of estimation uncertainty *(Continued)*

Estimated impairment of goodwill

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

As at 31 December 2019, the carrying amount of goodwill was approximately HK$6,150,000 (2018: HK$6,150,000), details of which are set out in note 19.

Allowance for inventories

The management reviews the aging analysis of inventories of the Group and makes provision for obsolete inventory items. The management estimates the net realisable value for such inventories primarily based on the latest invoice prices and current market conditions. A considerable amount of judgement is required in assessing the ultimate realisation of these inventories. If the market conditions were to change, resulting in a change of provision for obsolete items, the difference will be recorded in the period when it is identified. Inventories are stated at the lower of cost and net realisable value. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of selling expenses. As at 31 December 2019, the carrying amount of inventories was approximately HK$44,261,000 (2018: HK$47,496,000).

Fair value of investment property

At the end of the reporting period, investment property is stated at fair value based on the valuation performed by independent professional valuers. In determining the fair value of investment property, the Group uses valuation techniques that use inputs which are not based on observable market data including the capitalization rate, monthly market rent and the best use of the property. Please refer to note 18 for details of valuation techniques, inputs and assumptions used in estimating the fair value of investment property. The carrying amounts of investment properties at 31 December 2019 was approximately HK$244,173,000 (2018: HK$229,281,000).

Right-of-use assets

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease.

The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

For the year ended 31 December 2019

5. REVENUE

(i) Disaggregation of revenue from contracts with customers

Segments	For the year ended 31 December 2019 Maintenance services HK$'000	 Sale of equipment HK$'000	 Total HK$'000
Type of goods or services			
Maintenance services			
"Hot-in-place" Projects	200,232	–	200,232
Non-"Hot-in-place" Projects	215,092	–	215,092
Sale of equipment			
Standard series	–	65,819	65,819
Repair and maintenance	–	6,180	6,180
Total	415,324	71,999	487,323
Geographical markets			
Mainland China	415,324	67,432	482,756
Overseas	–	4,567	4,567
Total	415,324	71,999	487,323
Timing of revenue recognition			
A point in time	–	71,999	71,999
Over time	415,324	–	415,324
Total	415,324	71,999	487,323

5. REVENUE *(Continued)*

(i) Disaggregation of revenue from contracts with customers *(Continued)*

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

For the year ended 31 December 2019

5. REVENUE *(Continued)*

(ii) Performance obligations for contracts with customers

Maintenance Services (with milestone payments)

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

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

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

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

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

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

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

6. OPERATING SEGMENTS

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

Maintenance services	—	Provision of road maintenance services
Sale of equipment	—	Manufacturing and sale of road maintenance equipment

Segment revenue and results

	Maintenance services HK$'000	Sale of equipment HK$'000	Consolidated total HK$'000
For the year ended 31 December 2019			
Segment revenue:			
Sales to external customers	415,324	71,999	487,323
Intersegment sales	3,997	47,978	51,975
	419,321	119,977	539,298
Reconciliation			
Elimination of intersegment sales	(3,997)	(47,978)	(51,975)
Revenue	415,324	71,999	487,323
Segment result	26,536	9,667	36,203
Reconciliation:			
Interest income			5,036
Changes in fair value of investment property			–
Exchange losses			(136)
Finance costs			(5,990)
Unallocated corporate expenses			(18,213)
Share of losses of joint ventures			(3,289)
Profit before income tax expense			13,611

6. OPERATING SEGMENTS *(Continued)*

Segment revenue and results *(Continued)*

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

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

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

For the year ended 31 December 2019

6. OPERATING SEGMENTS *(Continued)*

Segment assets and liabilities

	Maintenance services HK$'000	Sale of equipment HK$'000	Consolidated total HK$'000
As at 31 December 2019			
Segment assets	**615,945**	**248,134**	**864,079**
Elimination of intersegment receivables			**(182,073)**
Interests in joint ventures			**27,542**
Investment property			**244,173**
Other unallocated assets			**272,091**
Total assets			**1,225,812**
Segment liabilities	**465,351**	**65,118**	**530,469**
Elimination of intersegment payables			**(182,073)**
Other unallocated liabilities			**148,380**
Total liabilities			**496,776**
As at 31 December 2018			
Segment assets	622,500	271,007	893,507
Elimination of intersegment receivables			(166,884)
Interests in joint ventures			29,846
Investment property			229,281
Other unallocated assets			247,178
Total assets			1,232,928
Segment liabilities	467,916	47,065	514,981
Elimination of intersegment payables			(166,884)
Other unallocated liabilities			155,427
Total liabilities			503,524

6. OPERATING SEGMENTS *(Continued)*

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

	Maintenance services HK$'000	Sale of equipment HK$'000	Consolidated total HK$'000
For the year ended 31 December 2019			
Impairment loss on property, plant and equipment	**2,452**	**–**	**2,452**
Impairment losses recognised in respect of trade receivables, contract assets and other receivables	**(16,687)**	**(3,275)**	**(19,962)**
Depreciation and amortisation	**23,569**	**1,968**	**25,537**
Capital expenditure (Note)	**22,525**	**339**	**22,864**
For the year ended 31 December 2018			
Impairment losses recognised in respect of trade receivables, contract assets and other receivables	86,373	49,582	135,955
Depreciation and amortisation	29,585	2,723	32,308
Capital expenditure (Note)	25,797	798	26,595

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

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

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

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

During the year ended 31 December 2019, revenue from a related company, accounted for 10% or more of the Group's revenue and its revenue amounted to approximately HK$172,936,000 (2018: HK$128,571,000). The sales to the above related company were derived from the provision of road maintenance services.

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

For the year ended 31 December 2019

7. OTHER INCOME

	2019 HK$'000	2018 HK$'000
Government grants (Note)	**1,647**	1,738
Interest income	**5,036**	6,828
Dividend income from equity instruments at FVTOCI	**–**	662
Others	**1,080**	460
	7,763	9,688

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

8. OTHER GAINS AND LOSSES, NET

	2019 HK$'000	2018 HK$'000
Loss on disposal of property, plant and equipment	**(28)**	(7,325)
Impairment loss recognised in respect of property, plant and equipment	**(2,452)**	–
Impairment loss recognised in respect of goodwill	**–**	(731)
Net foreign exchange (losses)/gains	**(136)**	722
Others	**(34)**	(25)
	(2,650)	(7,359)

9. REVERSAL OF/(PROVISION FOR) IMPAIRMENT LOSSES ON FINANCIAL ASSETS

	2019 HK$'000	2018 HK$'000
Reversal of/(provision for) impairment losses on financial assets recognised on:		
— Trade receivables	**20,708**	(76,745)
— Other receivables	**(19,638)**	(3,503)
— Contract assets	**18,892**	(55,707)
	19,962	(135,955)

For the year ended 31 December 2019

10. FINANCE COSTS

	2019 HK$'000	2018 HK$'000
Interest on:		
— Bank borrowings	5,990	7,378
— Lease liabilities	177	–
	6,167	7,378

11. INCOME TAX EXPENSE

The charge comprises:

	2019 HK$'000	2018 HK$'000
PRC Enterprise Income Tax ("EIT"):		
— Current year	4,060	6,179
— Under provision in prior years	8	1,070
	4,068	7,249
Deferred tax charge (note 21)	473	5,834
	4,541	13,083

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

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements since there are no tax assessable profits for the years ended 31 December 2018 and 31 December 2019.

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

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

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11. INCOME TAX EXPENSE *(Continued)*

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

Withholding tax of approximately HK$146,000 (2018: HK$224,000) has been provided for the year ended 31 December 2019 with reference to the anticipated dividends to be distributed by the PRC entities to non-PRC tax residents.

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

	2019 HK$'000	2018 HK$'000
Profit/(loss) before income tax expense	**13,611**	(131,282)
Tax at the applicable income tax rate of 25% (2018: 25%) (Note)	**3,403**	(32,821)
Tax effect of expenses not deductible for tax purposes	**5,736**	12,835
Tax effect of tax losses not recognised	**10,118**	5,667
Tax effect of income not taxable for tax purpose	**(2,427)**	(4,127)
Tax effect of share of losses of joint ventures	**822**	1,236
Tax effect of deductible temporary differences not recognised	**(9,331)**	33,988
Utilisation of tax losses and deductible temporary differences previously not recognised	**–**	(41)
Income tax at concessionary rates	**(1,582)**	(2,341)
Under provision in prior years	**8**	1,070
Tax effect of additional deduction related to research and development costs and certain staff costs	**(2,352)**	(2,607)
Withholding tax on undistributed profits of PRC subsidiaries	**146**	224
	4,541	13,083

Note: The domestic income tax rate of 25 % (2018: 25%) represents the PRC Enterprise Income Tax rate. The PRC is the primary tax jurisdiction relevant to the Group's operations.

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12. PROFIT/(LOSS) BEFORE INCOME TAX EXPENSE

	2019 **HK$'000**	2018 HK$'000
Profit/(loss) before income tax expense has been arrived at after charging:		
Directors' emoluments (note 13)	**6,889**	6,066
Other staff costs	**59,385**	62,103
Other staff retirement benefit scheme contributions	**11,063**	10,213
Total staff costs	**77,337**	78,382
Amortisation of prepaid lease payments	**–**	290
Amortisation of other intangible assets	**122**	165
Auditor's remuneration	**1,380**	1,770
Cost of inventories sold	**38,429**	31,554
Cost of services provided	**345,506**	388,780
Loss on disposal of property, plant and equipment	**28**	7,325
Depreciation charge:		
— Owned property, plant and equipment	**25,431**	31,853
— Right-of-use assets included within (Note):		
— Leasehold land	**250**	–
— Buildings	**1,561**	–
Interest on lease liabilities	**177**	–
Short-term lease expenses	**9,755**	–
Total minimum lease payments for leases previously classified as operating leases under HKAS 17	**–**	16,411
Impairment loss on property, plant and equipment	**2,452**	–

Note: The Group has initially applied HKFRS 16 using the cumulative effect 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. The depreciated carrying amount of the finance lease assets which were previously included in property, plant and equipment is also identified as a right-of-use asset. After initial recognition of right-of-use assets at 1 January 2019, the group as 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 has not been restated. See note 2(a).

No share-based payment expense was recognised in profit or loss during the year ended 31 December 2018 and 2019 in respect of share options and awards of the Company.

For the year ended 31 December 2019

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

The emoluments paid or payable to the directors for the year ended 31 December 2019 were as follows:

	2019						2018					
	Fees HK$'000	Salaries and other benefits HK$'000	Performance related bonuses (Note) HK$'000	Share-based payment expenses HK$'000	Contributions to retirement benefit schemes HK$'000	Total HK$'000	Fees HK$'000	Salaries and other benefits HK$'000	Performance related bonuses (Note) HK$'000	Share-based payment expenses HK$'000	Contributions to retirement benefit schemes HK$'000	Total HK$'000
Executive directors												
Sze Wai Pan	–	2,940	600	–	18	3,558	–	2,000	168	–	18	2,186
Sze Wan Nga	–	995	100	–	18	1,113	–	1,120	38	–	18	1,176
Zhang Yifu (Resigned on 2 July 2019)	–	152	–	–	–	152	–	851	35	–	14	900
Chan Kai King	–	966	82	–	18	1,066	–	953	33	–	18	1,004
Non-executive directors												
Wang Lei	–	–	–	–	–	–	–	–	–	–	–	–
Chan Yan Chong	220	–	–	–	–	220	200	–	–	–	–	200
Tong Wai Cheung Timothy (Appointed on 2 July 2019)	120	–	–	–	–	120	–	–	–	–	–	–
Independent non-executive directors												
Yeung Sum	220	–	–	–	–	220	200	–	–	–	–	200
Tang Koon Yiu Thomas	220	–	–	–	–	220	200	–	–	–	–	200
Lau Ching Kwong	220	–	–	–	–	220	200	–	–	–	–	200
	1,000	5,053	782	–	54	6,889	800	4,924	274	–	68	6,066

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

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

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

(Continued)

The five highest paid individuals included three (2018: four) directors of the Company, details of whose emoluments are set out above. The emolument of the remaining two (2018: one) highest paid individual during the year is as follows:

	2019 **HK$'000**	2018 HK$'000
Basic salaries and allowances	**1,830**	880
Performance related bonuses	**134**	30
Retirement benefits scheme contributions	**36**	18
	2,000	928

Their emoluments are within the following bands:

	Number of employee	
	2019 **HK$'000**	2018 HK$'000
HK$Nil to HK$1,000,000	**1**	1
HK$1,000,001 to HK$2,000,000	**1**	–

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

14. DIVIDENDS

No final dividend is proposed by the directors for the years ended 31 December 2019 and 31 December 2018.

15. EARNINGS/(LOSS) PER SHARE

	2019 HK$'000	2018 HK$'000
Earnings/(loss):		
Earnings/(loss) for the purposes of calculating basic and diluted earnings/(loss) per share — attributable to owners of the Company	**4,145**	(139,130)
Number of shares:		
Weighted average number of ordinary shares in issue less shares held under the share award scheme during the year for the purpose of calculating basic earnings/(loss) per share	**1,061,630,000**	1,061,630,000
Effect of dilutive potential ordinary shares:		
Unvested share award	**17,370,000**	–
Weighted average number of ordinary shares for the purpose of calculating basic and diluted earnings/(loss) per share	**1,079,000,000**	1,061,630,000

The computation of diluted earnings per share for the year ended 31 December 2019 did not assume the exercise of the Company's outstanding share options as the exercise of the Company's outstanding share options as the exercise price of those options was higher than the average market price during the year.

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

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16. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Furniture, fixtures and equipment HK$'000	Leasehold improvements HK$'000	Total HK$'000
Cost						
At 1 January 2018	96,507	365,244	45,137	9,747	1,913	518,548
Additions	–	25,730	369	350	146	26,595
Disposal/write-off	(108)	(9,762)	(642)	(51)	–	(10,563)
Effect of foreign currency exchange differences	(4,993)	(26,165)	(2,592)	(549)	(161)	(34,460)
At 31 December 2018 and 1 January 2019	**91,406**	**355,047**	**42,272**	**9,497**	**1,898**	**500,120**
Additions	**–**	**20,821**	**1,122**	**260**	**661**	**22,864**
Disposal/write-off	**–**	**(9,721)**	**(1,344)**	**(772)**	**–**	**(11,837)**
Effect of foreign currency exchange differences	**(1,525)**	**(8,481)**	**(787)**	**(160)**	**(50)**	**(11,003)**
At 31 December 2019	**89,881**	**357,666**	**41,263**	**8,825**	**2,509**	**500,144**
Depreciation						
At 1 January 2018	18,174	154,555	35,676	7,726	1,244	217,375
Provided for the year	4,312	22,612	4,127	802	–	31,853
Disposal/write-off	–	(2,534)	(578)	(45)	–	(3,157)
Effect of foreign currency exchange differences	(1,106)	(14,728)	(2,691)	(478)	447	(18,556)
At 31 December 2018 and 1 January 2019	**21,380**	**159,905**	**36,534**	**8,005**	**1,691**	**227,515**
Provided for the year	**4,122**	**19,398**	**1,220**	**487**	**204**	**25,431**
Disposal/write-off	**–**	**(9,353)**	**(1,137)**	**(170)**	**–**	**(10,660)**
Effect of foreign currency exchange differences	**(414)**	**(4,423)**	**(812)**	**(673)**	**(46)**	**(6,368)**
At 31 December 2019	**25,088**	**165,527**	**35,805**	**7,649**	**1,849**	**235,918**
Impairment						
At 1 January 2018	–	104,269	–	–	–	104,269
Effect of foreign currency exchange differences	–	(5,666)	–	–	–	(5,666)
At 31 December 2018 and 1 January 2019	**–**	**98,603**	**–**	**–**	**–**	**98,603**
Provided for the year	**–**	**1,954**	**494**	**4**	**–**	**2,452**
Effect of foreign currency exchange differences	**–**	**(1,410)**	**(7)**	**–**	**–**	**(1,417)**
At 31 December 2019	**–**	**99,147**	**487**	**4**	**–**	**99,638**
Carrying Amount						
At 31 December 2019	**64,793**	**92,992**	**4,971**	**1,172**	**660**	**164,588**
At 31 December 2018	70,026	96,539	5,738	1,492	207	174,002

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

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

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

During the year 31 December 2019, in light of significant loss incurred in a subsidiary in maintenance service segment and adverse change of market conditions due to the tightened cash flow that occurred at the local government level in the PRC, the directors of the Company conducted a review of the subsidiary's plant and machineries, motor vehicles and furniture, fixtures and equipment and determined that certain assets were impaired, due to the significant loss incurred. Accordingly, impairment losses of approximately HK$2,452,000 had been recognised in respect of such assets, which are used by the subsidiary. The recoverable amounts of the relevant assets had been determined on the basis of fair values less costs of disposal.

17. RIGHT-OF-USE ASSETS

	Leasehold land HK$'000	Buildings HK$'000	Total HK$'000
Cost			
Initial adoption of HKFRS 16 at 1 January 2019	**10,190**	**2,848**	**13,038**
Additions	**–**	**4,172**	**4,172**
Effect of foreign currency exchange differences	**(170)**	**(154)**	**(324)**
At 31 December 2019	**10,020**	**6,866**	**16,886**
Amortisation			
At 1 January 2019	**–**	**–**	**–**
Charge during the year	**250**	**1,561**	**1,811**
Effect of foreign currency exchange differences	**(4)**	**(14)**	**(18)**
At 31 December 2019	**246**	**1,547**	**1,793**
Carrying Amount			
At 31 December 2019	**9,774**	**5,319**	**15,093**

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18. INVESTMENT PROPERTY

	Investment property under construction HK$'000
Fair Value	
At 1 January 2018	218,018
Additions	2,369
Net increase in fair value recognised in profit or loss	21,076
Effect of foreign currency exchange differences	(12,182)
At 31 December 2018 and 1 January 2019	**229,281**
Additions	**18,956**
Changes in fair value recognised in profit or loss	**–**
Effect of foreign currency exchange differences	**(4,064)**
At 31 December 2019	**244,173**

All of the Group's property interests held under construction are measured using the fair value model.

The fair value of the Group's investment property as at 31 December 2019 has been arrived at on the basis of a valuation carried out by Beijing Huaya Zhengxin Assets Appraisal Cp., Ltd (北京華亞正信資產評估有限公司) (2018: Messrs Jiangsu Tianqin Assets Appraisal Co., Ltd (江蘇天勤資產評估事務所有限公司)) independent qualified professional valuers not connected to the Group.

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

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

18. INVESTMENT PROPERTY *(Continued)*

Investment property	Valuation technique(s)	Significant unobservable input(s)	Sensitivity
Investment property under construction located in Jiangxinzhou, Nanjing, the PRC	Income capitalisation	Capitalisation rate, taking into account the capitalisation of rental income potential, nature of the property, and prevailing market condition of 7.0% (2018: 7.5%).	An increase in the capitalisation rate used would result in a decrease in fair value, and vice versa.
		Monthly market rent, using direct market comparables and taking into account of time, location, and individual factors, such as frontage and size of the property, of RMB100.2 (2018: RMB104) per square metre ("sqm") per month for the base level.	An increase in the market rent used would result in an increase in fair value, and vice versa.

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

	Level 3 and Fair value	
	2019	2018
	HK$'000	HK$'000
Investment property under construction located in Nanjing, the PRC	**244,173**	229,281

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

19. GOODWILL

	2019 HK$'000	2018 HK$'000
Cost		
At 1 January and 31 December	**17,563**	17,563
Impairment		
At 1 January	**11,413**	10,682
Provided for the year	**–**	731
At 31 December	**11,413**	11,413
Carrying Amount		
At 1 January and 31 December	**6,150**	6,150

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

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

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

19. GOODWILL *(Continued)*

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

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

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

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

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

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19. GOODWILL *(Continued)*

	Freetech Ordos HK$'000	Hunan Freetech Tongqu HK$'000	Xinjiang Jianda HK$'000	Suqian Hengtong Maintenance HK$'000	Tianjin Expressway Maintenance HK$'000	Futech Road Recycling HK$'000	Guangdong Suitong HK$'000	Fuzhou Suda HK$'000	Total HK$'000
Cost									
At 1 January 2018, 31 December 2018 and 31 December 2019	731	115	1,198	2,863	6,150	2,313	4,146	47	17,563
Impairment									
At 1 January 2018	–	(115)	(1,198)	(2,863)	–	(2,313)	(4,146)	(47)	(10,682)
Provided for the year	(731)	–	–	–	–	–	–	–	(731)
At 31 December 2018 and 1 January 2019	**(731)**	**(115)**	**(1,198)**	**(2,863)**	**–**	**(2,313)**	**(4,146)**	**(47)**	**(11,413)**
Provided for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
At 31 December 2019	**(731)**	**(115)**	**(1,198)**	**(2,863)**	**–**	**(2,313)**	**(4,146)**	**(47)**	**(11,413)**
Carrying Amount									
At 31 December 2019	**–**	**–**	**–**	**–**	**6,150**	**–**	**–**	**–**	**6,150**
At 31 December 2018	–	–	–	–	6,150	–	–	–	6,150

For the purposes of impairment testing, the subsidiary (2018: two subsidiaries) are considered as one cash-generating unit ("CGU") (2018: two CGUs) as it can generate cash flows that are largely independent of the cash inflows from other assets or groups of assets.

During the year ended 31 December 2018, the Group recognised an impairment loss of approximately HK$731,000 in relation to goodwill of Freetech Ordos.

There is no impairment in relation to the goodwill of Tianjin Expressway Maintenance during the year ended 31 December 2018 and 2019.

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

The recoverable amount has been determined based on a value-in-use calculation. That calculation uses cash flow projections based on financial budgets approved by the management covering a 5-year period, and discount rate is 15% (2018: 15%). The CGUs' cash flows beyond the 5-year period are extrapolated using a steady growth rate of 1% (2018: 1%). The growth rate used is based on the management's best estimation on growth forecasts and does not exceed the average long-term growth rate for the relevant markets. Other key assumptions for the value-in-use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin.

20. OTHER INTANGIBLE ASSETS

	Software HK$'000
Cost	
At 1 January 2018	1,681
Effect of foreign currency exchange differences	(87)
At 31 December 2018 and 1 January 2019	**1,594**
Effect of foreign currency exchange differences	**(27)**
At 31 December 2019	**1,567**
Amortisation	
At 1 January 2018	1,141
Charge for the year	165
Effect of foreign currency exchange differences	(66)
At 31 December 2018 and 1 January 2019	**1,240**
Charge for the year	**122**
Effect of foreign currency exchange differences	**(23)**
At 31 December 2019	**1,339**
Carrying Amount	
At 31 December 2019	**228**
At 31 December 2018	354

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

Software	5 year

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21. DEFERRED TAX ASSETS/LIABILITIES

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

	2019 **HK$'000**	2018 HK$'000
Deferred tax assets	**942**	1,422
Deferred tax liabilities	**(25,254)**	(25,535)
	(24,312)	(24,113)

At 31 December 2019, the Group had not recognised deductible temporary difference in respect of certain assets in aggregate of approximately HK$404,082,000 (2018: HK$467,271,000) as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

At 31 December 2019, the Group had tax losses arising in Hong Kong of approximately HK$119,834,000 (2018: HK$91,604,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arise. The Group also had tax losses arising in Mainland of China of approximately HK$118,093,000 (2018: HK$103,262,000) that will expire at various dates up to and including 2024 (2018: 2023) for offsetting against future taxable profits. No deferred tax assets have been recognised in respect of such losses due to the unpredictability of future profit streams.

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately HK$329 million (2018: HK$325 million) as the Group is able to control the timing of the reversal of the temporary differences and the Group has determined that this portion of profits derived from these PRC operating subsidiaries will be retained by these subsidiaries and will not be distributed in the foreseeable future. Therefore, it is probable that such differences will not reverse in the foreseeable future.

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21. DEFERRED TAX ASSETS/LIABILITIES *(Continued)*

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

	Withholding tax	Unrealised profits from transactions with joint ventures	Fair value adjustment on investment property	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2018	(10,351)	2,284	(11,007)	(19,074)
Charge to profit or loss	(224)	(341)	(5,269)	(5,834)
Effect of foreign currency exchange differences	545	(521)	771	795
At 31 December 2018 and 1 January 2019	**(10,030)**	**1,422**	**(15,505)**	**(24,113)**
Charge to profit or loss	**(146)**	**(327)**	**–**	**(473)**
Effect of foreign currency exchange differences	**169**	**(153)**	**258**	**274**
At 31 December 2019	**(10,007)**	**942**	**(15,247)**	**(24,312)**

22. INTERESTS IN JOINT VENTURES

	2019	2018
	HK$'000	HK$'000
Cost of unlisted investments in joint ventures	**106,961**	106,961
Share of post-acquisition loss and other comprehensive income, net of dividend received	**(69,154)**	(64,275)
Unrealised profit of sales to joint ventures	**(10,265)**	(12,840)
	27,542	29,846

When the unrealised profit on sales to a joint venture exceeds the Group's share of the net assets of the joint venture, a negative balance of the interest in that joint venture will result. Such negative balance of interest in a joint venture is not netted off with other interests in joint ventures and is reclassified and included under the line item bills, trade and other payables in the consolidated statement of financial position. There is no such excess balance of the unrealised profit over the share of the net assets of the joint venture at 31 December 2019 and 31 December 2018.

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22. INTERESTS IN JOINT VENTURES *(Continued)*

As at 31 December 2019 and 2018, the Group had interests in the following joint ventures:

Name of entity	Form of business structure	Place/Country of establishment/ incorporation, principal place of operation	Proportion of nominal value of registered capital held by the Group		Proportion of voting rights held by the Group		Principal activity
			2019	2018	**2019**	2018	
南京路捷道路養護工程有限公司 Nanjing Lujie Road Maintenance Engineering Co., Ltd. ("Nanjing Lujie")	PRC equity joint venture	PRC	**45%**	45%	**45%**	45%	Provision of road maintenance services
連雲港路達道路再生工程有限公司 Lianyungang Luda Road Recycling Engineering Co., Ltd. ("Lianyungang Luda")	PRC equity joint venture	PRC	**35%**	35%	**35%**	35%	Provision of road maintenance services
財匯有限公司 Flourish Rich Limited	Limited liability company	Hong Kong	**45%**	45%	**50%**	50%	Investment holding
南京金財匯融資租賃有限公司 Nanjing Golden Rich Financial Leasing Limited	PRC equity joint venture	PRC	**45%**	45%	**50%**	50%	Provision of leasing services
貴州英達道路工程有限公司 Guizhou Freetech Road Engineering Co., Ltd. ("Guizhou Freetech")	PRC equity joint venture	PRC	**49%**	49%	**49%**	49%	Provision of road maintenance services

Notes:

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

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

22. INTERESTS IN JOINT VENTURES *(Continued)*

Summarised financial information of a material joint venture

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

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

Nanjing Lujie

	2019 **HK$'000**	2018 HK$'000
Current assets	**56,669**	70,521
Non-current assets	**19,413**	24,428
Current liabilities	**39,036**	51,924

The above amounts of assets and liabilities included the following:

	2019 **HK$'000**	2018 HK$'000
Cash and cash equivalent	**10,633**	6,589
Current financial liabilities (excluding trade and other payables and provisions)	**6,720**	5,695

	2019 **HK$'000**	2018 HK$'000
Revenue	**50,408**	64,767
Loss for the year	**(5,335)**	(7,499)
Other comprehensive income for the year	**(643)**	(2,458)
Total comprehensive income for the year	**(5,978)**	(9,957)
Dividends received from Nanjing Lujie during the year	**–**	–

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22. INTERESTS IN JOINT VENTURES *(Continued)*

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

Nanjing Lujie *(Continued)*

The above loss for the year included the following:

	2019 HK$'000	2018 HK$'000
Depreciation and amortisation	5,451	4,235
Interest income	9	9
Interest expense	317	311
Income tax expense	–	–

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

	2019 HK$'000	2018 HK$'000
Net assets of Nanjing Lujie	37,046	43,025
Proportion of the Group's ownership interest in Nanjing Lujie	45%	45%
Unrealised profit of sales to the joint venture	(2,715)	(4,054)
Carrying amount of the Group's interest in Nanjing Lujie	14,793	15,566

Aggregate information of joint ventures that are not individually material

	2019 HK$'000	2018 HK$'000
The Group's share of loss and total comprehensive income	(2,767)	(4,445)
Aggregate carrying amount of the Group's interest in the joint ventures	12,749	14,280

23. PREPAID LEASE PAYMENTS

	2019 **HK$'000**	2018 HK$'000
Non-current	–	9,900
Current	–	290
	–	10,190

Upon the adoption of HKFRS 16, all leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities. The prepaid lease payments has been transferred to right-of-use assets as disclosed in note 17. The leasehold right would be under the scope of HKFRS 16 and relevant accounting policy is disclosed as above under "Leasing".

24. EQUITY INSTRUMENTS AT FVTOCI

	2019 **HK$'000**	2018 HK$'000
Unlisted equity investments in the PRC, designed as at FVTOCI	**7,976**	6,955

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

During the year ended 31 December 2018, the Group disposed an unlisted equity investment, at a consideration of approximately HK$8,081,000, which was also the fair value as at the date of disposal as the investment no longer meets the investment objective of the Group after group restructuring carried out by the investee. A cumulative gain on disposal of approximately HK$385,000 has been transferred to retained earnings during the year ended 31 December 2018.

For the year ended 31 December 2019

25. CONTRACT ASSETS

	2019 HK$'000	2018 HK$'000
Maintenance services	**306,043**	330,264
Sale of equipment	**25,541**	48,992
Less: Allowance for credit losses	**(44,853)**	(82,516)
	286,731	296,740
Current	**269,402**	276,163
Non-current	**17,329**	20,577
	286,731	296,740

At 31 December 2019, included in the contract assets are amounts due from the Group's related companies of approximately HK$119,428,000 (2018: HK$72,388,000), details of which are set out in note 45.

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

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

Details of impairment assessment of contract assets for the year ended 31 December 2019 are set out in note 43.

26. INVENTORIES

	2019 HK$'000	2018 HK$'000
Raw materials	**26,536**	28,583
Work-in-progress	**16,423**	10,068
Finished goods	**1,302**	8,845
	44,261	47,496

27. BILLS AND TRADE RECEIVABLES

	2019 **HK$'000**	2018 HK$'000
Trade receivables	**447,264**	471,185
Less: Allowance for credit losses	**(335,117)**	(343,587)
	112,147	127,598
Bills receivables	**448**	3,474
	112,595	131,072

As at 31 December 2019 and 2018, trade receivables from contracts with customers amounted to approximately HK$112,147,000 and HK$127,598,000 respectively.

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

	2019 **HK$'000**	2018 HK$'000
0 to 180 days	**448**	3,474

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

For the year ended 31 December 2019

27. BILLS AND TRADE RECEIVABLES *(Continued)*

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

	2019 **HK$'000**	2018 HK$'000
Within 3 months	**51,034**	27,811
3 to 12 months	**16,069**	37,373
1 to 2 years	**22,037**	36,108
Over 2 years	**23,007**	26,306
	112,147	127,598

As at 31 December 2019, included in the Group's trade receivables balance are debtors with aggregate carrying amount of approximately HK$100,668,000 (2018: HK$127,598,000) which are past due as at the reporting date. Out of the past due balances, approximately HK$45,623,000 (2018: HK$90,092,000) has been past due 90 days or more and is not considered as in default as most of the Group's customers are government agencies and the risk of default is not high.

At 31 December 2019, included in the trade receivables are amounts due from the Group's related companies of approximately HK$11,261,000 (2018: HK$20,025,000), which are repayable on credit terms similar to those offered to the major customers of the Group, details of which are set out in note 45.

Details of impairment assessment of trade receivables for the year ended 31 December 2019 are set out in note 43.

For the year ended 31 December 2019

28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2019 **HK$'000**	2018 HK$'000
Other receivables	**61,058**	27,803
Less: Allowance for credit losses	**(24,112)**	(4,808)
	36,946	22,995
Portion classified as non-current assets	**(9,168)**	–
Current portion	**27,778**	22,995
Prepayments and deposits	**15,222**	42,821
Tax recoverable	**1,216**	4,403
	44,216	70,219

At 31 December 2019, included in the Group's prepayments, deposits and other receivables are amounts due from related companies of approximately HK$628,000 (2018: HK$920,000), which are unsecured, interest-free and have no fixed terms of repayment, details of which are set out in note 45.

The non-current other receivable balance as at 31 December 2019 represented amounts transferred from the prepayment and deposits for acquisition of land use rights as at 31 December 2018. On 20 November 2019, the Group and the independent third party entered into an termination agreement, pursuant to which the Group terminated the acquisition of land use rights. At the same time, the independent third party agreed to repay the prepayment in full by 3 instalments until 31 December 2021.

Details of impairment assessment of prepayments, deposits and other receivables for the year ended 31 December 2019 are set out in note 43.

For the year ended 31 December 2019

29. FINANCIAL ASSETS AT FVTPL

	2019 **HK$'000**	2018 HK$'000
Financial assets measured at FVTPL:		
Structured bank deposits	**39,200**	11,417
Analysed for reporting purposes as:		
Current assets	**39,200**	11,417

30. TIME DEPOSITS, PLEDGED BANK DEPOSITS, BANK BALANCES AND CASH

Time deposits at 31 December 2019 represented bank deposits placed in banks in Hong Kong and the PRC. The interest rate was 2.9% (2018: 2.35%) per annum.

Pledged bank deposits represented bank deposits pledged to banks to secure short-term banking facilities granted to the Group. The pledged deposits at 31 December 2019 carried an interest rate from 0.3% to 2.4% (2018: 0.35% to 1.85%) per annum.

Bank balances and cash comprise cash held by the Group and short-term bank deposits with original maturities of three months or less. Cash at banks earn interest at floating rates based on daily bank deposit rates. Short-term bank deposits are made for various periods ranging from 1 to 3 months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The interest rate for short-term bank deposits during the year ended 31 December 2019 was approximately from 0.3% to 2.8% (2018: 0.75% to 1.16%) per annum.

At 31 December 2019, certain time deposit, bank balances and cash, pledged bank deposits and FVTPL of approximately HK$238,215,000 (2018: HK$178,237,000) are denominated in RMB which is not a freely convertible currency in the international market. The remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

For the year ended 31 December 2019

31. BILLS, TRADE AND OTHER PAYABLES

	2019 HK$'000	2018 HK$'000
Bills payables	**28,502**	8,201
Trade payables	**253,727**	275,274
Other tax payables	**16,101**	19,898
Other payables and accrued charges	**48,344**	43,157
	346,674	346,530

At 31 December 2019, included in the Group's trade payables are amounts due to related parties of approximately HK$4,264,000 (2018:HK$2,541,000) which is repayable within 90 days, which represents credit terms similar to those offered by related parties to their major customers, details of which are set out in note 45.

At 31 December 2019, included in the Group's other payables and accrued charges is an amount due to a related party of approximately HK$65,000 (2018: HK$Nil) which is unsecured, interest-free and has no fixed terms of repayment, details of which are set out in note 45.

At 31 December 2019, included in the Group's other payables and accrued charges is an amount due to a non-controlling shareholder of approximately HK$26,226,000 (2018: HK$26,690,000) which is unsecured, interest-free and has no fixed terms of repayment.

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

	2019 HK$'000	2018 HK$'000
0 to 180 days	**28,502**	8,201

The Group normally receives credit terms of 30 days to 180 days (2018: 30 days to 180 days) from its suppliers. The following is an aged analysis of trade payables at the end of the reporting period, presented based on the invoice date:

	2019 HK$'000	2018 HK$'000
Within 3 months	**141,819**	194,568
3 to 12 months	**68,075**	23,297
1 to 2 years	**23,126**	33,586
Over 2 years	**20,707**	23,823
	253,727	275,274

32. CONTRACT LIABILITIES

	2019 HK$'000	2018 HK$'000
Maintenance services	76	77
Sales of equipment	3,525	1,958
	3,601	2,035

The contract liabilities as at 31 December 2018, amount of approximately HK$1,624,000 were recognised as revenue during the year ended 31 December 2019.

Movements in contract liabilities:

	2019 HK$'000	2018 HK$'000
At 1 January	2,035	1,674
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year (note 5)	(1,624)	(1,667)
Increase in contract liabilities as a result of billing in advance of maintenance services and manufacturing activities	3,113	2,055
Effect of foreign currency exchange differences	77	(27)
At 31 December	3,601	2,035

33. BANK BORROWINGS

	2019 HK$'000	2018 HK$'000
Secured	**110,880**	123,012
Carrying amounts repayable:		
Within one year or on demand	**110,880**	123,012

At 31 December 2019, the Group's bank borrowings denominated in RMB amounted to approximately HK$110,880,000 (equivalent to approximately RMB99,000,000) (2018: HK$123,012,000 (equivalent to approximately RMB108,000,000)). The RMB denominated bank loan carries interest from 4.35% to 5.35% (2018: 4.35% to 5.26%).

At 31 December 2019, included in the Group's bank borrowings repayable within one year or on demand were secured by corporate guarantees provided by subsidiaries and the Group within the Group of approximately HK$110,880,000 (2018: HK$123,012,000) which are all with on-demand clauses.

34. LEASE

HKFRS 16 was adopted 1 January 2019 without restatement of comparative figures. For an explanation of the transitional requirements that were applied as at 1 January 2019, see Note 2(a). The accounting policies applied subsequent to the date of initial application, 1 January 2019, as disclosed in note 3.

Nature of leasing activities (in the capacity as lessee)

The Group leases a number of properties in the jurisdictions from which it operates. In some jurisdictions it is customary for lease contracts to provide for payments to increase each year by inflation or and in others to be reset periodically to market rental rates. In some jurisdictions property leases the periodic rent is fixed over the lease term.

The values in the table below reflect the current proportions of lease payments that are fixed.

31 December 2019	**Lease contracts Number**	**Fixed payments HK$'000**
Property leases with fixed payments	**3**	**2,445**

34. LEASE *(Continued)*

Right-of-use assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	31 December 2019 HK$'000	1 January 2019 HK$'000
Other properties leased for own use, carried at depreciated cost	**5,319**	2,848
Leasehold land, carried at depreciated cost	**9,774**	10,190
	15,093	13,038

Lease liabilities

31 December 2019	**Other properties leased for own use HK$'000**
Initial adoption of HKFRS 16 at 1 January 2019	**2,848**
Additions	**4,172**
Interest expense	**177**
Lease payments	**(1,507)**
Effect of foreign currency exchange differences	**(142)**
	5,548

34. LEASE *(Continued)*

Lease liabilities *(Continued)*

Future lease payments are due as follows:

	Minimum lease payments 31 December 2019 HK$'000	**Interest 31 December 2019 HK$'000**	**Present value 31 December 2019 HK$'000**
Not later than one year	**2,618**	**173**	**2,445**
Later than one year and not later than two years	**2,388**	**77**	**2,311**
Later than two years and not later than five years	**798**	**6**	**792**
	5,804	**256**	**5,548**

	Minimum lease payments 1 January 2019 HK$'000	Interest 1 January 2019 HK$'000	Present value 1 January 2019 HK$'000
Not later than one year	1,016	125	891
Later than one year and not later than two years	1,081	77	1,004
Later than two years and not later than five years	978	25	953
	3,075	227	2,848

Note: The Group has initially applied HKFRS 16 using the cumulative effect 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. These liabilities have been aggregated with the brought forward balances relating to leases previously classified as finance leases. Comparative information as at 31 December 2018 has not been restated and relates solely to leases previously classified as finance leases. See note 2(a) for further details about transition.

34. LEASE *(Continued)*

Lease liabilities *(Continued)*

The present value of future lease payments are analysed as:

	2019 HK$'000
Current liabilities	2,445
Non-current liabilities	3,103
	5,548

	2019 HK$'000
Short term lease expense	9,755
Aggregate undiscounted commitments for short term leases	353

35. SHARE CAPITAL

	Number of shares	Amount HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2018, 31 December 2018 and 31 December 2019	10,000,000,000	1,000,000
Issued and fully paid:		
At 1 January 2018, 31 December 2018 and 31 December 2019	1,079,000,000	107,900

36. SHARE OPTION SCHEMES

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

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

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors of the Company. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5 million, within any twelve-month period, are subject to shareholders' approval in advance in a general meeting.

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

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

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

36. SHARE OPTION SCHEMES *(Continued)*

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

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

No share option had been granted during the years ended 31 December 2019 and 2018. The share options outstanding under the Scheme during the years ended 31 December 2019 and 2018 are as follows:

Name of grantee	Date of grant	Exercisable period	Exercise price	Outstanding as at 1.1.2019	Granted during the year	Exercised during the year	Expired during the year	Outstanding as at 31.12.2019
Directors								
Sze Wan Nga	16.10.2014	16.10.2017–15.10.2019	HK$2.75	100,000	–	–	(100,000)	–
Chan Kai King	16.10.2014	16.10.2017–15.10.2019	HK$2.75	100,000	–	–	(100,000)	–
Zhang Yi Fu	16.10.2014	16.10.2017–15.10.2019	HK$2.75	100,000	–	–	(100,000)	–
Yeung Sum	16.10.2014	16.10.2017–15.10.2019	HK$2.75	50,000	–	–	(50,000)	–
Tang Koon Yiu Thomas	16.10.2014	16.10.2017–15.10.2019	HK$2.75	50,000	–	–	(50,000)	–
Lau Ching Kwong	16.10.2014	16.10.2017–15.10.2019	HK$2.75	50,000	–	–	(50,000)	–
Employees								
Employees	16.10.2014	16.10.2017–15.10.2019	HK$2.75	1,530,000	–	–	(1,530,000)	–
				1,980,000	–	–	(1,980,000)	–
Exercisable at the end of the year								–

36. SHARE OPTION SCHEMES *(Continued)*

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

At 31 December 2019, the number of shares in respect of which options under the Scheme had been granted and remained outstanding was nil (2018: 1,980,000), representing nil% (2018: 0.18%) of the shares of the Company in issue at that date.

All the share option has expired during the year.

37. SHARE AWARD SCHEMES

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

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

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

37. SHARE AWARD SCHEMES *(Continued)*

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

	Number of shares '000		
	Held by the trustee yet to be awarded	Held by the trustee for the grantee	Total held by the trustee
At 1 January 2018 and 31 December 2018	**17,370**	–	**17,370**
Transfer to grantee upon vesting during the year	–	–	–
Number of the Company's shares acquired by the trustee under the Share Award Scheme	–	–	–
At 31 December 2019	**17,370**	–	**17,370**

During the years ended 31 December 2019 and 31 December 2018, no ordinary share was acquired by the trustee.

During the years ended 31 December 2019 and 31 December 2018, there was no shares awarded or vested.

No share award expense was recognised during the years ended 31 December 2019 and 31 December 2018.

38. RETIREMENT BENEFIT SCHEMES

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

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

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

The total expense recognised in profit or loss of approximately HK$11,117,000 (2018: HK$10,281,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans. As at 31 December 2019, contributions of approximately HK$606,000 (2018: HK$555,000) due in respect of the year ended 31 December 2019 had not been paid over to the plans. The amounts were paid subsequent to the end of the reporting period.

39. OPERATING LEASES

The Group as lessee

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

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

	2018 HK$'000
Within one year	2,938
In the second to fifth year inclusive	2,423
	5,361

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

40. CAPITAL COMMITMENTS

	2019 **HK$'000**	2018 HK$'000
Contracted, but not provided for in respect of the acquisition of property, plant and equipment	**11,345**	9,479
Contracted, but not provided for in respect of the acquisition of land use right	**14,636**	33,108
Contracted, but not provided for capital contributions payable to an equity investment at FVTOCI	**315**	315

41. PLEDGE OF ASSETS

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

	2019 HK$'000	2018 HK$'000
Bank deposits	**24,135**	24,432

42. CAPITAL RISK MANAGEMENT

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

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

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on the recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, issue of shares, repayment of borrowings and the raising of borrowings.

43. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2019 HK$'000	2018 HK$'000
Financial assets		
Financial assets at FVTPL		
Mandatorily measured at FVTPL		
— Structured bank deposits	**39,200**	11,417
Equity instruments at FVTOCI	**7,976**	6,955
Amortised cost (including cash and cash equivalents)	**658,986**	631,828
Financial liabilities		
Amortised cost	**446,665**	441,159

43. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies

The Group's major financial instruments include bills and trade receivables, contract assets, prepayments, deposits and other receivables, financial assets at FVTPL, equity instruments at FVTOCI, pledged bank deposits, time deposits, bank balances and cash, bills, trade and other payables, bank borrowings and lease liabilities. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. The risks associated with these financial instruments and the management policies remain unchanged from prior year.

Market risk

Currency risk

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

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

	Assets		Liabilities	
	2019 **HK$'000**	2018 HK$'000	**2019** **HK$'000**	2018 HK$'000
United States dollars ("US$")	**22,416**	25,459	**543**	–
Hong Kong dollars ("HK$")	**19,695**	13,928	**5,776**	352

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

43. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Currency risk (Continued)

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to the key management personnel and represents management's assessment of the reasonably possible changes in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. The analysis illustrates the impact for a 5% strengthening of RMB against the relevant currency. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit.

	US$ impact (i)		HK$ impact (ii)	
	2019 HK$'000	2018 HK$'000	**2019 HK$'000**	2018 HK$'000
Decrease in post-tax profit for the year as a result of a 5% strengthening of RMB against the foreign currency	**(913)**	(1,273)	**(581)**	(664)

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

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

43. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to pledged bank deposits, time deposits and bank borrowings (see notes 30 and 33 for details of these pledged bank deposits, time deposits and bank borrowings respectively). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances and variable-rate bank borrowings (see notes 30 and 33 for details of these bank balances and bank borrowings respectively). The directors of the Company monitor interest rate exposure and will consider hedging significant interest rate risk should the need arise.

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

	2019 **HK$'000**	2018 HK$'000
Other income		
Financial assets at amortised cost	**5,036**	6,828

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

	2019 **HK$'000**	2018 HK$'000
Financial liabilities at amortised cost	**6,167**	7,378

Sensitivity analysis

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

A 10 basis points (2018: 10 basis points) increase or decrease in interest rates on variable bank balances, and a 100 basis points (2018: 100 basis points) increase or decrease in interest rates on variable-rate borrowings represent the managements' assessment of the reasonably possible changes in interest rates.

43. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Interest rate risk (Continued)

Sensitivity analysis *(Continued)*

If interest rates on variable-rate bank balances had been 10 basis points (2018: 10 basis points) higher and all other variables were held constant, a positive number below indicates an increase in post-tax profit.

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Increase in post-tax profit for the year	**216**	120

The post-tax profit for the year would be decreased by the same amount as mentioned above if interest rates on variable-rate bank balances had been 10 basis points (2018: 10 basis points) lower and all other variables were held constant.

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

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Decrease in post-tax profit for the year	**285**	852

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

43. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment

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

Trade receivables arising from contracts with customers

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

Time deposits, pledged bank deposits and bank balances

There is concentration of credit risk on time deposits, pledged bank deposits and bank balances for the Group as at 31 December 2019 and 31 December 2018. As at 31 December 2019, balances with the four largest banks accounted for 52% (2018: 58%) of total time deposits, pledged bank deposits and bank balances of the Group. The credit risk on liquid funds is limited because the majority of counterparties are banks with high credit-ratings assigned by international credit-rating agencies and state-owned banks with good reputation.

43. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

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

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

43. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

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

	Notes	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amount	
					HK$'000	HK$'000
2019						
Financial assets at amortised cost						
Other receivables	28	**N/A**	**note ii**	**12-month ECL**	**36,983**	
				Lifetime ECL (not credit impaired)	**3,098**	
				Credit impaired	**20,977**	**61,058**
Trade receivables	27	**N/A**	**note iii**	**Lifetime ECL (provision matrix)**	**118,260**	
				Credit impaired	**329,004**	**447,264**
Contract assets	25	**N/A**	**note iii**	**Lifetime ECL (provision matrix)**	**191,845**	
				Credit impaired	**139,739**	**331,584**
2018						
Financial assets at amortised cost						
Other receivables	28	N/A	note ii	12-month ECL	23,667	
				Lifetime ECL (not credit impaired)	–	
				Credit impaired	4,136	27,803
Trade receivables	27	N/A	note iii	Lifetime ECL (provision matrix)	142,863	
				Credit impaired	328,322	471,185
Contract assets	25	N/A	note iii	Lifetime ECL (provision matrix)	256,547	
				Credit impaired	122,709	379,256

43. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Notes:

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

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

	Past due HK$'000	Not past due HK$'000	Total HK$'000
2019			
Other receivables	**24,075**	**36,983**	**61,058**
2018			
Other receivables	4,136	23,667	27,803

iii. For trade receivables and contract assets, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the expected credit losses on these items by using a provision matrix, grouped by internal credit rating. Except for debtors credit-impaired, the Group determines the expected credit losses on these items by using a provision matrix, grouped by internal credit rating.

43. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

As part of the Group's credit risk management, the Group applies internal credit rating for its customers. The following table provides information about the exposure to credit risk and loss allowance for trade receivables and contract assets which are assessed collectively based on provision matrix as at 31 December 2019 and 2018 within lifetime ECL (not credit impaired). As at 31 December 2019, the credit-impaired debtors with gross carrying amounts of approximately HK$468,743,000 (2018: HK$451,031,000) were assessed individually.

		2019	
Individual credit rating	**Average loss rate**	**Trade receivables HK$'000**	**Contract assets HK$'000**
Grade A	**0.24%**	**52,571**	**84,289**
Grade B	**3.66%**	**27,992**	**89,705**
Grade C	**11.13%**	**20,967**	**16,285**
Grade D	**49.69%**	**16,730**	**1,566**
		118,260	**191,845**

		2018	
Individual credit rating	Average loss rate	Trade receivables HK$'000	Contract assets HK$'000
Grade A	0.1%	5,723	113,335
Grade B	2.15%	75,083	120,560
Grade C	6.28%	7,380	5,267
Grade D	40.31%	54,677	17,385
		142,863	256,547

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

43. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

During the year ended 31 December 2019, the Group provided approximately HK$11,517,000, HK$1,750,000 and HK$6,356,000 (2018: HK$24,121,000, HK$672,000 and HK$10,042,000) impairment allowance for trade receivables, other receivables and contract assets respectively, based on the provision matrix. Impairment allowance of approximately HK$383,074,000 (2018: HK$396,076,000) were made on the credit-impaired debtors.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL (not credit-impaired) HK$'000	Lifetime ECL (credit-impaired) HK$'000	Total HK$'000
At 1 January 2019	**24,121**	**319,466**	**343,587**
Transfer to credit-impaired	**(18,542)**	**18,542**	**–**
Reversal of impairment losses recognised	**(1,337)**	**(19,371)**	**(20,708)**
Transfer from contract assets	**7,502**	**10,410**	**17,912**
Effect of foreign currency exchange differences	**(227)**	**(5,447)**	**(5,674)**
At 31 December 2019	**11,517**	**323,600**	**335,117**
At 1 January 2018	51,676	230,053	281,729
Transfer to credit-impaired	(32,585)	32,585	–
Provision for impairment losses recognised	4,385	72,360	76,745
Transfer from contract assets	2,316	390	2,706
Effect of foreign currency exchange differences	(1,671)	(15,922)	(17,593)
At 31 December 2018	24,121	319,466	343,587

Changes in the loss allowance for trade receivables are mainly due to the net effect of settlement of trade receivables with gross carrying amount of approximately HK$39,000,000 and trade receivables with gross carrying amount of approximately HK$18,542,000 defaulted and transferred to credit-impaired (2018: trade receivables with gross carrying amount of approximately HK$32,585,000 defaulted and transferred to credit-impaired).

43. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier. None of the trade receivables that have been written off is subject to enforcement activities.

The following table shows the movement in lifetime ECL that has been recognised for contract assets under the simplified approach.

	Lifetime ECL (not credit-impaired) HK$'000	Lifetime ECL (credit-impaired) HK$'000	Total HK$'000
At 1 January 2019	**10,042**	**72,474**	**82,516**
Transfer to credit-impaired	**(743)**	**743**	**–**
(Reversal of)/provision for impairment losses recognised	**4,674**	**(23,566)**	**(18,892)**
Transfer to trade receivables	**(7,502)**	**(10,410)**	**(17,912)**
Effect of foreign currency exchange differences	**(115)**	**(744)**	**(859)**
At 31 December 2019	**6,356**	**38,497**	**44,853**
At 1 January 2018	32,858	396	33,254
Transfer to credit-impaired	(37,488)	37,488	–
Provision for impairment losses recognised	17,852	37,855	55,707
Transfer to trade receivables	(2,316)	(390)	(2,706)
Effect of foreign currency exchange differences	(864)	(2,875)	(3,739)
At 31 December 2018	10,042	72,474	82,516

Changes in the loss allowance for contract assets are mainly due to the improvement of the aging of contract assets with gross carrying amount of approximately HK$124,600,000 as at 31 December 2019 (2018: contract assets with gross carrying amount of approximately HK$37,488,000 defaulted and transferred to credit-impaired).

43. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

The following tables show reconciliation of loss allowances that has been recognised for other receivables.

	12-Month ECL HK$'000	Lifetime ECL (not credit-impaired) HK$'000	Lifetime ECL (credit-impaired) HK$'000	Total HK$'000
At 1 January 2019	**672**	**–**	**4,136**	**4,808**
Transfer to credit-impaired	**(294)**	**194**	**100**	**–**
Provision for impairment losses recognised	**1,399**	**1,191**	**17,048**	**19,638**
Effect of foreign currency exchange differences	**(27)**	**–**	**(307)**	**(334)**
At 31 December 2019	**1,750**	**1,385**	**20,977**	**24,112**
As at 1 January 2018	1,502	–	–	1,502
Transfer to credit-impaired	(1,101)	–	1,101	–
Provision for impairment losses recognised	309	–	3,194	3,503
Effect of foreign currency exchange differences	(38)	–	(159)	(197)
At 31 December 2018	672	–	4,136	4,808

Changes in the loss allowance for other receivables are mainly due to the increase in lifetime ECL (credit-impaired).

43. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk

The Group's objective is to maintain a balance between the continuity of funding and the flexibility through the use of bank borrowings. In addition, banking facilities have been put in place for contingency purposes.

The following table details the remaining contractual maturity for the Group's financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average interest rate	On demand and less than 3 months	3 months to 1 year	Over 1 year	Total undiscounted cash flows	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2019						
Non-derivative financial liabilities						
Non-interest bearing	**–**	**330,642**	**2,039**	**3,104**	**335,785**	**335,785**
Floating rate instruments	**4.71%**	**33,773**	**–**	**–**	**33,773**	**33,600**
Fixed rate instruments	**5.13%**	**79,532**	**–**	**–**	**79,532**	**77,280**
		443,947	**2,039**	**3,104**	**449,090**	**446,665**
2018						
Non-derivative financial liabilities						
Non-interest bearing	–	318,147	–	–	318,147	318,147
Floating rate instruments	5.00%	102,780	–	–	102,780	100,232
Fixed rate instruments	5.00%	23,002	–	–	23,002	22,780
		443,929	–	–	443,929	441,159

At 31 December 2019, included in interest-bearing bank borrowings was a term loan in the amount of approximately HK$110,880,000 (2018: HK$123,012,000). The loan agreement contains a repayment on-demand clause giving the bank the unconditional right to call in the loan at any time. In the opinion of the directors of the Company, such term loan would not be repayable on-demand and would be repaid by instalment in accordance with the scheduled repayment dates. For the purpose of the above maturity profile, the total amount was classified as "on demand".

43. FINANCIAL INSTRUMENTS *(Continued)*

Liquidity risk *(Continued)*

The table that follows summarises the maturity analysis of bank borrowings with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. As a result, these amounts were greater than the amounts disclosed in the "on demand" time band in the maturity analysis contained in above. Taking into account the Company's financial position, the directors do not consider that it is probable that the bank will exercise its discretion to demand immediate repayment. The directors believe that such bank loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	Carrying amount HK$'000	Total undiscounted cash flows HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but Less than 5 years HK$'000
2019	**110,880**	**113,305**	**113,305**	**–**	**–**
2018	123,012	125,782	125,782	–	–

Fair value

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

- the fair value of financial assets and liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and

- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate to their fair values at the end of reporting period.

43. FINANCIAL INSTRUMENTS *(Continued)*

Fair value *(Continued)*

Fair value measurements recognised in the consolidated statement of financial position

The Group's financial instruments that are measured subsequent to initial recognition at fair value are grouped into levels 1 to 3 based on the degree to which the fair value is observable.

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

Structured bank deposits at FVTPL with carrying amount of approximately HK$39,200,000 (2018: HK$11,417,000) and equity instruments at FVTOCI with carrying amount of approximately HK$7,976,000 (2018: HK$6,955,000) were level 3 measurement at 31 December 2019. The details are as follows:

Financial assets	Fair value as at		Fair value hierarchy	Basis of fair value measurement	Basis of significant Unobservable input	Unobservable inputs to fair value
	31.12.2019	31.12.2018				
Structured bank deposits at FVTPL	**HK$39,200,000**	HK$11,417,000	Level 3	Discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership	An increase in the discount rate would result in a decrease in the fair value measurement of the financial assets at FVTPL, and vice versa.	Discount rate ranging from 2.4% to 2.9% (2018: 2.4% to 3.7%)
Equity instruments at FVTOCI	**Equity investments in PRC Manufacturing Industry HK$7,976,000**	Equity investments in PRC Manufacturing Industry HK$6,955,000	Level 3	Discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership	An increase in the discount rate would result in a decrease in the fair value measurement of the financial assets at FVTPL, and vice versa.	Discount rate ranging from 11.69% to 13.6% (2018: 11.20% to 11.69%)

44. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

For the year ended 31 December 2019:

	Bank borrowings HK$'000	Lease liabilities HK$'000	Total HK$'000
At 1 January 2019	123,012	–	123,012
Financing cash flows:			
New bank borrowing raised	112,455	–	112,455
Repayment of bank borrowings	(122,678)	–	(122,678)
Repayment of principal portion of the lease liabilities	–	(1,330)	(1,330)
Interest paid	(5,990)	(177)	(6,167)
Total changes from cash flows	(16,213)	(1,507)	(17,720)
Non-cash changes			
Addition of lease liabilities	–	7,020	7,020
Interest expense	5,990	177	6,167
Effect of foreign currency exchange differences	(1,909)	(142)	(2,051)
Total non-cash changes	4,081	7,055	11,136
At 31 December 2019	110,880	5,548	116,428

44. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES *(Continued)*

For the year ended 31 December 2018:

	Bank borrowings HK$'000	Total HK$'000
At 1 January 2018	153,754	153,754
Financing cash flows:		
New bank borrowing raised	127,883	127,883
Repayment of bank borrowings	(151,565)	(151,565)
Interest paid	(7,378)	(7,378)
Total changes from cash flows	(31,060)	(31,060)
Non-cash changes		
Interest expense	7,378	7,378
Effect of foreign currency exchange differences	(7,060)	(7,060)
Total non-cash changes	318	318
At 31 December 2018	123,012	123,012

45. RELATED PARTY DISCLOSURES

During the year, other than those disclosed elsewhere in the consolidated financial statements, the Group had the following significant transactions with its related companies:

(a) Related party transactions

Name	Sales of goods		Consulting service		Road maintenance service	
	2019 HK$'000	2018 HK$'000	**2019 HK$'000**	2018 HK$'000	**2019 HK$'000**	2018 HK$'000
Nanjin Lujie (Note (1))	**–**	423	**–**	–	**2,441**	416
Freetech Technology Limited (Note (3))	**–**	–	**2,760**	2,760	**–**	–
Tianjin Expressway Group (Note (2))	**–**	–	**–**	–	**172,936**	128,571
Subsidiaries of Tianjin Expressway Group	**–**	–	**–**	–	**10,699**	5,114
Associates of Tianjin Expressway Group	**–**	–	**–**	–	**32,831**	24,719

Notes:

(1) A joint venture of the Group.

(2) Tianjin Expressway Group is the non-controlling shareholder, holding 45% equity interests in Tianjin Expressway Maintenance (as defined in note 19), which itself is a 55% owned subsidiary of the Group.

(3) Freetech Technology Limited is the ultimate holding company of the Group.

45. RELATED PARTY DISCLOSURES *(Continued)*

(b) Details of the remuneration of directors and other members of key management during the year are set out in note 13.

(c) Details of the amounts due from related parties are as follows:

Name of related parties	2019 HK$'000	2018 HK$'000
Guizhou Freetech (Note)	**5,858**	11,146
Nanjing Lujie (Note)	**2,130**	680
Tianjin Expressway Group	**106,645**	59,090
Subsidiaries of Tianjin Expressway Group	**2,251**	3,727
Associates of Tianjin Expressway Group	**14,242**	18,690
	131,126	93,333

Details of the amounts due to related parties are as follows:

Name of related parties	2019 HK$'000	2018 HK$'000
Nanjing Lujie (Note)	**4,096**	2,370
Lianyungang Luda (Note)	**168**	171
Tianjin Expressway Group	**65**	–
	4,329	2,541

Note: A joint venture of the Group.

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Particulars of the Company's principal subsidiaries at 31 December 2019 and 2018 were as follows:

Name of subsidiary	Date, place/country of incorporation/ establishment and form of structure	Issued and fully paid share/ registered capital	Effective proportion of nominal value of issued share/ registered capital held by the Company		Principal activities
			2019	2018	
Freetech Road Recycling Engineering Limited (Note)	British Virgin Islands — limited liability company 23 November 2009	Share — US$2 (2018: US$2)	**100%**	100%	Investment holding
BS (BVI) Limited (Note)	British Virgin Islands — limited liability company 30 March 2011	Share — US$1 (2018: US$1)	**100%**	100%	Investment holding
Freetech Road Maintenance Engineering Co., Limited	Hong Kong — limited liability company 17 August 2001	Share — HK$3 (2018: HK$3)	**100%**	100%	Investment holding and sale of road maintenance equipment
BS (Int'l) Automobile Technology Co., Limited	Hong Kong — limited liability company 18 August 2004	Registered capital — HK$1,000,000 (2018: HK$1,000,000)	**100%**	100%	Investment holding and sale of road maintenance equipment
Freetech Road Recycling (as defined in note 11)	PRC — Wholly-foreign — owned enterprise 8 September 2000	Registered capital — US$135,060,000 (2018 US$135,060,000)	**100%**	100%	Provision of road maintenance services
南京奔騰養護機械有限公司 Nanjing BS Maintenance Machinery Company Limited	PRC — Wholly-foreign — owned enterprise 22 July 2009	Registered capital — US$5,050,000 (2018: US$5,050,000)	**100%**	100%	Sale of road maintenance equipment
Nanjing Freetech Vehicle Manufacturing (as defined in note 11)	PRC — Sino-foreign joint venture 21 June 2005	Registered capital — US$9,700,000 (2018: US$9,700,000)	**100%**	100%	Manufacturing and sale of road maintenance equipment
Freetech Ordos (as defined in note 19)	PRC — Limited liability company 17 June 2011	Registered capital — RMB30,000,000 (2018: RMB30,000,000)	**53%**	53%	Provision of road maintenance services
新疆英達熱再生有限公司 Xinjiang Freetech Road Recycling Co., Ltd.	PRC — Limited liability company 8 June 2012	Registered capital — RMB10,000,000 (2018: RMB10,000,000)	**100%**	100%	Provision of road maintenance services
Hunan Freetech Tongqu (as defined in note 19)	PRC — Limited liability company 11 April 2011	Registered capital — RMB35,000,000 (2018: RMB35,000,000)	**59%**	59%	Provision of road maintenance services
Suqian Hengtong (as defined in note 19)	PRC — Limited liability company 31 May 2012	Registered capital — RMB35,000,000 (2018: RMB35,000,000)	**65%**	65%	Provision of road maintenance services

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

Name of subsidiary	Date, place/country of incorporation/ establishment and form of structure	Issued and fully paid share/ registered capital	Effective proportion of nominal value of issued share/ registered capital held by the Company		Principal activities
			2019	2018	
Xinjiang Jianda (as defined in note 19)	PRC — Limited liability Company 20 December 2012	Registered capital — RMB20,000,000 (2018: RMB20,000,000)	**89%**	89%	Provision of road maintenance services
Freetech Smart Road Recycling Engineering Investment Limited	Hong Kong — limited liability company 11 August 2014	Registered capital — HK$50,000 (2018: HK$50,000)	**51%**	51%	Investment holding
Tianjin Expressway Maintenance (as defined in note 19)	PRC — Limited liability company 1 September 2009	Registered capital — RMB44,444,400 (2018: RMB44,444,400)	**55%**	55%	Provision of road maintenance services
Futech Road Recycling (as defined in note 19)	Hong Kong — limited liability company 15 May 2012	Registered capital — HK$100,000,000 (2018: HK$100,000,000)	**75%**	75%	Investment holding
Quanzhou Fuda Road Recycling Engineering Co., Ltd	PRC — Limited liability company 6 June 2012	Registered capital — HK$63,000,000 (2018: HK$63,000,000)	**75%**	75%	Provision of road maintenance services
英達生態科技發展(南京)有限公司 Freetech Ecological Technology Development (Nanjing) Co., Ltd.	PRC — Limited liability company 28 November 2016	Registered capital — RMB165,000,000 (2018: RMB165,000,000)	**100%**	100%	Property holding
英達循環科技裝備(南京)有限公司 Freetech Recycling Technology Equipment (Nanjing) Limited	PRC — Limited liability company 10 May 2016	Registered capital — USD24,000,000 (2018: USD24,000,000)	**100%**	100%	Sale of road maintenance equipment
Guangdong Suitong (as defined in note 19)	PRC — Limited liability company 16 January 2013	Registered capital — RMB25,300,000 (2018: RMB25,300,000	**94.19%**	94.19%	Provision of road maintenance services
Fuzhou Suda (as defined in note 19)	PRC — Limited liability company 14 June 2013	Registered capital — RMB25,000,000 (2017: RMB25,000,000)	**100%**	100%	Provision of road maintenance services

Note: Directly held by the Company.

None of the subsidiaries had issued any debt securities at the end of the reporting period.

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

At 31 December 2019, the Group has 41 (2018: 41) subsidiaries. The above table lists the 20 (2018: 20) subsidiaries of the Group which, in the opinion of the Company's directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Company's directors, result in particulars of excessive length. At the end of the reporting period, the Company has 21 (2018: 21) subsidiaries that are not material to the Group. These subsidiaries operate in the PRC and Hong Kong. Out of the Group's total 41 (2018: 41) subsidiaries, 31 (2018: 31) subsidiaries are wholly-owned by the Group. The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Country of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Profit/(loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		31/12/19	31/12/18	**31/12/19 HK$'000**	31/12/18 HK$'000	**31/12/19 HK$'000**	31/12/18 HK$'000
Freetech Ordos	PRC	**47%**	47%	**(17,653)**	(10,948)	**(11,705)**	5,798
Tianjin Expressway Maintenance	PRC	**45%**	45%	**14,920**	4,433	**37,367**	23,041
Individually subsidiaries with immaterial non-controlling interests						**5,533**	(2,114)
						31,195	26,725

Summarised financial information in respect of the Group's subsidiaries that have material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

Freetech Ordos

	2019 HK$'000	2018 HK$'000
Current assets	**3,328**	37,933
Non-current assets	**2,100**	6,670
Current liabilities	**30,340**	32,275
Equity attributable to owners of the Company	**(13,207)**	6,530
Non-controlling interests	**(11,705)**	5,798

	2019 HK$'000	2018 HK$'000
Revenue	**4,943**	15,005
Expenses	**42,502**	38,298
Loss attributable to owners of the Company	**(19,906)**	(12,345)
Loss attributable to non-controlling interests	**(17,653)**	(10,948)
Loss for the year	**(37,559)**	(23,293)
Other comprehensive income attributable to owners of the Company	**170**	(535)
Other comprehensive income attributable to non-controlling interests	**151**	(475)
Other comprehensive income for the year	**321**	(1,010)
Total comprehensive income attributable to owners of the Company	**(19,736)**	(12,880)
Total comprehensive income attributable to non-controlling interests	**(17,502)**	(11,423)
Total comprehensive income for the year	**(37,238)**	(24,303)

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

Freetech Ordos *(Continued)*

	2019 HK$'000	2018 HK$'000
Dividends paid to non-controlling interests	**–**	–
Net cash inflow/(outflow) from operating activities	**2,693**	(9,379)
Net cash inflow from investing activities	**2**	8,518
Net cash inflow from financing activities	**–**	–
Net cash inflow/(outflow)	**2,695**	(861)

Tianjin Expressway Maintenance

	2019 HK$'000	2018 HK$'000
Current assets	**197,141**	172,960
Non-current assets	**27,184**	24,649
Current liabilities	**141,238**	146,360
Equity attributable to owners of the Company	**45,720**	28,208
Non-controlling interests	**37,367**	23,041

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

Tianjin Expressway Maintenance *(Continued)*

	2019 **HK$'000**	2018 HK$'000
Revenue	**230,996**	217,495
Expenses	**197,841**	207,645
Profit attributable to owners of the Company	**18,235**	5,417
Profit attributable to non-controlling interests	**14,920**	4,433
Profit for the year	**33,155**	9,850
Other comprehensive income attributable to owners of the Company	**(726)**	(1,461)
Other comprehensive income attributable to non-controlling interests	**(594)**	(1,195)
Other comprehensive income for the year	**(1,320)**	(2,656)
Total comprehensive income attributable to owners of the Company	**17,509**	3,956
Total comprehensive income attributable to non-controlling interests	**14,326**	3,238
Total comprehensive income for the year	**31,835**	7,194
Dividends paid to non-controlling interests	**–**	–

	2019 **HK$'000**	2018 HK$'000
Net cash (outflow)/inflow from operating activities	**(2,814)**	1,300
Net cash outflow from investing activities	**(4,908)**	(6,017)
Net cash outflow from financing activities	**–**	–
Net cash outflow	**(7,722)**	(4,717)

47. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Financial information of the Company at the end of the reporting period includes:

	2019 HK$'000	2018 HK$'000
Non-current assets		
Property, plant and equipment	**26**	42
Investments in subsidiaries	**442,011**	454,985
	442,037	455,027
Current assets		
Prepayments, deposits and other receivables	**697**	2,887
Dividend receivable	**241,352**	241,352
Bank balances and cash	**1,613**	1,398
	243,662	245,637
Current liabilities		
Other payables and accrued charges	**2,390**	259
Amounts due to subsidiaries	**325**	331
	2,715	590
Net current assets	**240,947**	245,047
NET ASSETS	**682,984**	700,074
Capital and reserves		
Share capital	**107,900**	107,900
Reserves	**575,084**	592,174
TOTAL EQUITY	**682,984**	700,074

47. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Movement in reserves

	Share premium HK$'000	Contributed surplus HK$'000	Shares held under the share award scheme HK$'000	Share-based compensation reserve HK$'000	Retained earnings/ (accumulated losses) HK$'000	Foreign currency translation reserve HK$'000	Total HK$'000
At 1 January 2018	732,463	1,253,901	(26,584)	590	(1,173,396)	212	787,186
Loss for the year	–	–	–	–	(194,913)	–	(194,913)
Other comprehensive income for the year	–	–	–	–	–	(99)	(99)
Total comprehensive income for the year	–	–	–	–	(194,913)	(99)	(195,012)
Transfer of share-based compensation reserve upon forfeiting of share options	–	–	–	(120)	120	–	–
At 31 December 2018 and 1 January 2019	**732,463**	**1,253,901**	**(26,584)**	**470**	**(1,368,189)**	**113**	**592,174**
Loss for the year	**–**	**–**	**–**	**–**	**(17,085)**	**–**	**(17,085)**
Other comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**(5)**	**(5)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(17,085)**	**(5)**	**(17,090)**
Transfer of share-based compensation reserve upon forfeiting of share options	**–**	**–**	**–**	**(470)**	**470**	**–**	**–**
At 31 December 2019	**732,463**	**1,253,901**	**(26,584)**	**–**	**(1,384,804)**	**108**	**575,084**

Note: The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the reorganisation described under the section "History and Corporate Structure" to the Company's prospectus dated 14 June 2013, over the nominal value of the Company's shares issued in exchange therefor.

48. EVENTS AFTER THE REPORTING DATE

Since January 2020, Hong Kong and the PRC have reported certain confirmed cases of Novel Coronavirus ("COVID-19") which may affect the global business environment. Up to the date of these consolidated financial statements, COVID-19 has not resulted in any material impact to the Group. Pending on the developments and spread of COVID-19 subsequent to the date of these consolidated financial statements, further changes in economic conditions for the Group arising thereof may have impact on the financial results of the Group, the extent of which could not be estimated as at the date of these consolidated financial statements.

	Year ended 31 December				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
Turnover	**487,323**	522,433	475,528	495,598	616,641
Profit/(loss) before income tax expense	**13,611**	(131,282)	(272,247)	55,110	77,621
Income tax expense	**(4,541)**	(13,083)	(15,835)	(10,686)	(11,913)
Profit/(loss) for the year	**9,070**	(144,365)	(288,082)	44,424	65,708

	As at 31 December				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
Total assets	**1,225,812**	1,232,928	1,493,549	1,634,899	1,703,781
Total liabilities	**496,776**	503,524	514,743	444,929	462,904
Net assets	**729,036**	729,404	978,806	1,189,970	1,240,877

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