遠東環球集團有限公司

FAR EAST GLOBAL GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 00830

# EXPANDING NEW FUTURE

ANNUAL REPORT 2017

# Mission & Vision

The Group up holds its core value of "Integrity, Innovation, Practicality and Excellence", to carry out "quality guaranteed, value generated" operating objective. We take strict control on corporate governance, active participation on social responsibilities, constant pursue on further development and a win-win business with our shareholders, employees, partners and the community. The Group insists on sustainable development, forges an evergreen foundation and steps forward along the target of "a modern international corporate with dual-core traditional curtain wall business and new business" in the new era.

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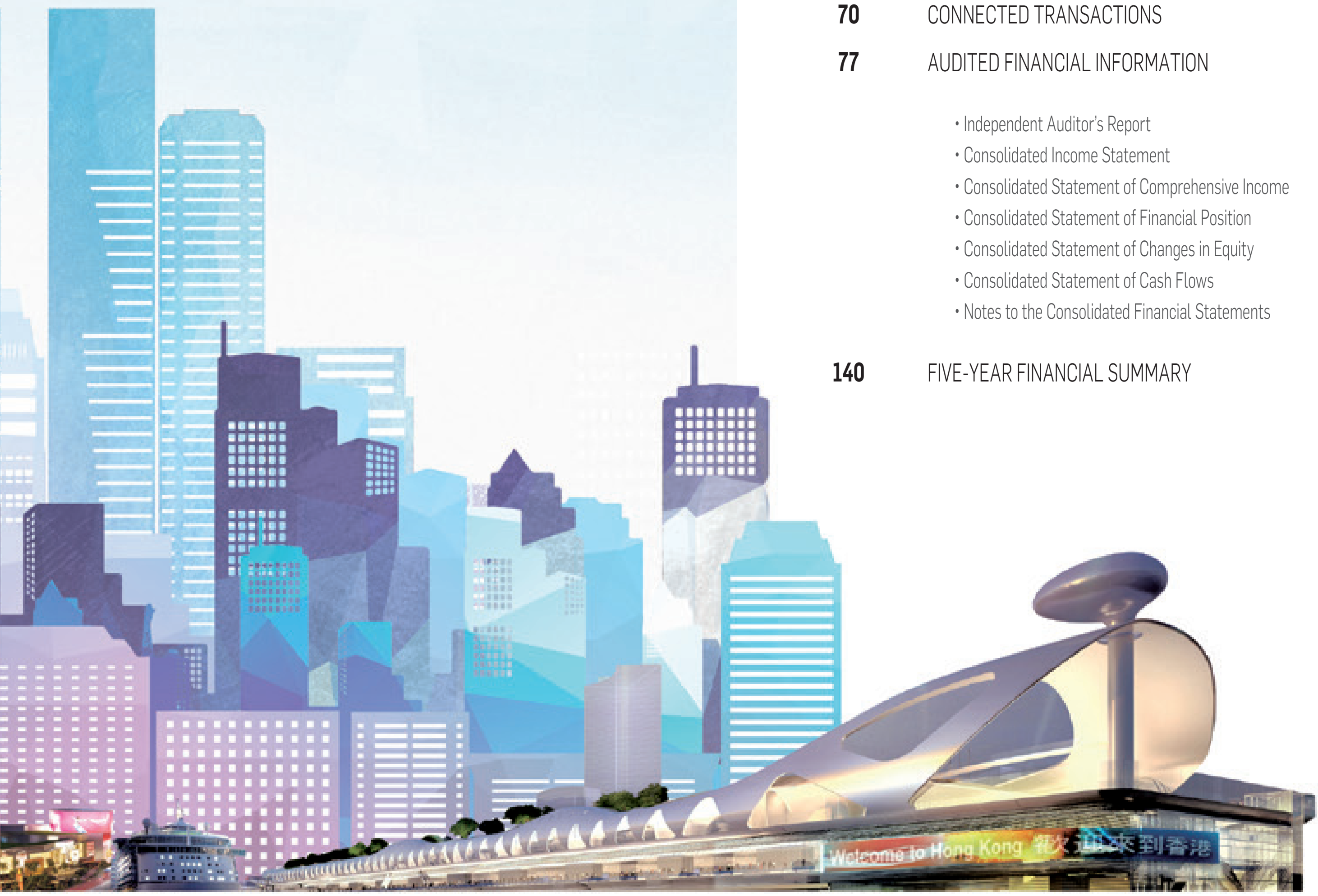
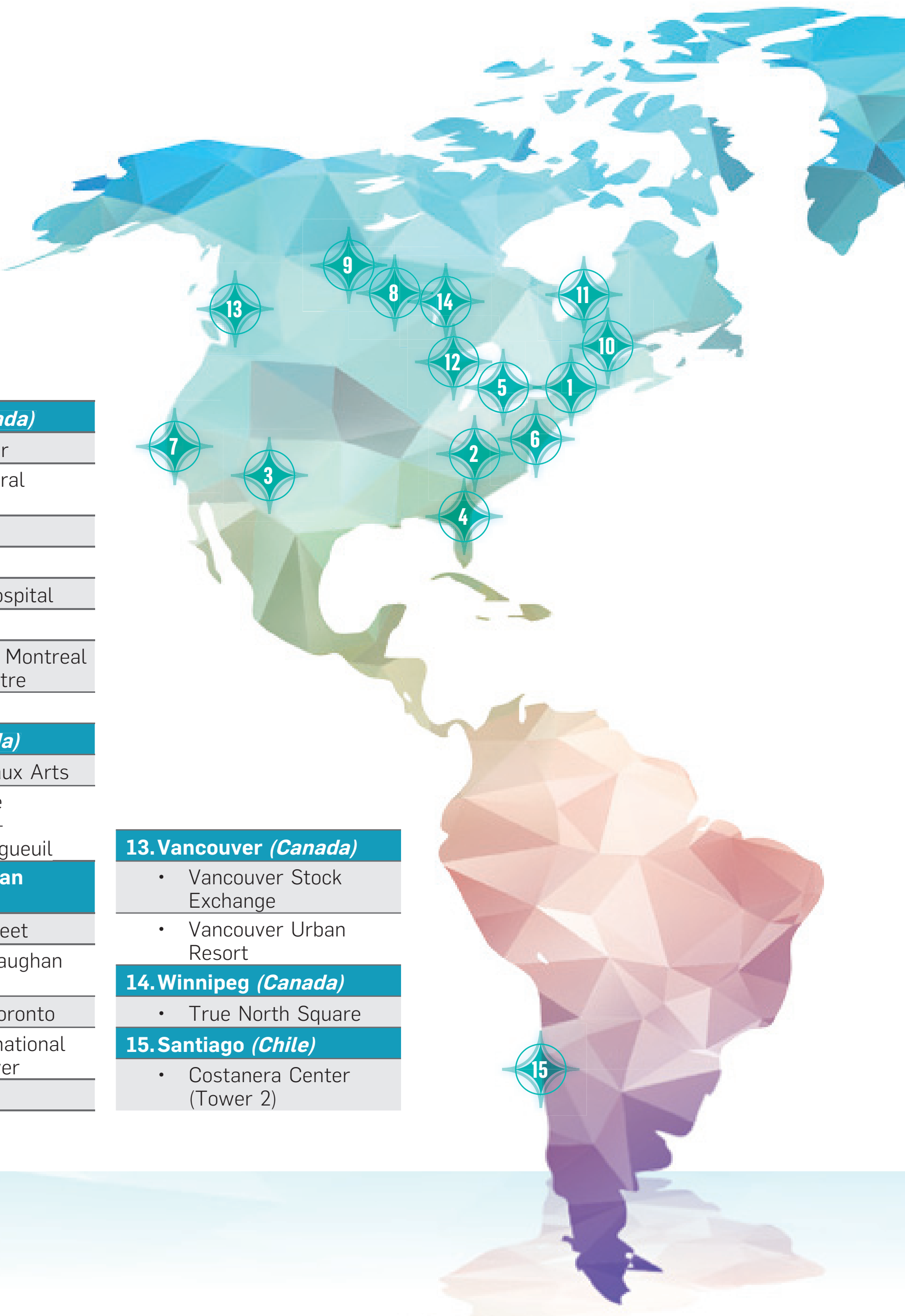


# ABOUT FAR EAST GLOBAL

# INTERNATIONAL ADVANTAGES

## With the "Belt and Road" strategic guideline

Established in 1969, Far East Global Group is one of the world's leading specialty engineering firms in providing one-stop curtain wall and building facade solution for high-end property development projects. Over the years, the Company operated multiple landmark projects in North America, Greater China, Australia as well as United Kingdom. The Company focused on the development of a global industry chain on the back of its inherent strengths as an international operation; on top of the expansion of its traditional curtain wall and general construction business, a strong emphasis will be placed on the development of new investment businesses — operating management business. Meanwhile, the Company will actively investigate innovations in its business model and strengthen the collaborative use of internal resources to drive business transformation and upgrade.




**1. Boston *(USA)***
- Millennium Tower

**2. Baltimore *(USA)***
- MGM National Harbour

**3. Las Vegas *(USA)***
- Cosmopolitan Resort Hotel & Casino
- Mandarin Oriental Hotel
- Veer Towers

**4. Miami *(USA)***
- Brickell City Center
- Miami Int'l Airport Renovation

**5. New Jersey *(USA)***
- 99 Hudson

**6. New York *(USA)***
- 605 42nd Street
- New York Police Academy
- Sanitation Garage
- United Nations HQ
- UAE Mission
- World Trade Center

**7. San Francisco *(USA)***
- Trinity Plaza – Block A

**8. Calgary *(Canada)***
- SAIT Trades & Technology Complex

**9. Edmonton *(Canada)***
- Edmonton Ice Tower A
- Symphony Tower

**10. Montreal *(Canada)***
- Altoria Tower
- Jewish General Hospital
- L'Avenue
- Roccabella
- St. Justin Hospital
- U Condos
- University of Montreal Hospital Centre
- YUL Condos

**11. Quebec *(Canada)***
- Museum Beaux Arts
- Universite de Sherbrooke – Campus Longueuil

**12. Toronto/Vaughan *(Canada)***
- 620 King Street
- Mackenzie Vaughan Hospital
- Shangri-la Toronto
- Trump International Hotel & Tower
- York Region

**13. Vancouver *(Canada)***
- Vancouver Stock Exchange
- Vancouver Urban Resort

**14. Winnipeg *(Canada)***
- True North Square

**15. Santiago *(Chile)***
- Costanera Center (Tower 2)

**1. Beijing *(China)***
- CYTS Plaza

**2. Shanghai *(China)***
- International Financial Centre
- 江森辦公樓

**3. Shenyang *(China)***
- New World Int'l Convention & Exhibition Centre

**4. Shenzhen *(China)***
- One Shenzhen Bay
- Upper Hills

**5. Tianjin *(China)***
- Chow Tai Fook Financial Centre

**6. Changsha *(China)***
- 長沙望城

**7. Hong Kong *(China)***
- CUHK Medical Centre
- Children's Hospital
- Ka Tak Cruise Terminal
- One Kai Tak
- Phase 2A, Taikoo Place
- The Emperor Hotel
- Shangri-La Hotel
- Shatin Communication and Technology Centre
- The Bloomsway

**8. Macau *(China)***
- MGM Cotai
- The 13th Hotel
- Wynn Palace Cotai

**9. Melbourne *(Australia)***
- Aurora Melbourne Central
- Prima Pearl
- Upper West Side T2
- Victoria Police Centre

**10. Perth *(Australia)***
- Elizabeth Quays

**11. London *(UK)***
- 71 Queen Victoria Street
- One The Elephant

**12. Singapore**
- Marina Bay Sands Integrated Resort

**13. Dubai *(UAE)***
- Burj Khalifa
- Darwish Tower
- Sama Tower

**14. Tokyo *(Japan)***
- Chiyoda-Ku Yonubanchou Building
- Tokyo Station Yaesu II project

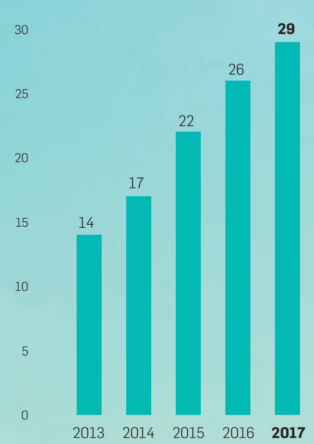
# FINANCIAL HIGHLIGHTS

The key financial and business performance indicators comprise revenue growth; profitability growth; return on equity and dividend payout. Details of the key performance indicators are stated as below.

| Year ended 31 December | 2013 HK$'000 restated | 2014 HK$'000 | 2015 HK$'000 | 2016 HK$'000 | **2017 HK$'000** |
|---|---|---|---|---|---|
| Revenue | 1,418,808 | 1,682,149 | 2,194,896 | 2,647,272 | **2,910,942** |
| Profit attributable to owners of the Company | 50,398 | 57,738 | 71,463 | 88,391 | **100,935** |
| Total assets | 2,212,854 | 1,899,368 | 2,096,935 | 2,284,652 | **2,615,927** |
| Equity attributable to owners of the Company | 1,135,860 | 1,154,864 | 1,172,579 | 929,485 | **1,017,218** |
| Return on Equity attributable to owners of the Company (%) | 4.4 | 5.0 | 6.1 | 9.5 | **9.9** |
| Basic earnings per share (HK cents) | 2.34 | 2.68 | 3.32 | 4.10 | **4.68** |
| Dividend (HK cents) | 1.0 | 1.0 | 1.2 | 1.6 | **2.0** |

## REVENUE

*HK$ hundred million*




## PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

*HK$ million*


## 2017 REVENUE BY SEGMENTS

**76**% Facade Contracting Business

**23**% General Contracting Business

**1**% Operating Management Business

# CORPORATE STRUCTURE

# MAJOR EVENTS OF THE YEAR 2017

## JANUARY

Far East Global Group "FEGG" joined The Community Chest's Walk for Millions (Hong Kong and Kowloon).

## MARCH

FEGG obtained the "Caring Company 2013/17" label.

## APRIL

Netfortuen (Shanghai) Aluminium Works Co. Ltd. was awarded the "Top 100 Decorating Construction Company 2016".



## MAY

FEGG's subsidiary in North America Gamma held the "50th Anniversary Celebration" activities.

## JUNE

As FEGG's newly developed business, our first project in Mainland China, "One Road, One Garden" in Wangcheng, Hunan is working smoothly.

## AUGUST

1) Far East Facade Manufacturing (Shenzhen) Ltd. was awarded the "National High and Updated Technology Corporate".


2) FEGG held the "Company Day" series activities.

3) FEGG has organized director CPD whereby directors completed a "Board Training Programme" conducted by The Hong Kong Institute of Directors.

## OCTOBER

1) Won the tenders at 14–18 Mosque St, Mid-level and Tuen Mun Town Lot No. 514, achieved special general contracting business which included the curtain wall business.

2) Won two tenders successively in three months: the Huawei's headquarter in Suzhou and the Hengqin project in Shunde, Zhuhai; which symbolized our business was expending in Mainland China.

3) Won the tender of Melbourne's new police building, which is another blast-resistant building besides the United Nations Headquarters.

# NOVEMBER

1) FEGG successfully held the "Far East Table Tennis Championship" in Shanghai.

2) FEGG was awarded the "Green Office" label and "Eco-Healthy Workplace" label by World Green Organisation.



3) FEGG's The 13 Hotel Project awarded "The Most LIKE Project Award 2017" by The Hong Kong Facade Association.

# DECEMBER

1) FEGG was awarded the "CarbonCare® ESG Label 2017".

2) FEGG was awarded the "18 Districts Caring Employers 2017 Award".


3) Far East Zhuhai's site construction was in the progress of completing its' steel installation and residence hall's cap in early December.

4) FEGG successfully held the "Strategic Partners Meeting 2017".


5) The Hong Kong Children's Hospital was completed, which is one of the most advanced children's hospital in Asia and the key projects of Hong Kong's 10 infrastructure.

# BOARD OF DIRECTORS AND COMMITTEES

## BOARD OF DIRECTORS

### Chairman and Non-executive Director
ZHOU Yong

### Executive Directors
ZHU Yijian
*(Vice Chairman and Chief Executive Officer)*
LUO Haichuan
WANG Hai
CHAN Sim Wang

### Non-executive Director
HUANG Jiang

### Independent Non-executive Directors
ZHOU Jinsong
HONG Winn
KWONG Sum Yee Anna

## COMMITTEES

### Audit Committee
ZHOU Jinsong, *CPA (Chairman)*
HONG Winn
KWONG Sum Yee Anna

### Remuneration Committee
ZHOU Jinsong *(Chairman)*
ZHOU Yong
ZHU Yijian
HONG Winn
KWONG Sum Yee Anna

### Nomination Committee
ZHOU Yong *(Chairman)*
ZHU Yijian
ZHOU Jinsong
HONG Winn
KWONG Sum Yee Anna

*Elizabeth Quays, Perth, Australia*

# CORPORATE INFORMATION

## AUTHORISED REPRESENTATIVES
ZHOU Yong
ZHU Yijian

## COMPANY SECRETARY
LAU Shuk Yin Connie

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
MaplesFS Limited
P.O. Box 1093
Queensgate House
Grand Cayman
KY1-1102
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

## REGISTERED OFFICE
P.O. Box 309
Ugland House
Grand Cayman
KY1-1104
Cayman Islands

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG
16th Floor, Eight Commercial Tower
8 Sun Yip Street
Chai Wan
Hong Kong

## AUDITOR
PricewaterhouseCoopers

## LEGAL ADVISOR
Mayer Brown JSM

## PRINCIPAL BANKERS
Bank of China (Hong Kong) Limited
BNP Paribas Hong Kong Branch
Bank of The West
China Construction Bank Corporation
DBS Bank (Hong Kong) Limited
Hang Seng Bank Limited
Industrial and Commercial Bank of China (Macau) Limited
The Hongkong and Shanghai Banking Corporation Limited

## STOCK CODE
00830

## CORPORATE WEBSITE
www.fareastglobal.com

## FINANCIAL CALENDAR

### Annual Results Announcement
14 March 2018

### Closure of register of members for Annual General Meeting
24-29 May 2018 (both days inclusive)

### Annual General Meeting
29 May 2018

### Closure of register of members for Final Dividend
14-15 June 2018 (both days inclusive)

### Payment of Final Dividend
6 July 2018

# MAJOR PROJECTS IN PROGRESS OVERVIEW

| Project Name | Project Type |
|---|---|
| **Facade Contracting Works** | |
| **Mainland China** | |
| Chow Tai Fook Financial Center, Tianjin | Commercial |
| UpperHills, Shenzhen | Commercial |
| 江森辦公樓, Shanghai | Commercial |
| 華為蘇州企業項目, Suzhou | Commercial |
| 信德橫琴口岸服務A03地塊開發項目, Zhuhai | Commercial |
| **Hong Kong, Macau & Others** | |
| CUHK Medical Centre, Hong Kong | Hospital |
| Hong Kong Science Park Extension Stage 1, Pak Shek Kok, Tai Po, Hong Kong | Commercial |
| KTIL 713, No. 123 Hoi Bun Road, Kwun Tong, Hong Kong | Commercial |
| Lot No.541, So Kwun Wat Road, Area 56, Tuen Mun, Hong Kong | Residential |
| Lohas Park Package 5 at TKOTL No.70, Area 86G, Tseung Kwan O, Hong Kong | Residential |
| Tai Po Town Lot No.214 at Fo Yin Road, Pak Shek Kok, Hong Kong | Residential |
| Taikoo Place Phase 2A, Hong Kong | Commercial |
| Nova City, Phase 5, Macau | Residential |
| Rua do Comandante João Belo C, Fai Chi Kei, Macau | Residential |
| Aurora Melbourne Central, Melbourne, Australia | Residential |
| Elizabeth Quays, Perth, Australia | Commercial |
| Victoria Police Centre, Melbourne, Australia | Public Building |
| **North America** | |
| 99 Hudson, Jersey City, New Jersey, USA | Residential |
| UAE Mission, New York, USA | Public Building |
| Edmonton Ice Tower A, Edmonton, Canada | Commercial |
| Mackenzie Vaughan Hospital, Vaughan, Canada | Hospital |
| Symphony Tower, Edmonton, Canada | Residential |
| True North Square, Tower 2, Winnipeg, Canada | Commercial |
| York Region, Toronto, Canada | Public Building |
| **General Contracting Works** | |
| Lot No. 70, Tsing Lung Tau, Tsuen Wan, Hong Kong | Residential |
| No. 14-18 Mosque Street, Mid-Levels, Hong Kong | Residential |
| Residential & Commercial Development at Tuen Mun Town Lot No 514, Hong Kong | Residential |
| **Operating Management** | |
| 長沙望城 | Public Facilities |

| Estimated Contract Sum HK$ million | Year of Estimated Project Completion |
|---|---|
| | |
| 126.2 | 2018 |
| 103.4 | 2018 |
| 111.9 | 2018 |
| 150.8 | 2019 |
| 198.9 | 2019 |
| | |
| 173.9 | 2018 |
| 259.9 | 2019 |
| 130.5 | 2018 |
| 272.3 | 2019 |
| 287.5 | 2018 |
| 303.5 | 2019 |
| 444.6 | 2018 |
| 150.3 | 2018 |
| 91.0 | 2019 |
| 151.3 | 2018 |
| 83.1 | 2019 |
| 124.8 | 2019 |
| | |
| 529.5 | 2019 |
| 64.7 | 2019 |
| 176.9 | 2018 |
| 141.8 | 2019 |
| 33.5 | 2019 |
| 31.8 | 2019 |
| 56.6 | 2019 |
| | |
| 533.3 | 2018 |
| 249.0 | 2019 |
| 550.0 | 2019 |
| | |
| 95.8 | 2019 |


*信德橫琴口岸服務A03地塊開發項目,*
*Mainland China*

## CHAIRMAN'S STATEMENT

# Expanding
# NEW FUTURE

# CHAIRMAN'S STATEMENT

**The Group accurately capitalised on the changes in the macroeconomic environment, timely adjusted its operational strategies, consolidated its superior internal resources, effectively implemented the strategy of "driven by both traditional and new businesses".**

**The transformation of new business in Mainland China also made significant progress.**

**Mr. ZHOU Yong**
Chairman and Non-executive Director

In 2017, Far East Global Group Limited and its subsidiaries (collectively the "Group") adapted to the changes in the international and domestic market environments, drew on internal synergy, actively implemented various business strategic plans, adhered to the implementation of its strategy of "driven by both traditional and operating management businesses", and continuously enhanced its competitive strengths in the industry. The curtain wall business, the main business of the Group, grew progressively, while the general contracting business showed a promising development trend and operating management businesses in Mainland China developed steadily and gradually.

*True North Square, Tower 2, Winnipeg, Canada*

## RESULTS

During the year ended 31 December 2017, the Group's principal activities recorded a revenue of HK$2,911 million, representing a year-on-year increase of 10%; the profit from its core business (excluding the impact of the US tax reforms) was HK$156 million, while the audited profit attributable to the owners of the Group was HK$101 million representing a year-on-year increase of 14.8%; and earnings per share were HK4.68 cents, representing a year-on-year increase of 14.1%.

## DISTRIBUTION OF DIVIDENDS

The board of directors recommends distributing a final dividend of HK1.0 cent per share for the year ended 31 December 2017. The total dividends for the year amounted to HK2.0 cents per share, representing a year-on-year increase of 25%.

*Taikoo Place Phase 2A, Hong Kong*

# BUSINESS REVIEW

## Market Conditions

In 2017, the global economy underwent a cyclical recovery. The developed economies demonstrated an accelerated pace of economic recovery; the US economy posted solid growth, and the Federal Reserve continued to hike interest rates and launched the process of balance sheet reduction, amidst the passage of tax reform initiatives; developed economies such as Europe, the UK and Japan demonstrated a stable recovery trend; the emerging economies also entered into a recovery phase; China's economic transition witnessed profound development as the national "Belt and Road" strategy and the supply-side structural reform achieved success, with the China economy showing a trend of stabilised growth and pickup.

The Group adhered to the operational strategy of "rooting in Hong Kong and Macau, relying on Mainland China, exploring overseas markets, joining internal and external forces", persisted with its prudent bidding strategy, drew on internal synergy, and proactively developed premium projects that could enjoy branding effect.

1. Facade Contracting Business

   The Group further consolidated its advantages in Hong Kong and Macau, the traditional key markets of the Group. The curtain wall business in Hong Kong maintained its stable size, benefitting from the continuous prosperity of the local construction market. The curtain wall market in Hong Kong was prosperous in general with the successive launch of major property development projects. In Macau, the economy began to bottom out and the high-end curtain wall market presented opportunities by virtue of the development planning in Hengqin. The Group is a leading high-end curtain wall total solution provider in the region. Its brand is highly recognised by its key and major clients and promising new clients, contributing to the continuous business growth in the region. In 2017, the new projects in the region that were awarded to the Group include the residential project of Lohas Park Phase V in Tseung Kwan O, Hong Kong Science Park Phase I extension project, the residential project of Tai Po Town Lot No. 214 at Fo Yin Road, Pak Shek Kok, the project of No. 123 Kwun Tong Hoi Bun Road, Kowloon, the KTIL713 commercial project, the commercial project of Tung Chung Town Lot No. 2 and Lot No. 11, the No. 14-18 Mosque Street project in Mid-Levels, and the residential project of Rua do Comandante João Belo C, Fai Chi Kei, Macau. The Group has put emphasis on managing the schedule, quality, safety, cash flow and efficiency of its projects in progress. Synergy is achieved by consolidating the internal design, procurement, production and installation resources of the Group. The Group has also been working on enhancing safety control, and implementing incentive schemes to deploy and maximise project teams' motivation.

   The construction and curtain wall markets in North America entered an upbeat growth cycle. The Group paid special attention to profitable premium projects with controllable risks that were undertaken by private developers. During the year, in North America, the Group was awarded the projects of York Region, Toronto, Canada; Symphony Tower, Edmonton, Canada; True North Square, Tower 2, Winnipeg, Canada; Mackenzie Vaughan Hospital, Toronto, Canada; and UAE Building, New York, the US. With strengthened project cost control and contract management as well as enhanced cross-field resources allocation and coordination, the level of management and control over the Group's business in North America was improving continuously, with more potential projects being under way.

In 2017, the curtain wall industry in Mainland China saw higher fragmentation and disorder adjustments became increasingly greater. The Group has been selective in choosing curtain wall projects in Mainland China and has focused on major projects owned by landlords with good reputation. In 2017, in addition to the curtain wall projects for Apple stores in which we had been enjoying advantages, the Group also explored similar high-end store projects leveraging its branding effect, and was awarded a number of projects such as the project of Changsha Apple store, the project of Huawei's R&D Centre in Suzhou, the door, window and curtain wall project of B massif of China Construction Industrial Base in Baohe District, Hefei, and the curtain wall subcontracting project for the development of Lot No. A03 of Hengqin Shun Tak Control Point Service Zone in Zhuhai.

In order to fulfil the growing capacity demand of projects in Hong Kong, Macau and overseas, the Group proactively expanded its production and manufacturing base in Mainland China. The construction work of the new Zhuhai Factory was progressing smoothly, and it was anticipated that the factory would, upon completion and going into operation, further enhance the Group's advantages in terms of magnitude of capacity.

In addition to the Greater China region and North America, the Group actively kept track of premium curtain wall projects in other overseas regions, and further bolstered the Australia market with its design and supply model. In 2017, the Group was awarded the project for the supply of unitized panels for Lot 9 & 10 Elizabeth Quay in Perth, Australia, and the project for the supply of unitized panels for Victoria Police Headquarters in Melbourne, Australia.

2. General Contracting Business

The Group actively participated in the bidding of medium and small housing projects in Hong Kong, demonstrating a positive development trend regarding its general contracting business. In 2017, the Group's newly awarded contract value for its general contracting business amounted to HK$1,206 million, representing a year-on-year increase of 126.2%. During the year, the Group was awarded the No. 14–18 Mosque Street project in Mid-Levels, Hong Kong, and the residential development project in Tuen Mun Town Lot No. 514 from Chuang's. Meanwhile, the Emperor Hotel project had been completed during the year, and the residential development project in Tsing Lung Tau from MCC Real Estate in progress was carried out smoothly.

3. Operating Management Business

In 2017, the Group continued to push ahead investment transformation and operating management business expansion in Mainland China. Following heated national policies, the Group actively explored the model of integration of industry and finance. With the current year being the year for developing the operating management business, apart from its active participation in the bidding of various projects, during the year, the Group formally launched urban planning and operation projects that had been awarded in the previous year and, in particular, the Hunan project was progressing smoothly.

## New Projects Awarded

In 2017, the Group undertook 38 projects in total with an aggregate contract value of HK$4,179 million. Among them, curtain wall projects contributed HK$2,877 million, representing 68.84% of the total contract value, building construction projects accounted for HK$1,206 million, representing 28.87% of the total, while operational services accounted for HK$96 million, representing 2.29% of the total.

*Lohas Park Package 5 at TKOTL No.70, Area 86G, Tseung Kwan O, Hong Kong*

## Projects in Progress

As at 31 December 2017, the Group's total contract value of projects in progress amounted to HK$9,829 million, among which the contract value attributable to uncompleted projects on hand amounted to HK$5,479 million.

## Corporate Governance

Adhering to the corporate governance philosophy of honesty, integrity, transparency and efficiency, the Group strictly complied with various laws and regulations and abided by the Listing Rules and regulatory requirements. The Group continuously improved its corporate governance structure and measures to gradually establish and optimise a series of policy systems, internal control system and management mechanism and processes to ensure sound corporate governance. The board of directors strives to maintain high standard commercial ethics, healthy corporate culture and excellent corporate governance, so that the Group is able to actively adjust its business strategy in response to changes of market trends, allowing each professional decision-making team to play its role and strengthening the regionalised governance capability of each business unit.

## Risk Management and Control

The Group continued to improve its internal control system to enhance risk predictions and the effects of risk management and control, and promoted the integration of internal control and business processes. In response to changes in business environments and regulatory requirements, the Group strengthened supervision over major areas and key issues to prevent operational risks and eliminate management loopholes. The Group continued to improve its management systems and optimise mechanisms and procedures to ensure healthy operations.

The Group monitored the policies in overseas markets and the trends of exchange rates constantly and focused its resources on key cities in Europe and North America with relatively optimistic economic prospects to avoid political and exchange rate risks.

## Financial Management

During 2017, the Group continued to enhance its financial management. Under the principle of stringent financial management, the Group improved the utilisation of its capital and actively expanded its finance channels. In addition, the Group focused on expediting its collection of payments due from projects, thereby improving cash flow and liquidity. As at 31 December 2017, the Group's bank deposits amounted to a total of HK$387 million. Total borrowings amounted to HK$615 million, and the net gearing ratio was 24%. The Group had sufficient credit facilities to meet the needs of its future business development due to its sound financial conditions. At the same time, the Group had committed but unutilised credit facilities and other facilities like construction performance bond facility in aggregate of HK$931 million.

### Human Resource Management

By persisting in the "people-oriented" managerial philosophy, the Group emphasises the attraction, retention, and cultivation of all levels of talents who recognise its corporate vision. The Group improves employees' satisfaction and work efficiency by creating a variety of systems that cover employees' recruitment, training, performance assessment and remuneration, and has established an open and transparent platform for staff selection and employment to provide its employees with a healthy environment for professional competition and development. During the year, the Group furthered its lecture system to enrich training and the exchange of ideas. The Group also continued to improve its KPI assessment for the purpose of establishing a comprehensive assessment system. The further implementation of the "Site Contracting Responsibility System" (《地盤目標管理責任制》), the "Design Contracting Incentives System" (《設計承包激勵制度》), the "Site-related Integrated Appraisal and Incentives Methods" (《地盤綜合獎勵評選辦法》) and the "Shenzhen Production Line Motivation System" (《深圳生產線激勵制度》) within the Group has greatly improved the enthusiasm and work efficiency of the employees.

The Company has also formulated solutions targeted to the needs of employees for regimes, procedures, benefits and training, and built a smooth communication platform to create a sound communication atmosphere and contribute ideas for the development of the Company.

As at 31 December 2017, the Group had a total of 1,758 employees.

### Social Responsibilities

The Group has been a participant in charity events such as "Walks for Millions" and "Kids' Dream" for many years. The Group is also named a "Caring Company" by virtue of its active participation in and promotion of the "Earth Hour" event, demonstrating its dedication towards the community and contribution to social harmony and stability.

## PROSPECTS

In 2018, the recovery trend of the global economy will persist, with positively stable macroeconomic prospects in general. The conditions in developed economies continue to pick up, especially given the positive economic impact from the tax reforms and stimulus policy for infrastructure in the US. As the global currency and trade policies enter a new balanced adjustment period, trade protectionism as well as

*華為蘇州企業項目, Mainland China*

the fluctuations in exchange and interest rates and bulk commodity prices will subject the emerging economies to certain risks and challenges. China's economic transition will remain on course and, continuing to benefit from a series of measures intended for growth stabilisation such as the "Belt and Road" and supply-side reform, the economy in Mainland China will progress in a stable manner.

The construction market in North America is expected to recover continuously with the launch of stimulus policy for infrastructure in the US and drive the curtain wall market to grow rapidly. Overseas curtain wall markets such as Australia and the United Kingdom show promising prospects. Hong Kong economy will remain stagnant with a stable market size overall despite stiffer competition. The economy in Macau will recover after recession and the Guangdong-Hong Kong-Macau Bay Area will also bring new opportunities to the construction industry. The imbalance between demand and supply in the curtain wall market in Mainland China manifests itself, resulting in more disordered competition.

## Business and Development Strategies

The curtain wall business is the foundation of the Group's development. The Group will continue to adopt the operational strategy of "big markets, big clients, big projects", adhere to the business philosophy of "closely focusing on high-end markets and providing high-quality services", integrate advantageous resources, improve its operational and management and control models by taking into consideration the features of various markets, optimise the business deployment in the three major markets, namely Hong Kong and Macau, North America and Mainland China. The Group will further explore other overseas markets such as Australia, the United Kingdom and Asia-Pacific region by leveraging and integrating the existing resources and capacities. The Group will continue to focus on the work schedule, quality, safety, capital and cost management of projects while improving the synergies created during design, production and installation processes. The Group will sharpen its integrated competitive edges in its curtain wall business. Efforts will be made to further improve branding and market development, strengthen management over projects on hand, consolidate the Group's core competitiveness in design, procurement, production and construction, and exercise rigorous control over the project risks while maintaining desired profitability.


*CUHK Medical Centre, Hong Kong*

The Group highly values the building of its design teams, and will strengthen its design teams in Hong Kong and North America while expanding its design teams in Mainland China, by continuously recruiting additional experts to meet the demand for professionals at project peak seasons. Meanwhile, the Group will provide stronger support to its personnel serving overseas, which includes establishing the basic policies for overseas core management team setup and the remuneration and benefits of personnel serving overseas, thereby maintaining the stability of overseas teams and enhancing the Group's cohesiveness and competitive strengths.

The Group will strengthen its system, make a plan in advance and facilitate communication for project design and construction plan evaluation. In addition, the Group will dovetail the design and production processes of projects to elevate the contract business management levels. Efforts will be increased to improve planning for the procurement of materials and for better process-oriented management to ensure successful completion of all projects.

In respect of its general contracting business, given the growing demand for housing in Hong Kong as well as developers' optimism about the prospects of the housing market, the Group will be actively engaged in the development of premium, medium and small building construction projects in Hong Kong amidst the accelerating renewal of old districts.

*Mackenzie Vaughan Hospital, Vaughan, Canada*

In respect of the operating management business field, while closely monitoring the development of national policies, the Group will improve and optimise the operation model of its operating management business. On the basis of the results attained in 2017, the Group will further explore opportunities of investment and transformation in Mainland China and strive to realise the scale operation of its operating management business as soon as possible, in order to promote the contribution of operating management businesses to the general results and achieve its strategic objective of being driven by both traditional and operating management businesses.

The board of directors is able to discern and face various problems that may arise in the course of development and wishes to, through constant exploration and efforts, establish and maintain a healthy system integrating the mutual interests of shareholders, the board of directors, management and employees as well as customers and suppliers to promote the sustainable growth of the Group's revenue and profitability.

## APPRECIATION

I would like to take this opportunity to express my heartfelt gratitude to all shareholders and customers for their strong support and to all employees for their hard work and commitment.

By Order of the Board
**FAR EAST GLOBAL GROUP LIMITED**
**Zhou Yong**
*Chairman and Non-executive Director*

Hong Kong, 14 March 2018

# A New Voyage,
# FAR EAST GLOBAL SAILS TO A NEW DIRECTION

# MANAGEMENT DISCUSSION AND ANALYSIS

## OVERALL PERFORMANCE

During the year ended 31 December 2017, the Group delivered solid results with both revenue and profit improvement guided by its three core business strategy. The consolidated revenue of the Group amounted to HK$2,911 million for the year ended 31 December 2017 (2016: HK$2,647 million), representing an increase of 10% as compared to last year. Excluding the impact of the one-off reduction of the deferred tax assets amounting HK$55 million as a results of the recently enacted US tax reform legislation, the Tax Cuts and Jobs Act, the profit from the core business was HK$156 million (2016:HK$88 million), increased by 75.9%. Profit attributable to owners of the Company increased by 14.8% to HK$101 million for the year ended 31 December 2017. (2016: HK$88 million). The basic earnings per share was HK4.68 cents (2016: HK4.10 cents), representing the growth of 14.1% over last year. The Board of Directors recommends the payment of a final dividend of HK1.0 cent per share and together with the interim dividend of HK1.0 cent per share paid in the year, the total dividends for the year amounted to HK2.0 cents per share, representing 42.7% payout of the distributable profit for the year.

### Segment Analysis

#### Facade Contracting Business

Benefiting from the buoyant construction industry in Hong Kong and Australia in recent years, the segment's revenue recorded an increase to HK$2,210 million for the year ended 31 December 2017 (2016: HK$2,190 million). The segment profit increased by HK$164 million from HK$37 million for the year ended 31 December 2016 to HK$201 million for the year ended 31 December 2017. It resulted from the strong performance of the Hong Kong and Macau region and North America region achieved an improvement of operating results during the year.

#### General Contracting and Other Business

The segment recorded a steady growth in the revenue during the year due to the sustainable development of the construction industry in Hong Kong. The segment delivered a satisfactory growth of revenue to HK$660 million for the year ended 31 December 2017 (2016: HK$457 million). The segment profit decreased to HK$40 million for the year ended 31 December 2017 (2016: HK$50 million). It is due to the fact that the certain project substantially completed in 2016 has made less contribution and a newly awarded project of 2017 still at the preliminary stage of construction has not yet recognized profit during the year.

#### Operating Management Business

During the year, the Group succeeded entering into an urban planning and consultancy project in the Mainland China with revenue contribution of HK$41 million and segment profit of HK$22 million.

#### Administrative expenses

With the expansion of three core business, administrative expenses increased by 13% to HK$182 million (2016: HK$161 million).

#### Finance costs

For the year ended 31 December 2017, the Group's finance costs increased to HK$17 million (2016: HK$15 million) as a result of the increase in bank borrowings.

Tai Po Town Lot No.214 at Fo Yin Road, Pak Shek Kok, Hong Kong

York Region, Toronto, Canada

New contracts awarded

The Group recorded a new contract value of HK$4,179 million for the year ended 31 December 2017, representing a growth of 33.1% as compared to last year. Major new contracts include the following:

*Facade Project*

- CUHK Medical Centre, Hong Kong
- Hong Kong Science Park Extension Stage 1, Pak Shek Kok, Tai Po, Hong Kong
- KTIL 713, No. 123 Hoi Bun Road, Kwun Tong, Hong Kong
- Lot No. 541, So Kwun Wat Road, Area 56, Tuen Mun, Hong Kong
- Lohas Park Package 5 at TKOTL No. 70, Area 86G, Tseung Kwan O, Hong Kong
- Tai Po Town Lot No. 214 at Fo Yin Road, Pak Shek Kok, Hong Kong
- Tung Chung Town Lot No. 2 and Lot No. 11, Hong Kong
- Rua do Comandante João Belo C, Fai Chi Kei, Macau
- 華為蘇州企業項目, Mainland China
- 信德橫琴口岸服務A03地塊開發項目, Mainland China
- Elizabeth Quays, Perth, Australia
- Victoria Police Centre, Melbourne, Australia
- Mackenzie Vaughan Hospital, Vaughan, Canada
- Symphony Tower, Edmonton, Canada
- True North Square, Tower 2, Winnipeg, Canada
- York Region, Toronto, Canada

*General Contracting Project*

- No. 14–18 Mosque Street, Mid-Levels, Hong Kong
- Residential & Commercial Development at Tuen Mun Town Lot No. 514, Hong Kong

*Operating Management Project*

- 長沙望城

*KTIL 713, No. 123 Hoi Bun Road, Kwun Tong, Hong Kong*

As of 31 December 2017, the on-hand contract value amounted to HK$9,829 million, among which the backlog was HK$5,479 million which meets the Group's expected future works.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operation with internally generated cash flow and credit facilities provided by its principal bankers. At 31 December 2017, the Group had bank balances and cash of HK$387 million (31 December 2016: HK$387 million), total borrowings of the Group were HK$615 million (31 December 2016: HK$523 million). The Group's net gearing ratio (net debt to total net assets) as at 31 December 2017 was approximately 24.0% (31 December 2016: 15.7%). Furthermore, the Group had unutilised banking facilities (including performance guarantee facilities, working capital facilities and loan facilities) of approximately HK$931 million, the Group had sufficient financial resources to meet the business development and expansion. The Group's borrowings are principally on a floating rate basis and have not been hedged by any interest rate financial instruments.

The maturities of the Group's total borrowings as at 31 December 2017 and 31 December 2016 are set out as follows:

| | 31 December 2017<br>HK$'000 | 31 December 2016<br>HK$'000 |
|---|---|---|
| On demand or within one year | **401,693** | 322,843 |
| More than one year but not exceeding two years | **200,472** | — |
| More than two years but not more than five years | **1,542** | 200,000 |
| More than five years | **11,171** | — |
| Total borrowings | **614,878** | 522,843 |

The portfolio of the currencies of bank deposits of the Group as at 31 December 2017 and 31 December 2016 is set out as follows:

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| | % | % |
| Hong Kong Dollars | **33** | 58 |
| United States Dollars | **5** | 18 |
| Renminbi | **33** | 14 |
| Macau Pataca | **12** | 5 |
| Others | **17** | 5 |

As at 31 December 2017, the Group's equity attributable to owners of the Company amounted to HK$1,017 million (31 December 2016: HK$929 million), comprising issued capital of HK$22 million (31 December 2016: HK$22 million) and reserves of HK$995 million (31 December 2016: HK$907 million).

## TREASURY POLICY

The Group adopts a conservative treasury policy in cash and financial management. The Group's treasury activities are centralised in order to achieve better risk control and minimise cost of funds. Cash is generally placed in short-term deposits mostly denominated in Hong Kong dollar or Renminbi. The Group's liquidity and financing requirements are frequently reviewed. In anticipating new investments or maturity of bank loans, the Group will consider new financing while maintaining an appropriate level of gearing.

## EMPLOYEES AND REMUNERATION POLICY

At 31 December 2017, the Group employed a total of 1,758 (31 December 2016: 1,585) employees. The Group has sound policies of management incentives and competitive remuneration, which align the interests of management, employees and shareholders' alike. The Group sets its remuneration policy by reference to the prevailing market conditions and the performance of the individuals concerned, subject to review from time to time. The components of the remuneration package consist of base salary, allowances, fringe benefits including medical insurance and contributions to pension funds as well as incentives such as discretionary bonus and participation in the share option scheme.

*Chow Tai Fook Financial Center, Tianjin*

# DIRECTORS AND ORGANISATION

## BOARD OF DIRECTORS

**Mr. ZHOU Yong**
Chairman and Non-executive Director
Chairman of the Nomination Committee
Member of the Remuneration Committee

Aged 47, was appointed as Chairman of the Board and a Non-executive Director on 2 March 2012. Mr. Zhou graduated from Changsha Academy of Military Engineering and University of South Australia. He is Fellow of The Chartered Institute of Building (UK) and The Institution of Civil Engineers (UK). Mr. Zhou joined 中國建築集團有限公司 (formerly known as China State Construction Engineering Corporation, "中建集團") in 1994 and was seconded to China State Construction International Holdings Limited ("CSCIHL", a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange")) in 1996. He has been a director of certain subsidiaries of CSCIHL since 2001. Currently, Mr. Zhou is an executive director, chairman and chief executive officer of CSCIHL and a director of China Overseas Holdings Limited ("COHL"). 中建集團, COHL and CSCIHL are all controlling shareholders of the Company. He was awarded the "Director of the Year Award — Executive Director of Listed Companies (SEHK — Non Hang Seng Index Constituents)" by The Hong Kong Institute of Directors in 2009. Mr. Zhou was appointed as a member of the 13th National Committee of the Chinese People's Political Consultative Conference in January 2018. He has more than 25 years of experience in construction, project and corporate management in Mainland China and Hong Kong, in particular, specialising in investment and new business start-up development, formulating and executing business strategies for companies.

**Mr. ZHU Yijian**
Vice Chairman, Executive Director and Chief Executive Officer
Member of the Nomination Committee
Member of the Remuneration Committee

Aged 51, was appointed as Vice Chairman of the Board and an Executive Director on 16 July 2014 and as Chief Executive Officer on 21 September 2015. Mr. Zhu is also a director of the Company's subsidiaries. He graduated from the Xi'an University of Architecture and Technology and Hong Kong Open University, holder of master degree, senior economist. Mr. Zhu joined 中建集團 in 1988 and was seconded to COHL in 1994. He was deputy general manager of CSCIHL from February 2002 to December 2004, and general manager of Human Resources Department of COHL from April 2003 to July 2012. Mr. Zhu has been assistant general manager of COHL since 2005. He was an executive director of China Overseas Land & Investment Ltd. (a company listed on the Main Board of the Stock Exchange) between March 2007 and August 2009 and vice president of COHL Investment Developing Holdings Limited between July 2012 and June 2014. Mr. Zhu has extensive experience in human resources management of modern enterprises having worked in human resources management, project investment and corporate management and control for nearly 30 years.

**Mr. LUO Haichuan**
Executive Director, Senior Vice President

Aged 38, was appointed as an Executive Director on 21 September 2015. Mr. Luo is Senior Vice President of the Group, responsible for new business development and human resources functions. He is also a director of the Company's subsidiaries. Mr. Luo graduated from the Harbin Institute of Technology and obtained a Master's degree in Business Administration from Hong Kong Baptist University. He joined COHL in 2003 and has been a director of certain subsidiaries of CSCIHL since 2011. Mr. Luo was appointed assistant general manager of CSCIHL in August 2014 overseeing the CSCIHL group's business development in Mainland China. He has over 15 years of experience in investment and financing, research and human resources management.

**Mr. WANG Hai**
Executive Director, Senior Vice President

Aged 45, was appointed as an Executive Director on 15 August 2012. Mr. Wang is Senior Vice President of the Group, responsible for the Group's operations in the North America region. He is also a director of the Company's subsidiaries. Mr. Wang joined the Group in March 2012 and held various senior management positions including Chief Executive Officer and Associate Chief Executive Officer of the Company. He ceased to be Associate Chief Executive Officer on 21 September 2015 when he was reallocated to North America taking charge of North America business. Mr. Wang graduated from Tianjin University and Greenwich University and is a member of the Royal Institution of Chartered Surveyors. He joined 中建集團 in 1994 and started getting involved in the operation of certain subsidiaries of CSCIHL since 2003. Mr. Wang is a director of certain subsidiaries of CSCIHL. He has over 24 years of experience in international corporation management in the industry of building and infrastructure investment in North America, Hong Kong and Mainland China.

Aged 49, was appointed as an Executive Director and Chief Financial Officer on 2 March 2012. Mr. Chan is also a director of the Company's subsidiaries. He graduated from Hong Kong Baptist University (formerly known as Hong Kong Baptist College). Mr. Chan is a member of the Hong Kong Institute of Certified Public Accountants, Fellow of the Association of Chartered Certified Accountants and a practicing member of the Hong Kong Institute of Certified Public Accountants. He joined the CSCIHL Group in 1997 and is a director of certain subsidiaries of CSCIHL. Prior to joining the Company, Mr. Chan was deputy general manager of Finance and Treasury Department of CSCIHL. He has over 25 years of experience in finance, accounting and auditing. Mr. Chan has experience in supervising the accounts and finance departments of various subsidiaries of CSCIHL in Mainland China and overseas.

**Mr. CHAN Sim Wang**

Executive Director and Chief Financial Officer

Aged 43, was appointed as a Non-executive Director on 16 March 2017. Mr. Huang graduated from Chongqing Jianzhu University and holds a Master's degree in Project Management from Hong Kong Polytechnic University and an Executive Master's degree in Business Administration from Nankai University. He joined 中建集團 in 1997 and was seconded to CSCIHL in 2000. Mr. Huang has been a director of certain subsidiaries of CSCIHL since 2007. Currently, he is an Assistant General Manager of CSCIHL. Mr. Huang has over 21 years of experience in contract and project management.

**Mr. HUANG Jiang**

Non-executive Director

## Mr. ZHOU Jinsong

Independent Non-executive Director
Chairman of the Audit Committee
Member of the Nomination Committee
Chairman of the Remuneration Committee

Aged 47, was appointed as a Director on 8 March 2010 and was subsequently designated as an Independent Non- executive Director on 10 March 2010. Mr. Zhou graduated from Guangdong Radio and TV University in 1992 and obtained a Master of Business Administration degree from Harbin Institute of Technology in 2003. He is a Certified Public Accountant licensed in the People's Republic of China ("PRC"). Mr. Zhou has extensive experience in accounting, audit and business advisory in various audit firms and private companies in the PRC. He was an accountant supervisor in the fund management office of the Shenzhen Cultural Development Department (深圳市宣傳文化事業發展專項基金領導小組辦公室) from 1995 to 2002. Mr. Zhou is currently the president of Weiya, an accounting firm in Shenzhen.

## Mr. HONG Winn

Independent Non-executive Director
Member of the Audit Committee
Member of the Nomination Committee
Member of the Remuneration Committee

Aged 48, was appointed as a Director on 8 March 2010 and was subsequently designated as an Independent Non-executive Director on 10 March 2010. Mr. Hong obtained a Bachelor of Science degree in Aerospace Engineering and a Master of Science degree in Mechanical Engineering from the University of California, Los Angeles in 1993 and 1996, respectively. He graduated from the University of Chicago with a Master of Business Administration degree in 2005. Mr. Hong is a Senior Director for Technology and Business Development for the Alfred E. Mann Institute for Biomedical Engineering at the University of South California (AMI-USC) focusing on biotechnology, medical device, and medical and health care technologies. He has over 18 years of experience in high-tech product development and high-tech start-up success and leadership.

## Ms. KWONG Sum Yee Anna

Independent Non-executive Director
Member of the Audit Committee
Member of the Nomination Committee
Member of the Remuneration Committee

Aged 68, was appointed as an Independent Non-executive Director on 1 July 2013. Ms. Kwong is managing director of Anna Kwong Architects & Associates. She holds a Bachelor of Arts degree (Honours) in Architectural Studies and a Bachelor of Architecture degree from the University of Hong Kong. Ms. Kwong is a Registered Architect in Hong Kong and an Authorised Person (List of Architects) of Hong Kong. She possesses Class 1 Registered Architect Qualification of the PRC. Ms. Kwong is a past president and fellow of the Hong Kong Institute of Architects, an ex-member of the Hong Kong Architects Registration Board and a member of the Hong Kong Institute of Directors. She has over 40 years of professional experience in the architectural field.

## SENIOR MANAGEMENT

### Mr. HO Wai Man, Raymond
Senior Vice President

Aged 56, joined the Group in April 2012 and is responsible for the general management of the Group's general contracting business. Mr. Ho received his Bachelor of Science degree in Civil Engineering from the National Cheng Kung University, Taiwan in 1984 and a Master of Science degree in Civil Engineering from the Queen's University of Belfast, United Kingdom in 1986. He is a member of Hong Kong Institute of Construction Managers. Mr. Ho joined the CSCIHL Group in 1994 and has over 32 years of experience in engineering, construction, contract administration, project management, tendering and business development in Hong Kong and overseas.

### Mr. SUN Xinggen
Vice President

Aged 61, joined the Group in July 2013 and is responsible for the Group's operations in the Asia Pacific region excluding Mainland China, and in the United Kingdom. Mr. Sun joined the CSCIHL Group in 1994 and has over 34 years of experience in construction engineering and commercial contract management in Hong Kong, Macau and Mainland China as well as several years of experience in managing infrastructure investment.

### Mr. TAN Yong
Deputy Chief Financial Officer

Aged 42, joined the Group in September 2016 and is responsible for the treasury function of the Group and in charge of the Finance Department of certain subsidiaries in Mainland China. Mr. Tan graduated from Huazhong University of Science and Technology and Zhongnan University of Economics and Law, and holds a Master's degree in Accountancy. He is a member of Chartered Institute of Management Accountants of the United Kingdom and Chartered Global Management Accountant. Mr. Tan joined COHL in 2000 and has over 16 years of experience in finance, accounting, taxation and funds management in property development, construction and infrastructure investment businesses.

### Mr. HONG Jianping

General Manager, Far East Facade Manufacturing (Shenzhen) Company Limited

Aged 52, joined the Group in September 2014 and is responsible for the general management of Far East Facade Manufacturing (Shenzhen) Company Limited. Mr. Hong graduated from Xi'an Institute of Metallurgical Construction with a Bachelor of Engineering degree and from Nankai University with a Master of Business Administration degree. He joined the COHL Group in 1998 and the CSCIHL Group in 2008. Mr. Hong has over 28 years of experience in investment, mergers and acquisitions, and plant management.

### Mr. ZHAO Shukai

President, Netfortune (Shanghai) Aluminium Works Co., Ltd.

Aged 38, joined the Group in April 2012 and is the President of Netfortune (Shanghai) Aluminium Works Co., Ltd. Mr. Zhao graduated from Tongji University with a Bachelor's Degree and a Master's Degree in Engineering. He joined the CSCIHL Group in 2006 and has over 12 years of experience in contract, tendering and procurement, and project management.

### Mr. LI Xuguang

General Manager, Netfortune (Shanghai) Aluminium Works Co., Ltd.

Aged 52, joined the Group in 2008 and is responsible for the general management of Netfortune (Shanghai) Aluminium Works Co., Ltd. Mr. Li received his Bachelor of Engineering degree from Wuhan Polytechnic University in 1987. He has over 30 years of experience in engineering and project management.

### Mr. CHEN Guo

Executive Vice President, Gamma USA, Inc.

Aged 50, joined the Group in July 2017 and is responsible for the general management of Gamma USA, Inc. Mr. Chen graduated from Chongqing Jianzhu University with a Bachelor of Engineering degree and obtained a Master of Project Management degree from University of Bath. He joined the CSCIHL Group in 1996. Mr. Chen has extensive experience in overseas project management, contract coordination and market development having worked in general contracting management in Hong Kong and Macau for over 21 years.

### Mr. LAU Sai Ying, Alan

Marketing Director, Far East Aluminium Works Company Limited

Aged 57, joined the Group in 1997 and is responsible for the marketing function of the Group except for the North America region and Mainland China. Mr. Lau received his Bachelor of Science degree in Civil Engineering from the University of Manitoba, Canada in 1981. He is a member of Hong Kong Institution of Engineers, a registered professional engineer in Hong Kong and professional engineer for the Province of Ontario, Canada. Mr. Lau has over 28 years of construction, engineering and facade system project management and marketing experience in Canada and Hong Kong.

### Mr. CHAN Sun Nung

Technical Director, Far East Aluminium Works Company Limited

Aged 58, joined the Group in 2003 and is responsible for the facade design function of the Group except for the North America region. Mr. Chan received his Master's degree in Construction Engineering and Management from Griffith University, Australia in 2006 and has been a council member of Hong Kong Facade Association since 2005. He has over 37 years of experience in curtain wall design.

### Mr. MOK Wai Him

Project Director, Far East Aluminium Works Company Limited

Aged 57, joined the Group in 1996 and is responsible for the project management of the Group's projects in the Asia Pacific region excluding Mainland China. Mr. Mok received his Bachelor of Science degree in Applied Physics from the University of Essex, United Kingdom in 1983 and a Master's degree in Instrumentation and Analytical Science from the University of Manchester Institute of Science and Technology, United Kingdom in 1986. He is a member of the Institute of Measurement and Control in the United Kingdom and an associate member of the Chartered Institution of Building Services Engineers. Mr. Mok has over 29 years of experience in project management.

# CORPORATE GOVERNANCE REPORT

## GOVERNANCE FRAMEWORK

The Company is committed to building and maintaining high standards of corporate governance to promote corporate accountability, transparency and integrity. The Board recognises that good corporate practices are fundamental to the smooth and effective operation of the Group and protection of the interests of shareholders and other stakeholders.

The Company has applied the principles, and complied with all code provisions of the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2017.

## THE BOARD

The Board is responsible for promoting the overall success of the Company and delivering long-term value to shareholders. The Board has delegated the management and day-to-day running of the Group to the Company management and certain matters to the Board committees, which are described more fully in the "Board Committees" section of this report. The Board reserved for its consideration and decision certain other matters which include:

- determining the Group's strategic direction;

- approving financial reporting including the annual, half-year and quarterly results;

- approving interim, and recommending final, dividends;

- approving major acquisitions, disposals and capital expenditure, and certain material contracts;

- approving Board appointments;

- approving broad policies and systems of internal control and risk management (supported by the Audit Committee); and

- approving the Group's corporate governance and compliance arrangements.

As at 31 December 2017, the Board comprised nine Directors — four Executive Directors, two Non-executive Directors and three Independent Non-executive Directors. The Directors have a broad range of expertise and experience, which we believe, contributes significantly to the effectiveness of the Board. The names of the Directors in office as at 31 December 2017 are set out in the "Board of Directors and Committees" section of this Annual Report and their biographical details are set out on pages 31 to 34.

The Company has received from each of the Independent Non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and continues to consider each of them to be independent.

The roles of Chairman and Chief Executive Officer are performed by separate individuals in accordance with the CG Code. There is a clear division of responsibilities between the Chairman and Chief Executive Officer to ensure a balance of power and authority so that no one individual should have unfettered powers of decision. The Chairman of the Board, Mr. Zhou Yong, is responsible for providing effective leadership of the Board and ensuring that Directors receive relevant and timely information and that all key and appropriate issues are discussed in a timely manner. The Chairman is also responsible for promoting open discussion and constructive debates in the boardroom and ensuring that good corporate practices and procedures are established. The Chief Executive Officer, Mr. Zhu Yijian, is responsible for managing the business of the Group, formulating and executing the Group's strategic plan and policies and keeping the Board informed of all relevant matters.

Board meetings shall be held at least once every quarter. Additional meetings of the Board or the Board committee established by it to consider specific matters, can be convened, when necessary. During the year, the Board held four regular meetings. Notice of at least 14 days is given to Directors of regular Board meetings and all Directors are given the opportunity to include matters in the agenda for discussion. The Board is supplied with an agenda and supporting documentation at least three days prior to the regular Board and committee meetings. The Board receives briefing from the chairmen of the Audit, Nomination and Remuneration Committees following meetings of these Committees.

The attendance of Directors at general meetings, meetings of the Board and Board committees of which they were members during the year is set out in the table below.

| | Meetings attended/eligible to attend | | | | |
|---|---|---|---|---|---|
| | Board | Audit Committee | Remuneration Committee | Nomination Committee | General Meetings |
| **Chairman and Non-executive Director** | | | | | |
| Zhou Yong | 4/4 | — | 1/1 | 1/1 | 2/2 |
| **Executive Directors** | | | | | |
| Zhu Yijian | 4/4 | — | 1/1 | 1/1 | 2/2 |
| Luo Haichuan | 4/4 | — | — | — | 2/2 |
| Wang Hai | 4/4 | — | — | — | 2/2 |
| Chan Sim Wang | 4/4 | — | — | — | 2/2 |
| Qin Jidong (Note 1) | 0/1 | — | — | — | — |
| **Non-executive Director** | | | | | |
| Huang Jiang (Note 2) | 3/3 | — | — | — | 2/2 |
| **Independent Non-executive Directors** | | | | | |
| Zhou Jinsong | 4/4 | 4/4 | 1/1 | 1/1 | 2/2 |
| Hong Winn | 4/4 | 4/4 | 1/1 | 1/1 | 2/2 |
| Kwong Sum Yee Anna | 4/4 | 4/4 | 1/1 | 1/1 | 2/2 |

Notes:

1. Mr. Qin resigned as Executive Director with effect from 16 March 2017.

2. Mr. Huang joined the Board on 16 March 2017.

Each Director is fully aware of his duties and responsibilities as a Director of the Company and the requirement to give sufficient time and attention to the affairs of the Company. The Non-executive Directors provide a strong, independent element on the Board and collectively bring independent and objective judgement to bear on Board decisions through regular attendance and active participation in the meetings of the Board and the Board committees on which they serve.

Directors have access to relevant and timely information, and they can ask for further information if necessary. They also have access to the advice and services of the Company Secretary and, if required, can seek independent professional advice at the Company's expense. There is an agreed procedure to enable them to do so which is managed by the Company Secretary. Directors are given sufficient time for discussion at the Board meetings. Where queries are raised by Directors, prompt and full responses will be given if possible.

If a conflict of interest involving a substantial shareholder or a Director arises, the matter will be discussed at a physical meeting, as opposed to being dealt with by written resolution. Independent Non-executive Directors with no material interest in the proposed matter or transaction will be present at the meeting to deal with the conflict.

The Company has in place appropriate directors and officers insurance cover in respect of legal action against Directors. The coverage and sum insured under the directors and officers issuance policy are reviewed annually.

All Non-executive Directors are appointed under letters of appointment for specific terms. Directors appointed by the Board shall hold office until the first general meeting following their appointments in the case to fill a casual vacancy or until the next following annual general meeting in the case as an addition to the Board. Such Directors shall then be eligible for re-election. In addition, all Directors are subject to retirement by rotation at least once every three years in accordance with the Articles of Association of the Company. A retiring Director is eligible for re-election and re-election of retiring Directors at general meetings is dealt with by separate resolutions.

All newly-appointed Directors are briefed on the duties and responsibilities they owe as directors to the Company as well as on the relevant Company policies and key governance issues following their appointments. Directors are encouraged to attend internal and external briefings and courses on aspects of their respective committee specialisms. Training and regular updates on relevant legal, regulatory and corporate governance matters are provided to Directors as appropriate.

All Directors are required to provide training records to the Company on a regular basis and such records are maintained by the Company Secretary.

During the year, the participation of individual Directors in the continuing professional development activities is set out as below:

| | Attending seminars, conferences, courses or briefings, or giving talks | Reading relevant materials |
|---|---|---|
| **Chairman and Non-executive Director** | | |
| Zhou Yong | √ | √ |
| **Executive Directors** | | |
| Zhu Yijian | √ | √ |
| Luo Haichuan | √ | √ |
| Wang Hai | √ | √ |
| Chan Sim Wang | √ | √ |
| **Non-executive Director** | | |
| Huang Jiang | √ | √ |
| **Independent Non-executive Directors** | | |
| Zhou Jinsong | √ | √ |
| Hong Winn | √ | √ |
| Kwong Sum Yee Anna | √ | √ |

## BOARD COMMITTEES

The Board currently has three committees, namely, the Audit Committee, Nomination Committee and Remuneration Committee and each of which has specific written terms of reference approved by the Board. The terms of reference of the Audit Committee, Nomination Committee and Remuneration Committee are available on the Company's website or, on request, from the Company Secretary. All committees report back to the Board on their decisions and recommendations on a regular basis.

The committees are provided with all necessary resources including access to independent professional advice, if necessary, to enable them to undertake their duties in an effective manner. The Company Secretary acts as secretary to the committees.

### Audit Committee

The Audit Committee is composed of the three Independent Non-executive Directors with Mr. Zhou Jinsong as chairman and Mr. Hong Winn and Ms. Kwong Sum Yee Anna as members of the committee. All the members served on the committee throughout the year. Mr. Zhou Jinsong possesses appropriate professional qualifications and experience in financial matters which is in compliance with Rule 3.21 of the Listing Rules.

The Audit Committee meets at least four times a year and its primary duties include ensuring the Group's financial statements (including annual, half-year and quarterly results) present a true and balanced assessment of the Group's financial position; reviewing the Group's financial reporting process, internal control and risk management systems; reviewing the Group's financial and accounting policies and practices; and recommending the appointment and approving remuneration of external auditor. Other duties of the Audit Committee are set out in its specific terms of reference.

The committee met four times during the year. The Chief Financial Officer and Financial Controller were also regular attendees at the meetings of the committee. External auditors were invited to attend two of those meetings to discuss various accounting issues and findings and the audit plan with the committee.

The work of the committee during the year included reviewing the results announcements and financial statements for the year ended 31 December 2016, and for the first quarter, half-year and third quarter of 2017, the annual report and interim report. To aid its review, the committee considered the reports from the Chief Financial Officer and the report from external auditors on the outcomes of the annual audit. The committee also reviewed the connected transactions, internal control, risk management and internal audit matters, approved the audit strategy and plan for the 2017 year end audit and made recommendation on the reappointment of auditor.

In addition, the Audit Committee monitors the audit and non-audit services rendered to the Group by its external auditor to ensure that their engagement in non-audit services will not impair their audit independence or objectivity. An independence confirmation has been obtained from PricewaterhouseCoopers which confirms that they are independent of the Group in accordance with the independence requirements of the Hong Kong Institute of Certified Public Accountants.

The fees in respect of audit and non-audit services provided to the Company and its subsidiaries by PricewaterhouseCoopers and other firms of its worldwide network for the financial year ended 31 December 2017 amounted to approximately HK$2,563,000 and HK$464,000 respectively. The non-audit services mainly consist of tax services and other services for ad hoc projects.

The Audit Committee was satisfied with the findings of its review of the audit fees, process and effectiveness, independence and objectivity of PricewaterhouseCoopers and agreed that it is appropriate to recommend to the Board that PricewaterhouseCoopers be re-appointed as auditor for a further year and, accordingly a resolution will be put to shareholders at the 2018 annual general meeting of the Company recommending their reappointment.

## Nomination Committee

The Nomination Committee is chaired by Mr. Zhou Yong, the Chairman of the Board and Non-executive Director and its other members include Mr. Zhu Yijian, Vice Chairman, Executive Director and Chief Executive Officer and the three Independent Non-executive Directors, namely, Mr. Zhou Jinsong, Mr. Hong Winn and Ms. Kwong Sum Yee Anna. All members served on the committee throughout the year.

The Nomination Committee meets as necessary and is responsible for reviewing the Board structure, size and composition, identifying and nominating to the Board candidates who are appropriate for appointment or reappointment as Directors, assessing the independence of Independent Non-executive Directors and making recommendation to the Board on succession planning.

The Nomination Committee held one meeting during the year. The work of the committee during the year included consideration of the composition of the Board to ensure there was an appropriate balance of skills, knowledge and experience and the independence of Independent Non-executive Directors, and considering and making recommendation to the Board on the appointment of a Non-executive Director and the re-appointment of the retiring Directors at the annual general meeting. There has been a formal procedure for the appointment of Directors to the Board which may involve the Nomination Committee meeting candidates proposed by existing Board members, if necessary. Careful consideration is given to ensure appointees have enough time available to devote to the role and that the balance of skills, knowledge and experience on the Board is maintained. When the committee has found a suitable candidate, the chairman of the committee will make a proposal to the Board since the appointment is the responsibility of the whole Board following recommendation from the committee.

The Board has adopted a Board diversity policy. Differences in background, skills, industry experience, gender, age and other qualities will be considered in determining the optimum composition of the Board and the aim will be to balance them appropriately to ensure that the composition is appropriate to the business of the Company and the range and breadth of markets in which the Group operates. The Company is focused upon increasing Board diversity without compromising on the calibre of directors and the overriding principle is that all appointments to the Board will be based on merit as well as complementing and expanding the skills, knowledge and experience of the Board as a whole. During the annual review of the Board composition and in determining suitable candidates for the Board appointment during the year, the committee has paid due regard for the benefits of diversity on the Board.

## Remuneration Committee

The Remuneration Committee is chaired by Mr. Zhou Jinsong, an Independent Non-executive Director and its other members include Mr. Zhou Yong, the Chairman of the Board and Non-executive Director, Mr. Zhu Yijian, Vice Chairman, Executive Director and Chief Executive Officer and two Independent Non-executive Directors, namely, Mr. Hong Winn and Ms. Kwong Sum Yee Anna. All members served on the committee throughout the year.

The Remuneration Committee meets as necessary and is responsible for formulating and making recommendations to the Board on the policy and structure for all remuneration of Directors and senior management of the Group with reference to the Group's overall performance, individual's responsibilities and performance and the prevailing market conditions, as well as reviewing and making recommendations on the Company's share option scheme, bonus structure and other compensation related issues. The Remuneration determines the remuneration packages of individual Executive Directors and senior management and reviews the adequacy and effectiveness of the Group's remuneration policy. The committee also has the responsibility to make recommendations to the Board on the remuneration of Non-executive Directors.

The Remuneration Committee held one meeting during the year. The committee made recommendations to the Board on the remuneration of Non-executive Directors which were determined with reference to their responsibilities, time commitment, and the then prevailing market conditions. The committee also reviewed and approved the annual salary adjustment and discretionary bonus of individual Executive Directors and senior management of the Company which were determined based on the Group's overall performance as well as individuals' performance. In addition, the committee reviewed and considered the appropriateness and relevance of the remuneration policy and structure of the Group with reference to the construction market practices, the Group's performance and remuneration offered by peer companies.

### Remuneration of Directors and Senior Management

Information relating to the remuneration of each Director for the year ended 31 December 2017 is set out in note 10 to the consolidated financial statements.

The remuneration of members of the senior management by band for the year end 31 December 2017 is set out in note 11 to the consolidated financial statements.

## CORPORATE GOVERNANCE

The Board has undertaken the responsibility for performing the corporate governance duties pursuant to the CG Code and is committed to ensuring that an effective governance structure is in place to continuously review, monitor and improve the corporate governance practices within the Group with regard to the prevailing legal and regulatory requirements.

During the year, the work of the Board in this area included reviewing the policies and practices on the Group's corporate governance, monitoring the Company's legal and regulatory compliance and training and continuing professional development of Directors and senior management, developing relevant policies to ensure compliance with the latest change in the laws and regulations and reviewing the Company's compliance with the CG Code and the disclosure in this report.

## MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

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 as the Company's code of conduct regarding Director's securities transactions. Having made specific enquiry by the Company, all Directors have confirmed that they have complied with the Model Code in their securities transactions throughout the year ended 31 December 2017.

## ACCOUNTABILITY AND AUDIT

### Financial Reporting

It is the responsibility of the Board to present a balanced, clear and comprehensible assessment of the Company's performance, position and prospects.

Management is responsible for providing such explanation and information to the Board as will enable the Board to make an informed assessment of the financial and other matters put before the Board for approval. All members of the Board are provided with regular updates giving a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail to enable the Director, individually and collectively, to discharge their legal and regulatory duties.

The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently, and that judgements and estimates made are prudent and reasonable. In preparing the consolidated financial statements, the accounting principles generally accepted in Hong Kong have been adopted and the requirements of Hong Kong Financial Reporting Standards and the applicable laws have been complied with.

The Directors acknowledge their responsibility for preparing the consolidated financial statements for the year ended 31 December 2017. The Directors, having made appropriate enquiries, were not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern and on such basis, the Board has prepared the financial statements on a going concern basis.

The responsibilities of external auditors of the Company with respect to financial reporting are set out in the "Independent Auditor's Report".

### Internal Controls and Risk Management

The Board is responsible for maintaining appropriate systems of internal control and risk management, policies and procedures within the Group and the Audit Committee has the delegated responsibility to assess on an ongoing basis the effectiveness and relevancy of the systems. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. Processes and procedures have been put in place to ensure maintenance of proper accounting records for the provision of reliable financial information for internal use and for publication and to ensure compliance with applicable laws, rules and regulations.

The Group has established a risk management framework to enable the Board and the management of the Company to discharge their risk management-related responsibilities with appropriate delegation and checks and balances. Various operational committees including Investment Committee, Project Tendering Committee, Procurement and Subcontracting Committee and 3MS Committee which stand at the highest level of the Group's risk governance structure below the Board have been established to manage the risks and opportunities across the project lifecycle. These committees provide direct oversight of the formulation of institutional risk appetite, and control and monitor the levels of risk that the Group is willing to undertake with regard to its financial capacity, strategic direction, prevailing market conditions and regulatory requirements.

The Group's risk management framework consists of seven approval and review gates, spanning initial project pursuit through to delivery and completion. All gates are mandatory and require approval at Group level by the operational committees, by divisional or business unit level depending upon the nature and complexity of projects.

The Group's internal audit function is performed by the holding group's Intendance and Audit Department and an ad hoc team mandated from time to time to carry out regular and irregular audit on the governance and control processes of the Group. The findings and recommendations were reported to the Audit Committee. Following an annual review of the effectiveness of the financial, operational and compliance controls and risk management functions of the Group and the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function, the Board confirms that no material control failure was noted and there were adequate resources and expertise in the accounting and financial reporting function.

In addition to the inside information disclosure policy adopted by the Board, the Group has in place policies and procedures to regulate employees conduct on handling, disseminating and preserving confidential information (including inside information) with designated teams to review their implementation and monitor compliance.

The Group will continue to review and develop risk management and internal control systems and procedures to manage and mitigate the impact of risks both within and outside its control.

## COMPANY SECRETARY

The Company Secretary is an employee of the Group and the appointment and removal of the Company Secretary is a matter for the whole Board. Whilst the Company Secretary reports to the Board through the Chairman and the Chief Executive Officer, all Directors have access to the advice and services of the Company Secretary for the ongoing discharge of their duties and responsibilities.

The Company Secretary assists the Chairman in preparing the agenda for the Board meetings, taking into account matters proposed by the Directors and ensures that all applicable rules and regulations regarding the Board meetings are followed. Minutes of meetings of the Board and Board committees are taken and kept by the Company Secretary and are open for inspection by Directors.

During 2017, the Company Secretary undertook no less than 15 hours of relevant professional training.

## SHAREHOLDERS' RIGHTS

Shareholders are encouraged to maintain direct communication with the Company. Shareholders who have any questions for the Board may send a letter to:

Company Secretary

| | |
|---|---|
| Address: | Far East Global Group Limited<br>16th Floor, Eight Commercial Tower<br>8 Sun Yip Street<br>Chai Wan<br>Hong Kong |

The Company maintains procedures for shareholders to propose a person for election as a Director. The details of these procedures are available on the Company's website.

Should shareholders wish to call an extraordinary general meeting, it must be convened according to the Company's Articles of Association, which state as follows:

- Any one or more members holding 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 can, by written requisition to the Board or the Company Secretary, require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition.

- Such meeting shall be held within two (2) months after the deposit of such requisition.

- If within twenty-one (21) 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.

## RELATIONS WITH SHAREHOLDERS AND INVESTORS

The Board attaches great importance to maintaining good relationships with all shareholders and investors and ensures that shareholders and investors are kept informed of major Company developments.

The Board regards the Company's general meetings as an opportunity to communicate directly with investors and actively encourages participative dialogue with all the Company's shareholders. The chairmen of the Board committees attend the annual general meeting each year as well as other Directors and are available to answer questions from shareholders. To enhance the communication between the Company and the capital market, the management of the Company meets investors and analysts regularly and irregularly to present the latest development strategies and operation conditions to them in a timely manner. The Company will continue its effort to increase the investor relations service to shareholders and investors to enhance the transparency in 2018.

The website www.fareastglobal.com is an important source of information on the Group, including press releases, shareholder documentation, annual, half-year and quarterly results and the terms of reference of the principal Board committees. Moreover, the enquiries from shareholders and investors are received and replied by the investor relations email ir.feg@cohl.com.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## ABOUT THIS REPORT

This is the second Environmental, Social and Governance (ESG) Report published by Far East Global Group Limited (the "Company"). By reporting the policies, measures and performances of the Company and its subsidiaries (collectively the "Group") in environmental, social and governmental aspects, it allows all stakeholders to better understand the progress and development direction of the Group.

Available in both Chinese and English, the report has been uploaded to the website of the Stock Exchange of Hong Kong Limited ("SEHK") and the Company (www.fareastglobal.com).

## REPORTING BOUNDARY

This report focuses on the operation of the Group's glass façade business between January 2017 and December 2017 (this year). The reporting boundary covers the office of the Hong Kong headquarter, the production facility in Buffalo and the production facilities and offices at Shenzhen, Shanghai, Quebec and Miami ("each site of operation"). The reporting boundary remains the same as our first ESG Report published last year. To ensure the accuracy of the data disclosed, this report discloses the environmental key performance indicators of subsidiaries of the glass façade business in Hong Kong and Mainland China only for the time being. The Group will consistently upgrade its internal data collection procedure and gradually expand the scope of disclosure.

| Region | Subsidiaries covered in the reporting boundary | Referred to as |
|---|---|---|
| Hong Kong | Far East Global Group Ltd<br>Far East Aluminium Works Co Ltd | Hong Kong headquarter |
| Mainland China | Far East Façade Manufacturing (Shenzhen) Limited<br>Netfortune (Shanghai) Aluminium Works Company Limited | Shenzhen production facility<br>Shanghai production facility |
| Overseas (North America) | Gamma North Corporation<br>Gamma USA, Inc.<br>Gamma Windows and Walls International Inc. | Buffalo production facility<br>Miami production facility<br>Quebec production facility |

## REPORTING STANDARD

This report is prepared in accordance with the 'comply or explain' provisions of Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide") launched by the SEHK. The four reporting principles: materiality; quantitative; balance; and consistency form the backbone of this report. Also, the report includes selected key performance indicators that are categorised by the ESG Reporting Guide as 'recommended disclosures' for enhanced reporting.

A complete index is inserted in the last chapter for reader's easy reference.

To ensure the accuracy of environmental key performance indicators, the Group commissioned a professional consultancy, Carbon Care Asia ("CCA"), to conduct a carbon assessment.

## CONFIRMATION AND APPROVAL

Information documented in this report is sourced from the official documents, statistical data, management and operation information of and collected by the Company and its subsidiaries according to the policies of the Group. The report has been confirmed by the sustainable development committee of the Group and received the board of directors' approval in March 2018.

## OPINION AND FEEDBACK

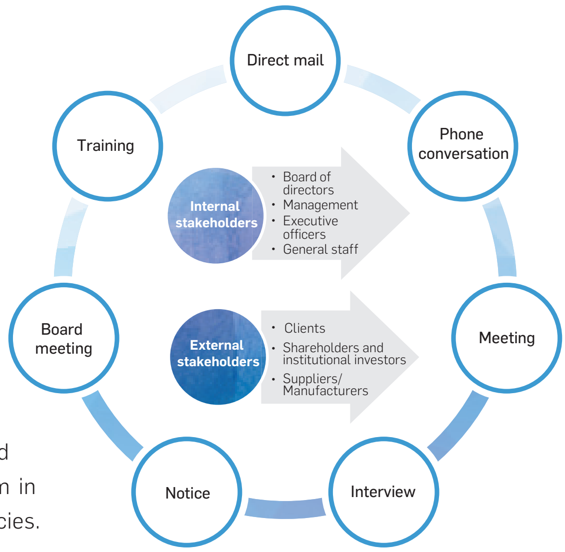
The Group values the opinion of stakeholders. If you have any questions or suggestions regarding the content or format of the report, please contact the Group via the following channels:

Address: 16/F Eight Commercial Tower, 8 Sun Yip St, Chai Wan, Hong Kong
Email: fegg_csr@fareastglobal.com
Tel: (852) 2557 3121
Fax: (852) 2595 8811

## STAKEHOLDER ENGAGEMENT

### Main means of stakeholder engagement

As a key in the business management of the Group, stakeholder[1] participation helps the Group review potential risks and business opportunities. Exchange with stakeholders and understanding their views allow the Group to better fulfil their needs and expectations with its business practice and manage different stakeholders' opinions. The Group constantly communicates with key internal and external stakeholders via various channels. This ensures that they have the opportunity to learn about the Group's development and operation directions and offers the Group the chance to listen to them in order to identify the priority of issues and develop corresponding policies.




### Material sustainability issues in the reporting period

To formulate the Group's sustainability strategy and direction and to identify the most important environmental and social issues for the Group and its stakeholders, the Group commissioned an independent consultancy to conduct a management interview. Combining the results of interview and expert advice, the Group selects three material issues, namely use of resources, product responsibility and development and training, from the eleven environmental and social aspects from the ESG Reporting Guide to be the material focus of this report.


To ensure the effectiveness of stakeholder engagement, the Group dedicates itself to establishing communication mechanisms for transparency, integrity and accuracy and providing timely response. In the future, the Group will strengthen its interaction with stakeholders to develop more diverse channels to gain exposure to stakeholders and create mutually beneficial relationships.

[1] Stakeholders refer to groups or individuals materially influencing or affected by the Group's business. Internal stakeholders include directors, management and staff. External stakeholders include clients, business partners, investors, supervisory organizations and various community groups.

## Management Message

***"Not only do we aim at business continuity, but we also strive to balance between the needs of the environment and society for sustainable development."***

The Group has been firmly rooted in Hong Kong for over 40 years since 1969. As a market leader in the local glass façade industry, the company has also successfully established the overseas market.

As our business continue to internationalise, the relationship between our business continuity and the sustainable development of society becomes increasingly apparent. Not only do we aim at business continuity, but we also strive to balance between the needs of the environment and society for sustainable development.

For a production-based business, the use of resources on the one hand relates to our environment. On the other hand, it directly reflects the cost effectiveness of our business operation. We begin with product design and production procedure to reduce the consumption of major raw materials where we can while fulfilling client's demand and the local construction standards. We also pay attention to the environmental impact of our daily operations and constantly promote green office habits among staff by internal communication channels.

In addition to the health and safety of the work environment, we value the personal development of staff at the Group. We believe a diverse composition of staff could lead to breakthroughs in the quality and technology of products. Aside from recruiting tech talent locally, from mainland China and overseas regions, we also provide current staff with various training and study opportunities to enhance their personal and professional development.

We believe that maintaining product quality is a fundamental corporate social responsibility. We have established an internal quality management system that sets standards and conducts quality monitoring for each business procedure including design, procurement, production, construction and maintenance. We embrace innovation by consistently investing in technology development in three façade design institutes in the mainland to enhance product design. Our efforts have earned us the recognition of a national innovation company on top of multiple patents.

Looking ahead, our strategy is to sustain our advantage in the local market on the foundation of quality. At the same time, we benchmark ourselves against international industry leaders to look for ways to improve our business operation and sustainability governance.

**Zhu Yijian**
*Vice Chairman, Executive Director and Chief Executive Officer*
**Far East Global Group Limited**

## SUSTAINABILITY GOVERNANCE

The Group formally established the sustainability governance committee (the "Committee") in 2017 to implement the sustainability ideals of the Group. Its subsidiary working group, the Corporate Responsibility Reporting Committee, is also renamed as Sustainability Report Working Group (the "working group"). The committee and the working group comprise management and representatives of the administrative and finance departments. With a clear division of responsibility, it enables the Group to enhance execution of measures and reporting tasks.

**Sustainability Governance Committee**

— Coordinate stakeholder engagement
— Identify material sustainability aspects
— Discuss the themes of this report
— Review this report

**Sustainability report working group**

— Execute the committee's policies
— Formulate report topics
— Communicate with various departments to collect data and draft the report

## ENVIRONMENTAL PROTECTION

The committee formulated and officially launched the Group Green Office Guide ("guide") in this year, which was executed and monitored by the administration and public relations department. The green office policy in the guide lists the Group's basic ideals on environmental management and concrete promises on resources saving and pollution reduction.

The guide also provides management suggestions that correspond to aspects such as energy, paper use, emissions and staff participation. Combining the guide and the actual situation of operation, each site of operation formulates its own internal management system and measures and conducts regular internal inspections to assess the execution of measures so that timely review and amendments can be carried out.

The guide is formulated majorly for the operation of office. At present, each location has conducted its own environmental protection works based on the actual operation. In the future, the Group will draft a green operation policy for factory and guide its sites of operation in various locations in formulating measures to conserve resources and mitigate emissions.

**The Group promises:**

- abide by environmental legislations, contract terms and system regulations
- reduce consumption of natural resources to prevent pollution
- participate in recycling scheme to reduce emission
- strive to reduce emission of greenhouse gases
- raise staff environmental awareness through education and training
- participate in environmental initiatives and cultivate a green office culture
- abide by and implement the guide where possible

### Energy use and air pollutants

Electricity is the most consumed energy of the Group. Main sources of consumption include air conditioning, office lighting, electrical appliances and operation of machines in factories. Energy consumption reduction measures are carried out in each site of operation by changing the equipment and facilities and improving staff's habit. In the Shanghai production facility, an energy saving management system is established to conduct an energy assessment regularly using the default energy consumption as the baseline to see if there is a need to repair, remake or replace equipment. In office areas, most lighting is scheduled to be switched off in the Hong Kong headquarters during lunch hour. In Miami, all computers are installed with shutdown timer for automatic switch off. In Shanghai, an energy saving duty roster is implemented where the staff on duty are responsible for switching off all electricity consuming appliances.

The main air pollutants of the Group come from the use of gasoline vehicles and the fumes of the staff canteen of the Shenzhen production facility. The Group will continue to strengthen implementation of the guide by better management of vehicles for business use to prevent redundancy and encouraging staff to use public transport. Currently electrostatic fume purification equipment is installed in canteens where fumes are released to the atmosphere after treatment. At the Shenzhen production facility, inspection organisation are hired regularly to check the efficiency of equipment to ensure compliance with national standards.

## Water consumption and sewage discharge

Water is supplied to each site of operation either by municipal water supply or other public or private organisations. The main source of water consumption and sewage discharge is the domestic water use of staff as the production procedure does not produce industrial waste water. In some sites of operation, channels such as internal regulations and communications are adopted to promote water saving habits staff. For example, when leakage is discovered in the bathing facilities, the related departments will be notified to arrange repair. Domestic wastewater produced in production facilities and offices is discharged through the sewerage system to water treatment plants for treatment.

## Use of materials and waste management

The Group advocates the optimisation of design and resources management to increase utilisation of resources and reduce waste. For example, Overseas (North America) production facilities utilize design software to streamline the production process to reduce wastage in aluminium cutting and to reuse waste glass, extrusion and micron for production. Rules for distribution of paper and stationery are in place in the Shenzhen and Shanghai production facilities. Domestic waste produced in the offices is collected by local environmental and hygiene departments. The Hong Kong office proactively implements green measures and was awarded World Green Organisation's Green Office Awards label, and a certification of participation in the Mooncake Boxes Recycling Campaign 2017.

## Greenhouse gas emission

The Group commissioned an external consultancy to conduct a carbon assessment in this year to measure the greenhouse gas emission (or "carbon emission") produced by its operations. The quantification process makes reference to the guide[2] launched by the National Development and Reform Commission, the guide[3] compiled by the Environmental Protection Department and the Electrical and Mechanical Services Department of Hong Kong and international standards such as ISO 14064-1 and GHG Protocol.

The main source of the Group's carbon emission is purchased electricity of Scope 2, followed by air business travel of Scope 3. To address the main source of carbon emission, the Group will continue to assess, record and disclose its greenhouse gas emissions and other environmental data on a yearly basis. Using this year's data as a baseline, comparisons can be made with future data. From it the performance of current measures can be reviewed to help formulate further carbon reduction targets in the future.

## Environment and natural resources

Within the Group's operation, production facilities have the biggest impact on the environment and natural resources. For example, the Shanghai production facilities has formulated a contingency plan for leakage of environmental pollutants to provide staff with relevant guidelines for identifying potential risks of hazardous waste during processes like production, transportation and storage. Control, handling and investigation procedures will be activated in case of leakage to prevent secondary incidents such as fire and pollution of water and soil. There were no cases of pollutant leakage or non-compliance related to emissions and environment within the Group in this year.

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2 Guidelines on the Calculation and Report of Greenhouse Gases Emissions by Companies (for Trial Implementation)

3 Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for buildings (Commercial, Residential or Institutional Purpose) in Hong Kong

## EMPLOYMENT AND LABOUR PRACTICE

### Development and training

All sites of operation of the Group conduct training survey, formulate yearly plan, set standard course and build an internal team of instructors in response to the respective local laws and operational needs. The Group values staff development and refines the training scheme to complement the development and system of the company.

Development and training policies of the Group's operations in Hong Kong and Macau are listed in the Staff Handbook, which clearly states the application procedures for tuition fee subsidy and leaves for examination. In this year, the Hong Kong office introduced the new initiative to rebate membership fees for joining professional memberships to staff. While sites of operation in mainland China plan training activities according to the Staff Handbook, sites of operation overseas (North America) plan their own training in accordance with the local regulations and operational needs. To achieve a more standardised system, the Group began engaging in training management of its subsidiaries in the United States this year and strengthening coordination with the system of its subsidiary in Canada.

Target audience and subject of training programmes

**Senior and middle management**

— Crisis management for the board of listed companies
— Persona key performance indicators examination training

**Production and engineering departments**

— Requirements of role
— Project management and coordination
— Mechanical operations and workflow
— Inspection, maintenance and repair of mechanical instruments
— Costs of production and quality inspection

**General staff**

— Introduction to façade design
— General design problems and reminders about overseas constructions
— ISO 9001, 14001 and 18001 standards
— Contract documents management and business English
— Financial systems, authorization and payment procedures
— Creative problem solving and psychological and physical adjustment

**New staff**

— Orientation
— Corporate spirit training
— Introduction to façade

## Health and safety

The Group strives to improve internal organisation and communication as far as possible to prevent work injuries. By providing the Staff Handbook, Staff Duties, Notice of Hazards, operation manuals, safety training and personal protective equipment at all sites of operation, the Group make sure staff correctly understand the safety risks and the appropriate work flow in their roles. Currently, each production facilities have established an internal committee comprising representatives of the management and various departments, which will be responsible for monitoring and executing safety plans or measures. The Hong Kong headquarters requires subcontractors to abide by the safety guidelines published by the Company and appoints a safety instructor or officer to carry out inspection in the project site. This year the Group demonstrated outstanding performance in several healthy work environment parameters and was awarded the Eco-Healthy Work Place label.

In this year, there were no cases of non-compliance related to health and safety within the Group. Four work injuries happened in the Shenzhen production facility while three work injuries happened in the North American region. According to the analysis report, the cause of accident was incorrect inspection procedure and inappropriate operation, insufficient labels or staff being hit or cut when using tools, hoisting materials and moving materials. After the accident the production facilities had enhanced education for the relevant staff and increased labelling in the zones of danger. The injured staff received appropriate treatment and was granted leave and compensation.

## Employment system

All sites of operation communicate employment arrangements about employment, attendance, leaves, remuneration, rest time, staff transfer to staff through means like the Staff Handbook and employment contracts. Aside from basic salary, the Hong Kong headquarters and the Shenzhen production facility offer bonuses according to departmental performance with a performance indicator system. The Group strives to provide equal employment opportunities. Job seekers will not face different treatments due to factors like gender, race, age, religious belief, disabilities or marriage status. The North American company has established a work place harassment prevention policy to provide more detailed guidelines in terms of the definitions and forms of discrimination and harassment and whistleblowing channels. In this year, there were no cases of non-compliance related to employment in the Group.

## Labour standard

The Group prohibits the use of child labour. All sites of operation will check the identity card and other identification documents of applicants to ensure compliance with local minimum age to work. The Group will sign an employment contract that stipulates employment terms with all hired employees. The Group protects the rights of staff to terminate the employment contract. The relevant procedures and arrangements are contained in the Staff Handbook or employment contract of all sites of operation. Compensation for overtime work is available at all sites of operation. Staff could apply for overtime work subsidy or allowances upon the approval of departmental heads and record. In this year, there were no cases of non-compliance related to child labour or forced labour within the Group.

## Operational Management

### Product responsibility

*Glass façade business flow*


Subsidiaries of the Group in Hong Kong and Mainland China have established a quality management system. Through the Quality Handbook, quality control standards are laid down for each business flow: product design, material procurement, manufacturing installation, maintenance and repair. These standards are coupled with client requirements and local construction standards to formulate the quality plan for each project to safeguard product quality and structural safety. The content of such systems or plans includes quality management duties, design standards, inspection procedures and quality improvement measures and must be strictly carried out by different departments. The Hong Kong headquarters and production facilities in Shanghai and Shenzhen have received the ISO9001:2015 quality management system certification.

All staff owe a duty of confidentiality towards client information and the design and invention of the Group and should abide by the confidentiality requirements of each site of operation and are prohibited from publicising or disclosing the information to a third party. For example, in in North American subsidiaries, staff is not allowed to set password or encryption to data without approval of the information and technology department. At the Shenzhen production facility, access to information system of different departments is restricted so that staff cannot access information unrelated to his/her work without authorization. Until December 2017, the Shanghai production facility had obtained three patents for its invention and twenty-six patents for utility models, meanwhile the Shenzhen production facility had obtained one patents for its invention and eight patents for utility models. Related regulations are included in the Quality Handbook, Staff Handbook, Code of Discipline, Staff Confidentiality Agreement and other internal regulations of each site of operation.

The Group strives to develop the façade maintenance and repair business in mainland China. For example, the Shanghai production facility provides clients with a façade use and maintenance manual to explain the basic structure of the façade and safety issues during cleaning and decoration. The Group's maintenance centre in Shanghai is responsible for receiving and recording client complaints and providing feedback to related departments. Depending on the actual situation, the centre will arrange delivery of parts or staff visit within two hours after a complaint is received and conduct a survey of satisfaction afterwards for further follow-up.

Currently, the Group's operation does not involve product label or advertising. In this year, there were no cases of non-compliance in relation to product responsibility within the Group.

## Supply Chain Management

The Group's supply chain mainly includes suppliers of aluminium, glass, steel and stainless steel and subcontractors of construction. All sites of operation adopted the Resource Purchasing Work Procedure to conduct preliminary review of suppliers' strength, reputation, performance in the past and by on-site inspection. Only suppliers that pass the review could be included in the supplier's list. When selecting suppliers from the list, the resources procurement department has to consider environmental, safety and health factors, such as energy consumption of products, noise and emissions. The Procurement Department will explain to the supplier with elaborations in the procurement contract if the construction contract carries specific requirements.

The Procurement Department assesses supplier partners on a yearly basis to update the list of suppliers. Apart from punctuality, quality and services, scoring standards include suppliers' environmental and safety performance. For example, whether they recycle or reduce packaging and whether they ensure staff are provided with personal protective equipment before entering factories or construction sites. Depending on the severity, ill performing suppliers may face written warmings, disqualification from submitting bids or removal from the list of suppliers.

### Anticorruption

The Group's Company Code of Ethics and Discipline stipulates that staff cannot provide, demand or receive any benefits when conducting business in Hong Kong or other places. In exceptional circumstances, the Group will allow staff to accept gifts, but it must comply with the Group's regulations with regard to the value, purpose and type of gift, subject to the management's approval. For example, the subsidiary in North America has formulated the policy to regulate the receipt of gifts, claiming for business meal expenses, management of donation and sponsorship. Staff could report suspected violation of the policy to the administration and public relations department to the Company. In this year, there were no internal reported cases of corruption and nor cases of non-compliance in relation to corruption within the Group.

## COMMUNITY INVESTMENT

The market increasingly values corporate social responsibility and the concept of 'social licence to operate' comes into being. Corporates cannot focus solely on short-term financial performance and shareholders' return as their target but must expand their vision to include long-term benefits of society as a whole. The Group believes that only by balancing the interests of shareholders and all other stakeholders could its business develop in a stable and healthy manner in the long run.

The Company and some of its subsidiaries have initiated different forms and scopes of community work. The Group will step by step learn the needs of the community where it operates to decide the focus of its social contribution so that a more coherent and concrete community investment policy and plan can be formulated to strengthen the connection between each site of operation and the local community.

| | |
|---|---|
| Hong Kong | Staff participated in the Hong Kong & Kowloon Walk for Millions organised by The Community Chest<br>Staff participated in the Mainland and Hong Kong student Art Exchange Programme co-organised by COHL and TREATS volunteering service. |
| Hong Kong<br>Shenzhen<br>Shanghai<br>Xi'an | The Group co-organized a clothing donation with local community organizations. More than 1100 pieces were collected from the Group's employees, which were all donated to Nanshan District Sunshine Donation Center in Shenzhen, Luwan District Assistance Center for Citizens in Shanghai, and Shaanxi Zhongtai Charity Foundation in Xi'an |

## MAJOR AWARDS AND RECOGNITIONS IN 2017

| Category | Time | Awards or recognitions | Awardee | Awarding organisation |
|---|---|---|---|---|
| Environmental protection | November | United Nations Sustainable Development Goals — Green Office Awards Labelling Scheme and Eco-Healthy Workplace | Far East Global Group Ltd | World Green Organisation |
| | December | 2017 CarbonCare ESG Label | Far East Global Group Ltd | Carbon Care Innolab & Carbon Care Asia |
| Social responsibility | March | Caring Company Scheme 2013/17 | Far East Global Group Ltd | HK Council of Social Service |
| | December | 2017 18 Districts Caring Employers Special Award | Far East Global Group Ltd | Hong Kong Joint Council for People with Disabilities, HK Council of Social Service and Rehabilitation Advisory Committee of the Labour and Welfare Bureau |
| Corporate governance | April | 2016 China Top 100 Building and Decoration Company | Netfortune (Shanghai) Aluminium Works Company Limited | China Building Decoration Association |
| Business innovation | August | State High Technology Corporation | Far East Façade Manufacturing (Shenzhen) Limited | Shenzhen Science and Technology Innovation Commission<br>Financial Commission of Shenzhen Municipality<br>Shenzhen Municipal Office, SAT Shenzhen Local Taxation Bureau |

## KEY PERFORMANCE INDICATOR SUMMARY

### Environmental Performance

| | Category | Emission this year (tonne) |
|---|---|---|
| Exhaust gas | Sulphur oxides | 0.001 |
| | Nitrogen oxides | 0.027 |
| | Particulate matter | 0.002 |

| Scope | Source of emission | GHG emission this year (tonnes $CO_2$-e) | |
|---|---|---|---|
| Scope 1: Direct GHG Emissions | Combustion of fossil fuel — gasoline | 119 | 155 |
| | Combustion of fossil fuel — diesel | 15 | |
| | Combustion of fossil fuel — liquefied petroleum gas | 21 | |
| Scope 2: Energy Indirect GHG Emissions | Purchased energy | | 1,362 |
| Scope 3: Other Indirect GHG Emissions | Electricity for municipal drinking water treatment | 0.08 | 142 |
| | Electricity for municipal wastewater treatment | 0.04 | |
| | Waste paper | 33 | |
| | Business travel by air | 109 | |
| Total GHG emission | | | 1,659 |
| GHG intensity (in terms of area, i.e. tonnes $CO_2$-e/employee) | | | 1.56 |

| | Category | | Energy consumption of this year (MWh) | |
|---|---|---|---|---|
| Energy use | Direct energy | gasoline | 401 | 551 |
| | | diesel | 56 | |
| | | liquefied petroleum gas | 94 | |
| | Indirect energy | Electricity | | 2,339 |
| | Total energy consumption | | | 2,890 |
| | Energy intensity (1,000 kWh/employee) | | | 2.71 |

Social Performance — Employment and Labour Practices

| | Ranking | Total workforce | Employee turnover | Ratio to total workforce in the category |
|---|---|---|---|---|
| Employment | By Region | | | |
| | Hong Kong | 254 | 37 | 16% |
| | Mainland China | 812 | 118 | 14% |
| | Overseas | 256 | 0 | 0% |
| | By Age | | | |
| | Below 30 | 327 | 69 | 21% |
| | 31–40 | 470 | 58 | 12% |
| | 41–50 | 400 | 22 | 6% |
| | Above 51 | 125 | 6 | 5% |
| | By Gender | | | |
| | Male | 1,059 | 126 | 12% |
| | Female | 263 | 29 | 11% |
| | Total | 1,322 | 155 | 12% |

| | Region | Rank | Average hours of training of male employee | Ratio of trained male employees | Average hours of training of female employees | Ratio of trained female employees |
|---|---|---|---|---|---|---|
| Number of trained staff and hours of training | Hong Kong | Senior management | 8.2 | 63% | 2.0 | 100% |
| | | Middle management | 6.2 | 72% | 2.0 | 67% |
| | | Entry level | 8.3 | 44% | 8.5 | 67% |
| | | General staff | 0.0 | 0% | 0.0 | 0% |
| | Mainland China | Senior management | 2.0 | 80% | 0.0 | NA |
| | | Middle management | 2.6 | 88% | 2.0 | 67% |
| | | Entry level | 2.5 | 94% | 4.7 | 100% |
| | | General staff | 1.4 | 39% | 2.0 | 47% |
| | Overseas | Senior management | NA | NA | NA | NA |
| | | Middle management | NA | NA | NA | NA |
| | | Entry level | NA | NA | NA | NA |
| | | General staff | 0.3 | 27% | 1.0 | 10% |

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE CONTENT INDEX

| Material Aspect | Content | Data this year | Page Index |
|---|---|---|---|
| General Disclosure | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. | | 049, 050, 055 |
| A1.1 | The types of emissions and respective emissions data (from gasoline vehicles and staff canteen, in tonnes) | | 056 |
| A1.2 | Greenhouse gas emissions in total (tonnes CO2-e) and Intensity of greenhouse gas emissions (tonnes CO2-e/employee) | | 056 |
| A1.3 | Total hazardous waste produced (in tonnes; only produced in Shanghai production facility) | 4 | |
| | Intensity of total hazardous waste produced (tonnes/square metre of product) | 0.0001 | |
| A1.4 | Total non-hazardous waste produced (tonnes) | 903 | |
| | Intensity of non-hazardous waste produced (tonnes/employee) | 0.85 | |
| A1.5 | Description of measures to mitigate emissions and results achieved | | 049, 050 |
| A1.6 | Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved | | 049, 050 |
| General Disclosure | Policies on the efficient use of resources, including energy, water and other raw materials. | | 049, 050, 055 |
| A2.1 | Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (MWh). | | 056 |
| | Direct energy | | 056 |
| | Indirect energy | | 056 |
| | Energy intensity ((MWh/employee) | | 056 |
| A2.2 | Water consumption in total (tonnes) | 16,308 | |
| | Water intensity (tonnes/employee) | 15.30 | |
| A2.3 | Description of energy use efficiency initiatives and results achieved | | 049 |
| A2.4 | Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved | | 050 |
| A2.5 | Total packaging material used for finished products (from plastic packaging of the Shanghai production facilities, in tonnes) | 2.45 | |
| General Disclosure | Policies on minimising the issuer's significant impact on the environment and natural resources. | | 050 |
| A3.1 | Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them | | 050 |
| General Disclosure | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare. | | 052 |
| B1.1 | Total workforce | | 057 |
| | Total workforce by gender, employment type, age group and geographical region | | 057 |
| B1.2 | Employee turnover rate | | 057 |
| | Employee turnover rate by gender, age group and geographical region | | 057 |
| General Disclosure | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards. | | 052 |
| B2.1 | Number and rate of work-related fatalities | | 052 |
| B2.3 | Description of occupational health and safety measures adopted, how they are implemented and monitored | | 052 |
| General Disclosure | Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. | | 051 |
| B3.1 | Percentage of employees trained | | 057 |
| | The percentage of employees trained by gender and employee category (e.g. senior management, middle management) | | 057 |
| B3.2 | Average training hours completed per employee | | 057 |
| | The average training hours completed per employee by gender and employee category | | 057 |
| General Disclosure | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour. | | 052 |
| General Disclosure | Policies on managing environmental and social risks of the supply chain. | | 053 |
| B5.2 | Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored | | 053 |
| General Disclosure | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress. | | 053 |
| B6.5 | Description of consumer data protection and privacy policies, how they are implemented and monitored | | 053 |
| General Disclosure | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering. | | 054 |
| B7.1 | Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases | | 054 |
| B7.2 | Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored | | 054 |
| General Disclosure | Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests. | | 054 |
| B8.2 | Resources contributed to the focus area | | 054 |

# REPORT OF THE DIRECTORS

The Directors present their report and the audited consolidated financial statements of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2017.

## PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding and the provision of corporate management services. The activities of the Company's principal subsidiaries are shown in note 17 to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated income statement and consolidated statement of comprehensive income on pages 83 and 84 respectively.

An analysis of the Group's performance for the year by segments is set out in note 5 to the consolidated financial statements.

An interim dividend of HK1.0 cent per share was paid to shareholders on 6 October 2017. The Board recommends the declaration of a final dividend of HK1.0 cent per share payable on 6 July 2018 to shareholders whose names appear on the register of members of the Company on 15 June 2018. Together with the interim dividend of HK1.0 cent per share, this results in total dividends for the year of HK2.0 cents per share and represents a total distribution of HK$43,110,000.

## BUSINESS REVIEW

A fair review of the Group's business, including the important events affecting the Group that have occurred since the end of 2017 and the likely future developments, is set out in the "Financial Highlights", "Chairman's Statement" and "Management Discussion and Analysis" sections of this Annual Report, and disclosures relating to the Group's environmental policies and performance, and relationships with major stakeholders can be found in the "Environmental, Social and Governance Report" section of this Annual Report.

### Principal Risks and Uncertainties

Below are the principal risks and uncertainties facing the Group that could adversely impact the Group's business, financial condition and profitability. There may be other risks in addition to those disclosed below which are not known to the Group or which may currently be immaterial but turn out to be material in the future.

| Risk | Description | Management Measures |
|---|---|---|
| Foreign Exchange | The Group's foreign currency exposures primarily arise from certain sales or purchases by operating units in currencies other than the unit's functional currency where these sales or purchases are mainly denominated in United States dollar, Renminbi, Australian dollar, Canadian dollar, Pound Sterling and Macau Pataca. | The Group monitors foreign exchange exposure by closely reviewing the movement of the foreign currency rate and adapting natural hedge strategies. During the year ended 31 December 2017, the Group did not engage in the use of other financial instruments for hedging purposes, and there were no hedging instruments outstanding as at 31 December 2017. |

| Risk | Description | Management Measures |
|---|---|---|
| Interest Rate | The Group's interest rate risk mainly related to variable rate borrowings. | The Group has established policies and procedures to the assessment, booking and monitoring such risk and will consider hedging significant interest rate fluctuation should the need arise. |
| Market | The effects of national or market trends, political change or new developments in infrastructure expenditure may cause customers to postpone, reduce or change existing or future projects, which may impact the Group's strategy, business model, revenue or profitability in the short or medium term. | The Group's strategy to focus on the more resilient and stable infrastructure and property markets and geographies will help mitigate this risk. The effect of spending changes in any one market is mitigated by the Group's broad exposure to infrastructure and property markets across the globe and the continued need for infrastructure spending. It also mitigates the effects of such market conditions by continuing to adapt its business model.<br><br>It is essential that the financial solvency and strength of counterparties is always considered before contracts are signed. During the life of a contract, such assessments are updated and reviewed whenever possible. The business also seeks to ensure that it is not over-reliant on any one counterparty. |
| Bidding | The Group's success depends on its ability to identify, price and execute the right volume and quality of bids to maintain a profitable, sustainable order book. This in turn requires that it has a competitive business model and overheads. | All bids are subject to rigorous estimating and tendering processes within the risk management framework. The Group has defined delegated authority levels for approving all tenders. Reviews are conducted following all tenders to ensure lessons are learnt and applied to future tenders. |
| Project Execution | The Group performs the construction projects with complex design, engineering and construction works. If it fails to deliver them on time, to customers' requirements, and in accordance with its own cost assumptions and reporting, the Group faces the risk of financial loss, claims and reputational damage. | Each business unit has defined operating procedures to address the risks inherent in project delivery. In addition, the revision of the Group risk management framework and increased controls aid identification and quantification of specific risks on projects and the mitigating actions required. This has been further reinforced through the implementation of common minimum standards in project and commercial management. |

| Risk | Description | Management Measures |
|---|---|---|
| Supply Chain | The Group is heavily reliant on its supply chain partners for successful operational delivery, which means it is also exposed to a variety of risks in the supply chain, including financial, technical, quality, safety and ethics. | The Group aims to develop long-term relationships with key subcontractors, working closely with them to understand their operations. It develops contingency plans to address subcontractor failure, and also obtains project retentions, bonds and/or letters of credit from subcontractors, where appropriate to mitigate the impact of any insolvency.<br><br>The Group aims to work as much as possible with preferred suppliers and subcontractors who undergo rigorous, risk-based prequalification processes and share its values. It also aims to avoid becoming over-reliant on any one supplier or subcontractor. |
| People | Inability to recruit and retain the best management and employees who have the appropriate competencies and also share Company values and behaviours may hamper the Group's growth prospects. | All potential recruits for key roles in the organisation are measured against a competency and leadership system. The Group's succession planning process to identify and develop high-potential personnel is reviewed regularly within the organisation and by the Board of Directors. The Group has appropriate remuneration and incentive packages to help it attract and retain key employees. |
| Business Conduct | The Group operates in various markets that present business conduct-related risks involving fraud, bribery or corruption, whether by its own staff or via third parties such as partners or subcontractors. Those risks are higher in some countries and sectors. Overall the construction industry has a higher risk profile than other industries. | The Group has a range of risk assessment, due diligence and procurement controls that are designed to identify and minimise such risks. |
| Legal | The Group operates in different markets and its businesses are subject to a variety of complex, demanding and evolving legal, tax and regulatory requirements. | The Group monitors and responds to legal and regulatory requirements by qualified internal personnel and external lawyers or counsel. The Group has established comprehensive policies, guidelines, and manuals with proper training courses provided to its employees. |

### Compliance with Relevant Laws and Regulations

The construction industry is regulated by the local authorities in which the business units operate. In general, contractors must comply with certain requirements mandated by the applicable laws and regulations and may be required to obtain permits or licenses in order to carry on certain businesses such as general contracting, facade contracting, design and manufacturing in certain countries. Apart from the specific laws and regulations, the Group is also subject to the general laws and regulations governing the environment, employment, anti-competition and anti-corruption regardless of its nature of business.

In addition, the Company, as a listed company, is subject to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Codes on Takeovers and Mergers and Share Buy-backs and the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

The Group seeks to ensure compliance with all relevant laws and regulations through various measures such as internal controls and approval procedures, trainings and oversight of various business units with the designated resources at different levels of the Group.

As far as the Board is aware, the Group has complied with the relevant laws and regulations that have a significant impact on the Group in all material respects throughout the year ended 31 December 2017.

## FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on page 140.

## PROPERTY, PLANT AND EQUIPMENT

Particulars of the movements of property, plant and equipment of the Group during the year are set out in note 14 to the consolidated financial statements.

## SHARE CAPITAL

Details of the share capital of the Company are set out in note 28 to the consolidated financial statements.

## RESERVES

Distributable reserves of the Company as at 31 December 2017 amounted to HK$939,889,000 (2016: HK$935,424,000).

Movements in the reserves of the Company and the Group during the year are set out in note 35 to the consolidated financial statements and the consolidated statement of changes in equity on page 87 respectively.

## DIRECTORS

The Directors during the year and up to the date of this Annual Report are:

### Chairman and Non-executive Director

Mr. Zhou Yong

### Executive Directors

Mr. Zhu Yijian *(Vice Chairman and Chief Executive Officer)*
Mr. Luo Haichuan
Mr. Wang Hai
Mr. Chan Sim Wang
Mr. Qin Jidong (resigned with effect from the conclusion of the Board meeting held on 16 March 2017)

### Non-executive Director

Mr. Huang Jiang (appointed with effect from the conclusion of the Board meeting held on 16 March 2017)

### Independent Non-executive Directors

Mr. Zhou Jinsong
Mr. Hong Winn
Ms. Kwong Sum Yee Anna

Notes:

Pursuant to article 84(1) of the Articles of Association of the Company, Messrs. Zhou Yong, Luo Haichuan and Wang Hai will retire by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

In support of the Company's development, Mr. Zhou Yong has decided to waive his director's fee with effect from 1 January 2017 and will not receive any director's fee under his new term of appointment commencing on 2 March 2018. The change in emoluments of all other Directors is set out in note 10 to the consolidated financial statements.

## CONFIRMATION OF INDEPENDENCE

The Company received an annual confirmation from each of the Independent Non-executive Directors of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considered each of them to be independent.

## DIRECTORS' SERVICE CONTRACTS

None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without payment of compensation (other than statutory compensation).

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

Pursuant to Rule 8.10 of the Listing Rules, the Company discloses that during the year, Messrs. Zhou Yong, Zhu Yijian, Luo Haichuan, Wang Hai, Chan Sim Wang and Huang Jiang held directorships and/or senior management positions in the Company's holding companies and/or their subsidiaries. These companies are engaged in construction, property development and related business.

The Board is independent of the boards of directors of the Company's holding companies and their subsidiaries. With the presence of appropriate portion of Independent Non-executive Directors in the Board, the Group is capable of carrying on its business independently of, and at arm's length from, the businesses of its holding group.

## DIRECTORS' INDEMNITY

The Articles of Association of the Company provides that every Director shall be entitled to be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses incurred or sustained by him by reason of any act done, concurred in or omitted in or about the execution of his duty as a Director provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to the Director. A directors and officers insurance policy is in place to protect the Directors against potential costs and liabilities arising from claims brought against the Directors.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2017, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executive of the Company were deemed or taken to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as adopted by the Company (the "Model Code") were as follows:

### (a) Interests and short positions in the shares, underlying shares and debentures of the Company

Long positions in the shares of the Company

| Name of Director | Capacity | Nature of Interests | Number of ordinary shares held | % of shares in issue (Note) |
|---|---|---|---|---|
| Zhu Yijian | Beneficial owner | Personal interest | 1,000,000 | 0.046 |
| Chan Sim Wang | Beneficial owner | Personal interest | 50,000 | 0.002 |
| Huang Jiang | Beneficial owner | Personal interest | 1,000,000 | 0.046 |

Note: The percentage is based on the total number of ordinary shares of the Company in issue as at 31 December 2017 (i.e. 2,155,545,000 shares).

### (b) Interests and short positions in the shares, underlying shares and debentures of the associated corporations of the Company

Long positions in the shares of the associated corporations of the Company

As at 31 December 2017, Mr. Zhou Yong had personal interests in 3,233,027 ordinary shares, representing approximately 0.064% of the then issued shares, in China State Construction International Holdings Limited ("CSCIHL") and 255,000 A-shares, representing approximately 0.001% of the then issued voting shares, in China State Construction Engineering Corporation Limited ("CSCECL"), held in his capacity as beneficial owner; Mr. Zhu Yijian had interests in 2,538,237 ordinary shares, representing approximately 0.050% of the then issued shares, in CSCIHL (comprising personal interests in 1,487,487 ordinary shares held by him as beneficial owner and family interests in 1,050,750 ordinary shares held by his spouse), and personal interests in 210,000 A-shares, representing approximately 0.001% of the then issued voting shares, in CSCECL held in his capacity as beneficial owner; Mr. Luo Haichuan had personal interests in 150,000 A-shares, representing approximately 0.001% of the then issued voting shares, in CSCECL held in his capacity as beneficial owner; Mr. Wang Hai had personal interests in 150,000 A-shares, representing approximately 0.001% of the then issued voting shares, in CSCECL held in his capacity as beneficial owner; Mr. Chan Sim Wang had personal interests in 32,400 ordinary shares, representing approximately 0.001% of the then issued shares, in CSCIHL held in his capacity as beneficial owner; and Mr. Huang Jiang had personal interests in 150,000 A-shares, representing approximately 0.001% of the then issued voting shares, in CSCECL held in his capacity as beneficial owner. The Company was informed that all the interests in A-shares in CSCECL held by Directors were granted to them by CSCECL pursuant to its share award scheme (details are set out in note 30 to the consolidated financial statements).

Save as disclosed above, as at 31 December 2017, none of the Directors or chief executive of the Company and their respective associates had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code. Nor any of the Directors or chief executive of the Company (including their spouses and children under the age of 18), during the year ended 31 December 2017, held any interests in, or was granted any right to subscribe for, the securities of the Company and its associated corporations (within the meaning of Part XV of the SFO), or had exercised any such rights.

## SHARE OPTIONS

The Company adopted a share option scheme (the "Scheme") on 10 March 2010 and unless otherwise cancelled or amended, is valid and effective for 10 years from 30 March 2010. A summary of the Scheme is as follows:

(a) The purpose of the Scheme is to provide incentives or rewards to the eligible participants for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group.

(b) Share options may be granted to any director, employee, supplier and customer of the Group or any entity in which the Group holds an equity interest ("Invested Entity") and any consultant, adviser, manager, officer or entity that provides research, development and other technological support to the Group or any Invested Entity.

(c) The total number of shares which may be issued upon exercise of all options granted and to be granted under the Scheme and any other share option schemes of the Group shall not exceed 10% of the shares of the Company in issue immediately following the completion of the Global Offering of the Company (as defined in the Prospectus issued by the Company dated 17 March 2010) unless the Company obtains a fresh approval from the shareholders.

(d) As at the date of this Annual Report, the total number of shares which may be issued under the Scheme is 38,689,000 shares i.e. 1.79% of the Company's shares in issue as at that date.

(e) The maximum entitlement for any participant (other than a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates) under the Scheme is that the total number of shares issued and to be issued upon exercise of all options granted and to be granted in any 12-month period up to and including the date of the proposed grant does not exceed 1% of the shares of the Company for the time being in issue. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

(f) The period within which an option may be exercised under the Scheme will be determined by the Board at its absolute discretion provided that such period shall not be more than ten years from the date of grant of the option.

(g) The exercise price of the share options shall be determined by the Board, at its absolute discretion, but in any case, shall not be less than the highest of (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date of grant of such option, which must be a trading day; (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company on the date of grant.

(h) Upon acceptance of the option, the grantee shall pay HK$1 to the Company by way of consideration for the grant.

No share options were granted to or exercised by any Directors or chief executive of the Company or employees of the Group or other participants, nor were cancelled, or lapsed during the year ended 31 December 2017.

As at 1 January 2017, 31 December 2017 and the date of this Annual Report, the Company had no share options outstanding under the Scheme.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year ended 31 December 2017 was the Company, or any of its holding companies, subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Except for the connected transactions set out on pages 70 to 76 and the related party transactions set out in note 34 to the consolidated financial statements, there were no transactions, arrangements or contracts of significance in relation to the business of the Company and its subsidiaries to which the Company or any of its subsidiaries, was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## MANAGEMENT CONTRACTS

No contracts, other than employment contracts, concerning the management and administration of the whole or any substantial part of the Company's business were entered into or existed during the year.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

So far as is known to any Directors or chief executive of the Company, as at 31 December 2017, other than the interests of the Directors and chief executive of the Company as disclosed above, the following persons had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange:

### Long positions in the shares of the Company

| Name of Shareholder | Capacity | Number of ordinary shares held | Total | % of shares in issue[1] |
|---|---|---|---|---|
| Add Treasure Holdings Limited ("Add Treasure") | Beneficial owner | 1,537,983,279 | 1,537,983,279 | 71.35 |
| China State Construction International Holdings Limited ("CSCIHL")[2] | Interest in controlled corporation | 1,596,403,279 | 1,596,403,279 | 74.06 |
| China Overseas Holdings Limited ("COHL")[3] | Interest in controlled corporation | 1,596,403,279 | 1,596,403,279 | 74.06 |
| 中國建築股份有限公司 (China State Construction Engineering Corporation Limited) ("CSCECL")[3] | Interest in controlled corporation | 1,596,403,279 | 1,596,403,279 | 74.06 |
| 中國建築集團有限公司 ("中建集團")[3] | Interest in controlled corporation | 1,596,403,279 | 1,596,403,279 | 74.06 |

Notes:

1. The percentage is based on the total number of ordinary shares of the Company in issue as at 31 December 2017 (i.e. 2,155,545,000 shares).

2. Add Treasure is a wholly-owned subsidiary of CSCIHL which, by virtue of the SFO, is taken to be interested in the same 1,537,983,279 shares held by Add Treasure and the 58,420,000 shares of the Company held by another wholly-owned subsidiary of CSCIHL.

3. CSCIHL is owned as to approximately 64.60% by COHL, which in turn, is a wholly-owned subsidiary of CSCECL. CSCECL is, in turn, a subsidiary of 中建集團. By virtue of the SFO, each of COHL, CSCECL and 中建集團 is deemed to be interested in the same 1,596,403,279 shares held indirectly by CSCIHL.

Save as disclosed above, as at 31 December 2017, no other person (other than the Directors or chief executive of the Company) had any interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

## CONNECTED TRANSACTIONS

The connected and continuing connected transactions required to be disclosed in accordance with Chapter 14A of the Listing Rules, are disclosed on pages 70 to 76.

## EQUITY-LINKED AGREEMENT

Other than the Scheme as disclosed in this report, there were no equity-linked agreements entered into by the Company during the year or subsisted at the end of the year.

## RETIREMENT BENEFIT SCHEME

With effect from 1 December 2000, the Group has joined a mandatory provident fund scheme ("MPF Scheme") for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. The Group's employees outside Hong Kong are primarily covered by the respective defined contribution schemes in accordance with local legislation and practices. During the year, the Group made contribution to these schemes amounting to approximately HK$12,266,000. No forfeited contribution under these schemes are available to reduce the contribution payable in future years.

## PRE-EMPTIVE RIGHTS

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

## PUBLIC FLOAT

As at the date of this Annual Report, based on publicly available information and within the Directors' knowledge, more than 25 per cent of the Company's issued share capital was held by the public.

## MAJOR CUSTOMERS AND SUPPLIERS

In 2017, the five largest customers of the Group accounted for approximately 47.6% of the Group's revenue and the revenue from the largest customer included therein accounted for approximately 16.1%. The first and fifth largest customers are subsidiaries of the controlling shareholder of the Company. The five largest suppliers of the Group accounted for less than 30% of the Group's total purchases for the year.

Other than disclosed above, at no time during the year did a Director, a close associate of a Director or a shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the number of issued shares of the Company) have an interest in any of the Group's five largest customers.

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

During the year, neither the Company nor any of its subsidiaries has made any purchase, sale or redemption of any of the Company's listed securities.

## AUDITOR

The consolidated financial statements for the year ended 31 December 2017 have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment at the 2018 annual general meeting.

On behalf of the Board
**FAR EAST GLOBAL GROUP LIMITED**
**Zhou Yong**
*Chairman and Non-executive Director*

Hong Kong, 14 March 2018

# CONNECTED TRANSACTIONS

## CONTINUING CONNECTED TRANSACTIONS UNDER LISTING RULES

### 1. FE-CSCECL Sub-construction Engagement Agreement

On 28 October 2014, the Company entered into a new agreement ("FE-CSCECL Sub-construction Engagement Agreement") with China State Construction Engineering Corporation Limited ("CSCECL", an intermediate holding company of the Company) to replace the previous agreement entered into between the parties on 11 June 2012. Under the FE-CSCECL Sub-construction Engagement Agreement, the Group may continue to act as subcontractor of CSCECL and its subsidiaries (the "CSCECL Group") for provision of contracting service, supply, project consultancy service and project management service in relation to exterior facade works ("Exterior Facade Works") to the construction works of the CSCECL Group for a term of three years commencing from 1 January 2015 and ending on 31 December 2017 provided that the total contract sum that may be awarded by the CSCECL Group to the Group under the FE-CSCECL Sub-construction Engagement Agreement for each year shall not exceed HK$800 million (i.e. the CSCECL Works Cap).

As a general principle, the prices and terms of the contracts with respect to the Exterior Facade Works shall be determined in the ordinary course of business, on normal commercial terms, negotiated on arm's length basis and at prices and on terms no more favourable than those provided to the independent third party customers.

The Group will normally need to go through a tender or similar process before being selected and appointed as subcontractor of the CSCECL Group. The Group has a standard and systematic tender submission procedure to determine the prices and terms of a tender and such procedure applies to tenders submitted to both connected persons and independent third parties. In preparing and assessing a tender, the Group will consider the technical requirements, quantity specifications, expected completion time, customer's expectations and possible risks associated with the project. The Group will then perform site inspection, formulate a tentative construction program and conduct quantitative costs analysis and risk assessment. In determining the tender price, the Group will review the costs information maintained in its in-house database for material supplies and prices from subcontractors for the Group's previous projects and peripheral operation. The Group will also review and compare the prices of previous tenders submitted to both connected persons and independent third parties to ensure that the price of the tender to be submitted is not more favourable than those submitted to independent third parties.

Where the Group submits the tender directly to the ultimate employer and is nominated by the ultimate employer as subcontractor to the CSCECL Group, consideration to the Group will be ascertained by an independent professional quantity surveyor appointed by the ultimate employer.

Since the applicable percentage ratios as defined in the Listing Rules in respect of the maximum total contract sum that may be awarded for each year under the FE-CSCECL Sub-construction Engagement Agreement (i.e. the CSCECL Works Cap) exceeded 5%, the transactions contemplated thereunder were subject to the annual review, reporting, announcement and independent shareholders' approval requirements. An announcement was published on 28 October 2014 and a circular dated 18 November 2014 was despatched to the shareholders of the Company. The FE-CSCECL Sub-construction Engagement Agreement was duly approved by the independent shareholders of the Company at an extraordinary general meeting held on 12 December 2014.

The total value of the contracts awarded to the Group under the FE-CSCECL Sub-construction Engagement Agreement during the year ended 31 December 2017 was HK$64,740,000.

As the FE-CSCECL Sub-construction Engagement Agreement would have expired on 31 December 2017, the Company entered into a new agreement with CSCECL on 11 October 2017 to renew the FE-CSCECL Sub-construction Engagement Agreement for a term of three years commencing from 1 January 2018 and the new agreement was duly approved by the independent shareholders of the Company at an extraordinary general meeting held on 18 December 2017. Details of the new agreement were disclosed in the announcement dated 11 October 2017 and the circular dated 1 November 2017.

## 2. FE-CSC Sub-construction Engagement Agreement

On 28 October 2014, the Company entered into a new agreement ("FE-CSC Sub-construction Engagement Agreement") with China State Construction International Holdings Limited ("CSCIHL", an intermediate holding company of the Company) to replace the previous agreement entered into between the parties on 11 June 2012. Under the FE-CSC Sub-construction Engagement Agreement, the Group may continue to act as subcontractor of CSCIHL and its subsidiaries (the "CSCIHL Group") for provision of contracting and engineering works, project consultancy service and project management service to the construction works of the CSCIHL Group ("CSC Works Transactions") for a term of three years commencing from 1 January 2015 and ending on 31 December 2017 provided that the total contract sum that may be awarded by the CSCIHL Group to the Group under the FE-CSC Sub-construction Engagement Agreement for each year shall not exceed HK$1,200 million (i.e. the CSC Works Cap).

As a general principle, the prices and terms of the contracts with respect to the CSC Works Transactions shall be determined in the ordinary course of business, on normal commercial terms, negotiated on arm's length basis and at prices and on terms no more favourable than those provided to the independent third party customers.

In respect of the contracting and engineering works, the Group will normally need to go through a tender or similar process before being selected and appointed as subcontractor of the CSCIHL Group. The Group has a standard and systematic tender submission procedure to determine the prices and terms of a tender and such procedure applies to tenders submitted to both connected persons and independent third parties. In preparing and assessing a tender, the Group will consider the technical requirements, quantity specifications, expected completion time, customer's expectations and possible risks associated with the project. The Group will then perform site inspection, formulate a tentative construction program and conduct quantitative costs analysis and risk assessment. In determining the tender price, the Group will review the costs information maintained in its in-house database for material supplies and prices from subcontractors for the Group's previous projects and peripheral operation. The Group will also review and compare the prices of previous tenders submitted to both connected persons and independent third parties to ensure that the price of the tender to be submitted is not more favourable than those submitted to independent third parties.

Where the Group submits the tender directly to the ultimate employer and is nominated by the ultimate employer as subcontractor to the CSCIHL Group, consideration to the Group will be ascertained by an independent professional quantity surveyor appointed by the ultimate employer.

In respect of the project consultancy service and project management service, the Group is typically engaged through direct appointment by the CSCIHL Group. The price and terms of each service provided to the CSCIHL Group shall be determined on a fair basis and on normal commercial terms based on the scale, degree of difficulty of the project, geographical location and duration of the project, which shall also be in line with the basis for engagements by independent third parties to provide services for projects of similar size and nature. The service fees shall be determined based on a percentage of not more than 20% of the value or remaining value of the projects. The quote to be offered will be reviewed and scrutinised by the Group's senior management with reference to the costs expected to be incurred and the fees previously offered to both connected persons and independent third parties to ensure that the price and terms are no more favourable than those offered to independent third parties.

Since the applicable percentage ratios as defined in the Listing Rules in respect of the maximum total contract sum that may be awarded for each year under the FE-CSC Sub-construction Engagement Agreement (i.e. the CSC Works Cap) exceeded 5%, the transactions contemplated thereunder were subject to the annual review, reporting, announcement and independent shareholders' approval requirements. An announcement was published on 28 October 2014 and a circular dated 18 November 2014 was despatched to the shareholders of the Company. The FE-CSC Sub-construction Engagement Agreement was duly approved by the independent shareholders of the Company at an extraordinary general meeting held on 12 December 2014.

The total value of the contracts awarded to the Group under the FE-CSC Sub-construction Engagement Agreement during the year ended 31 December 2017 was HK$549,614,698.

As the FE-CSC Sub-construction Engagement Agreement would have expired on 31 December 2017, the Company entered into a new agreement with CSCIHL on 11 October 2017 to renew the FE-CSC Sub-construction Engagement Agreement for a term of three years commencing from 1 January 2018 and the new agreement was duly approved by the independent shareholders of the Company at an extraordinary general meeting held on 18 December 2017. Details of the new agreement were disclosed in the announcement dated 11 October 2017 and the circular dated 1 November 2017.

## 3. FE-CSC Operational Services Agreement

On 28 October 2014, the Company entered into an agreement ("FE-CSC Operational Services Agreement") with CSCIHL to replace the three letter agreements entered into between the parties on 14 October 2014 in respect of the engagement of the CSCIHL Group by the Group for the provision of mechanical and electrical engineering works, leasing of machineries, provision of insurance services and supply of building materials to the Group.

### 3.1 Mechanical and Electrical Engineering Works Transactions

Under FE-CSC Operational Services Agreement, the Group may engage the CSCIHL Group as subcontractor of the Group for provision of mechanical and electrical engineering works to the Group's construction works ("Mechanical and Electrical Engineering Works Transactions") for a term of three years commencing from 1 January 2015 and ending on 31 December 2017 provided that the total contract sum that may be awarded by the Group to the CSCIHL Group in respect of the Mechanical and Electrical Engineering Works Transactions for each year shall not exceed HK$450 million (i.e. the Mechanical and Electrical Engineering Works Cap).

As a general principle, the prices and terms of the contracts with respect to the Mechanical and Electrical Engineering Works Transactions shall be determined in the ordinary course of business, on normal commercial terms, negotiated on arm's length basis and at prices and on terms no more favourable than those awarded to independent third party subcontractors.

Where the CSCIHL Group is nominated by the ultimate employer as subcontractor to the Group, consideration to the CSCIHL Group will be ascertained by an independent professional quantity surveyor appointed by the ultimate employer.

Where the Group has the right to select contractor(s), consideration to such contractor(s) will be ascertained under the supervision of an in-house qualified professional quantity surveyor. The Group will obtain at least three quotations from a list of pre-approved contractors (which is subject to periodic review and update by the management to ensure contractors' quality standards).

For projects which involve substantial contract amounts, the CSCIHL Group will participate in a tender with all bidders (including independent third parties in the market), the winning bid of which will be the one with the lowest tender amount in accordance with the Group's internal tender procedures on the condition that the bidder also satisfies all other essential requirements (including but not limited to relevant experience, capability, historical relationship and track records) as set out in the invitation to bid.

No contracts were awarded to the CSCIHL Group in respect of the Mechanical and Electrical Engineering Works Transactions during the year ended 31 December 2017.

3.2 Machineries Leasing Transactions

Under the FE-CSC Operational Services Agreement, the Group may lease machineries from the CSCIHL Group for the Group's construction works ("Machineries Leasing Transactions") for a term of three years commencing from 1 January 2015 and ending on 31 December 2017 provided that the total rent payable in respect of the Machineries Leasing Transactions for each year shall not exceed HK$25 million (i.e. the Machineries Leasing Cap).

As a general principle, the prices and terms of the contracts with respect to the Machineries Leasing Transactions shall be determined in the ordinary course of business, on normal commercial terms, negotiated on arm's length basis and at prices and on terms no more favourable than those paid to independent third party vendors.

The Group will obtain at least three quotations from a list of pre-approved vendors (which is subject to periodic review and update by its management to ensure vendors' machinery and equipment are in good operational condition). For the selection of a vendor, the lowest quotation will be selected on the condition that the vendor also satisfies all other essential requirements (including but not limited to the specification and condition of the machinery and equipment).

The total rent in respect of the Machineries Leasing Transactions during the year ended 31 December 2017 was HK$2,810,194.

3.3 Insurance Services Transactions

Under the FE-CSC Operational Services Agreement, the Group may engage the CSCIHL Group to provide insurance services to the Group ("Insurance Services Transactions") for a term of three years commencing from 1 January 2015 and ending on 31 December 2017 provided that the total fees payable in respect of the Insurance Services Transactions for each year shall not exceed HK$70 million (i.e. the Insurance Services Cap).

As a general principle, the prices and terms of the contracts with respect to the Insurance Services Transactions shall be determined in the ordinary course of business, on normal commercial terms, negotiated on arm's length basis and at prices and on terms no more favourable than those paid to independent third party insurers.

The Group will obtain at least three quotations from independent insurers (directly or indirectly through independent insurance brokers) and the CSCIHL Group. If the price and terms offered by the CSCIHL Group are equal to or better than those offered by independent insurers on the condition that the insurer also satisfies all other essential requirements (including but not limited to paying ability, financial strength, specialisation, historical relationship and record of claim refusal), the Group may probably accept the quotation of the CSCIHL Group.

The total fee in respect of the Insurance Services Transactions during the year ended 31 December 2017 was HK$19,895,684.

3.4 Supply of Building Materials Transactions

Under the FE-CSC Operational Services Agreement, the CSCIHL Group may supply building materials to the Group for the Group's construction works ("Supply of Building Materials Transactions") for a term of three years commencing from 1 January 2015 and ending on 31 December 2017 provided that the total sum payable in respect of the Supply of Building Materials Transactions for each year shall not exceed HK$150 million (i.e. the Supply of Building Materials Cap).

As a general principle, the prices and terms of the contracts with respect to the Supply of Building Materials Transactions shall be determined in the ordinary course of business, on normal commercial terms, negotiated on arm's length basis and at prices and on terms no more favourable than those paid to independent third party suppliers.

The Group will obtain at least three quotations from a list of pre-approved suppliers (which is subject to periodic review and update by its management to ensure a portfolio of best in class suppliers is available for use). For the selection of a supplier, the lowest quotation will be selected on the condition that the supplier also satisfies all other essential requirements (including but not limited to relevant experience, qualities and specifications of materials and track records).

The total sum in respect of the Supply of Building Materials Transactions during the year ended 31 December 2017 was HK$10,661,440.

Since the applicable percentage ratios as defined in the Listing Rules in respect of the maximum total contract sum that may be awarded for each year under the FE-CSC Operational Services Agreement (i.e. the Mechanical and Electrical Engineering Works Cap, the Machineries Leasing Cap, the Insurance Services Cap and the Supply of Building Materials Cap in aggregate) exceeded 5%, the transactions contemplated thereunder were subject to the annual review, reporting, announcement and independent shareholders' approval requirements. An announcement was published on 28 October 2014 and a circular dated 18 November 2014 was despatched to the shareholders of the Company. The FE-CSC Operational Services Agreement was duly approved by the independent shareholders of the Company at an extraordinary general meeting held on 12 December 2014.

As the FE-CSC Operational Services Agreement would have expired on 31 December 2017, the Company entered into a new agreement with CSCIHL on 11 October 2017 to renew the FE-CSC Operational Services Agreement for a term of three years commencing from 1 January 2018 and the new agreement was duly approved by the independent shareholders of the Company at an extraordinary general meeting held on 18 December 2017. Details of the new agreement were disclosed in the announcement dated 11 October 2017 and the circular dated 1 November 2017.

## 4. Urban Planning Management and Consultation Service Agreement

On 30 December 2016, the Company entered into an urban planning management and consultation service agreement ("Urban Planning Management and Consultation Service Agreement") with 中建五局第三建設有限公司 (3rd Construction Co., Ltd of China Construction 5th Engineering Bureau) ("CSCEC 5th Bureau", a subsidiary of CSCECL) pursuant to which CSCEC 5th Bureau may engage any wholly-owned subsidiary designated by the Company for provision of the project management and consultation service ("Urban Planning Management and Consultation Service") to CSCEC 5th Bureau in respect of the urban planning and operation projects located in the PRC undertaken by CSCEC 5th Bureau ("Urban Planning Projects") during the term commencing from 30 December 2016 and ending on 31 December 2018 provided that the total contract sum that may be awarded by CSCEC 5th Bureau to the Group under the Urban Planning Management and Consultation Service Agreement for the period from 30 December 2016 to 31 December 2016 and each of two financial years ending 31 December 2017 and 31 December 2018 shall not exceed HK$80 million, HK$100 million and HK$100 million, respectively (i.e. the CSCFB Service Cap).

As a general principle, the prices and terms of the contracts with respect to the Urban Planning Management and Consultation Service shall be determined in the ordinary course of business, on normal commercial terms, negotiated on arm's length basis and at prices and on terms no more favourable than the same or comparable management and consultation service arrangements provided to the independent third party customers.

The fees for the Urban Planning Management and Consultation Service will be based on the prevailing market prices and ranging from 2% to 5% of the contract sum of CSCEC 5th Bureau's head agreements with the ultimate employer for the Urban Planning Projects, which will be determined with reference to the scope and complexity of the Urban Planning Management and Consultation Service, the location, size and development status of the Urban Planning Projects and the costs and expenses for providing the Urban Planning Management and Consultation Service.

Since the applicable percentage ratios as defined in the Listing Rules in respect of the maximum total contract sum that may be awarded to the Group during the term of the Urban Planning Management and Consultation Service Agreement (i.e. the CSCFB Service Cap) were greater than 0.1% but less than 5%, the transactions contemplated thereunder were subject to the annual review, reporting and announcement requirements, but exempt from independent shareholders' approval requirement. An announcement was published on 30 December 2016.

The total value of the contracts awarded to the Group under the Urban Planning Management and Consultation Service Agreement during the year ended 31 December 2017 was HK$99,011,628.

A summary of all related party transactions entered into by the Group during the year ended 31 December 2017 is contained in note 34 to the consolidated financial statements. Except for the transactions with fellow subsidiaries set out in paragraph (a)(i) of the note which were entered into by the Group pursuant to the continuing connected transactions described above, none of the related party transactions described therein constitute "connected transactions" or "continuing connected transactions" as defined in Chapter 14A of the Listing Rules.

The Company has complied with the disclosure requirements prescribed in Chapter 14A of the Listing Rules with respect to the continuing connected transactions entered into by the Group during the year ended 31 December 2017.

In respect of the financial year ended 31 December 2017, each of the continuing connected transactions mentioned above has been subject to annual review by the Independent Non-executive Directors pursuant to Rule 14A.55 of the Listing Rules who have concluded that each continuing connected transaction has been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms or better; and

(iii) according to the relevant agreement governing it on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was 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 Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants.

Based on the work performed, the auditor has confirmed in a letter to the Board that:

a. nothing has come to the attention of the auditor that causes them to believe that the disclosed continuing connected transactions have not been approved by the Board;

b. for transactions involving the provision of goods or services by the Group, nothing has come to the attention of the auditor that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group;

c. nothing has come to the attention of the auditor that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

d. with respect to the aggregate amount of each of the continuing connected transactions, nothing has come to the attention of the auditor that causes them to believe that the disclosed continuing connected transactions have exceeded the annual caps set by the Company.

# INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

**To the shareholders of Far East Global Group Limited**
*(incorporated in Cayman Islands with limited liability)*

## OPINION

### What we have audited

The consolidated financial statements of Far East Global Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 83 to 139, which comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

### Our opinion

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 2017, 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

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.

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*T: +852 2289 8888, F: +852 2810 9888*

## KEY AUDIT MATTERS

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

Key audit matters identified in our audit are summarised as follows:

- Revenue recognition from construction works
- Impairment of trade receivables and amounts due from customers for contract work
- Assessment of carrying amount of deferred tax assets and impairment of goodwill in Gamma USA, Inc. and Gamma Windows and Walls International, Inc.

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| **Revenue recognition from construction works** | |
| Refer to notes 2(m), 2(y)(i), 4(i), 4(ii) and 5 to the consolidated financial statements<br><br>For the year ended 31 December 2017, the Group recognised revenue from construction works of HK$2,870 million. Most construction works take several years to complete and the scope of work may change during that time. Management estimate the revenue and budgeted costs at the commencement of the contracts and regularly assess the progress of construction works as well as the financial impact of scope changes, claims, disputes and liquidation damages. The management's estimate of revenue, budgeted costs as well as the percentage of completion requires significant judgement and has a significant impact on the amount and timing of revenue recognised. For this reason, we identified revenue recognition from construction works as a key audit matter. | We understood, evaluated and validated on a sample basis the internal controls relating to the contract budgeting and management process.<br><br>The measurement of revenue recognition requires management's estimate in respect of revenue, budgeted costs as well as the percentage of completion for construction works. In our testing of the revenue recognition for the reporting period, we selected construction works on a sample basis and:<br><br>• discussed with management and the respective project teams the progress of the projects;<br><br>• assessed management's estimates of the impact to revenue and budgeted costs arising from scope changes made to the original contracts, claims, disputes and liquidation damages with reference to supporting documents including variation orders and correspondence among the Group, customers, subcontractors and suppliers;<br><br>• tested on a sample basis the actual costs incurred on construction works during the reporting period;<br><br>• recalculated the revised percentage of completion based on the latest budgeted final costs and the total actual costs incurred; and<br><br>• recalculated the revenue recognised based on the revised percentage of completion.<br><br>We consider the management's estimates used to determine the revenue and budgeted costs and the percentage of completion for construction works for the reporting period as well as the revenue recognised to be supportable based on the evidence available. |

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| **Impairment of trade receivables and amounts due from customers for contract work** | |
| Refer to notes 2(k), 2(n), 4(v), 19 and 20 to the consolidated financial statements<br><br>As at 31 December 2017, the Group recognised trade receivables of HK$478 million and amounts due from customers for contract work of HK$689 million, which were significant assets of the Group as of the year end, representing 45% of total assets. In assessing the recoverability of trade receivables and amounts due from customers for contract work, management exercised significant judgements to evaluate the collectability from individual customers after taking into account their creditworthiness, whether they have financial difficulties, experience of default or delinquency in interest or principal payments, the probability that they will enter bankruptcy and aging analysis. The judgements applied by management have a significant impact on the level of provision required for trade receivables and amounts due from customers for contract work. | We performed the following procedures to assess the recoverability of trade receivables and amounts due from customers for contract work:<br><br>• understood, evaluated and validated on a sample basis the design and operating effectiveness of management control over the collection and the assessment of the recoverability of receivables;<br><br>• tested on a sample basis the aging of trade receivables at year end;<br><br>• tested on a sample basis subsequent settlements and the latest amounts certified by quantity surveyors appointed by customers to identify if there were any indicators of impairment of trade receivables and amounts due from customers for contract work;<br><br>• in respect of material trade receivables and amounts due from customers for contract work balances, inspected relevant contracts and correspondence with the customers, and assessed their creditworthiness with reference to publicly available information, where applicable;<br><br>• in respect of material trade receivable balances which are past due, additional procedures were performed to evaluate their historical progress payment records, assess whether the customers are experiencing financial difficulties, default or delinquency in interest or principal payments, and assess the probability that the customers will enter bankruptcy with reference to publicly available information, where applicable; and<br><br>• evaluated the level of provisions made by management for trade receivables and amounts due from customers for contract work.<br><br>We consider the judgements applied by management in assessing the recoverability of and determining the level of provision for trade receivables and amounts due from customers for contract work to be supportable based on the evidence available. |

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| **Assessment of the carrying amount of deferred tax assets and impairment of goodwill in Gamma USA, Inc. and Gamma Windows and Walls International, Inc.** | |
| Refer to notes 2(h), 2(i), 2(t)(ii), 4(iv), 16 and 26 to the consolidated financial statements<br><br>As of 31 December 2017, the Group carried goodwill of HK$138 million from the acquisition of a 55% equity interest in Gamma North America, Inc. The Group has also recognised deferred tax assets of HK$94 million, which is mainly attributable to the tax losses in Gamma USA, Inc. and Gamma Windows and Walls International, Inc. The recognition of deferred tax assets is based upon management judgement that it is probable that sufficient taxable profits will be available in the future to utilise available tax losses. Since both Gamma USA, Inc. and Gamma Windows and Walls International, Inc. incurred a loss for the financial year ended 31 December 2017, management performed an assessment of the carrying amount of deferred tax assets as well as an impairment assessment of the goodwill of Gamma North America, Inc.<br><br>For the purpose of this impairment assessment, Gamma USA, Inc. and Gamma Windows and Walls International, Inc. were assessed as a single cash generating unit ("CGU"). The recoverable amount of a CGU is determined based on the value-in-use calculation which requires the use of management estimates. Cash flow projections used in the value-in-use calculation were based on the financial budgets approved by management. The estimated discount rates, revenue growth rates and gross margins were specific to the risks related to the CGU.<br><br>A change in the assumptions used for the impairment assessment may impact the carrying amount of the deferred tax assets and the impairment assessment of goodwill. | We performed the following procedures to assess the carrying amount of deferred tax assets and any impairment to goodwill of Gamma USA, Inc. and Gamma Windows and Walls International, Inc.:<br><br>• understood, evaluated and validated on a sample basis the design and operating effectiveness of management control over the review of the financial budgets;<br><br>• involved our internal valuation experts to assess the valuation methodology and compare the discount rates applied by management to other comparable companies in the same industry;<br><br>• assessed the key assumptions used by management in the assessment of the carrying amount of deferred tax assets and value-in-use calculations in the impairment assessment of goodwill, including revenue growth rates, gross margins and taxable profits by comparing them with economic and industry forecasts. We compared the current year actual results with the prior year forecasts to assess the reasonableness of financial budgets approved by management;<br><br>• assessed management's sensitivity analysis of the impact on the impairment assessment of goodwill through reasonably possible deviations to the assumptions, such as changes in expected revenue growth rates and discount rates, applied by management; and<br><br>• compared the market inputs used by management to available market information.<br><br>We consider the assumptions applied by management in the assessment of the carrying amount of deferred tax assets and the impairment assessment of goodwill to be in line with our expectations based on the procedures performed above. |

## OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Pong Fei Ho.

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, 14 March 2018

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2017

| | Note | **2017** **HK$'000** | 2016 HK$'000 |
|---|---|---|---|
| Revenue | 5 | **2,910,942** | 2,647,272 |
| Cost of sales | 7 | **(2,520,146)** | (2,457,732) |
| Gross profit | | **390,796** | 189,540 |
| Other income and other gains, net | 6 | **6,396** | 5,165 |
| Administrative, selling and other operating expenses | 7 | **(181,510)** | (160,940) |
| Finance costs | 8 | **(17,340)** | (15,295) |
| Profit before tax | | **198,342** | 18,470 |
| Income tax charge | 9 | **(107,323)** | (57,796) |
| Profit/(loss) for the year | | **91,019** | (39,326) |
| Profit/(loss) for the year attributable to: | | | |
| Owners of the Company | | **100,935** | 88,391 |
| Non-controlling interests | | **(9,916)** | (127,717) |
| | | **91,019** | (39,326) |
| Earnings per share (HK cents) | 13 | | |
| Basic and diluted | | **4.68** | 4.10 |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

| | **2017**<br>**HK$'000** | 2016<br>HK$'000 |
|---|---|---|
| Profit/(loss) for the year | **91,019** | (39,326) |
| Other comprehensive income | | |
| *Items that may be reclassified to profit and loss* | | |
| Exchange differences arising on translation of foreign operations | **25,955** | (12,315) |
| Release of investment revaluation reserve to profit and loss upon disposal of available-for-sale investments | **—** | 440 |
| Other comprehensive income for the year, net of tax | **25,955** | (11,875) |
| Total comprehensive income for the year, net of tax | **116,974** | (51,201) |
| Total comprehensive income for the year attributable to: | | |
| Owners of the Company | **125,954** | 74,851 |
| Non-controlling interests | **(8,980)** | (126,052) |
| | **116,974** | (51,201) |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

| | Note | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|---|
| **Non-current Assets** | | | |
| Property, plant and equipment | 14 | 229,000 | 143,500 |
| Prepaid lease payments | 15 | 34,929 | 33,130 |
| Goodwill | 16 | 138,149 | 138,149 |
| Deferred tax assets | 26 | 94,058 | 147,013 |
| | | 496,136 | 461,792 |
| **Current Assets** | | | |
| Inventories | 18 | 9,928 | 10,341 |
| Amounts due from customers for contract work | 19 | 688,810 | 565,763 |
| Trade and other receivables | 20 | 943,563 | 793,406 |
| Deposits and prepayments | | 54,520 | 41,443 |
| Tax recoverable | | 1,097 | 489 |
| Amounts due from fellow subsidiaries | 21 | 34,924 | 24,527 |
| Bank and cash balances | 22 | 386,949 | 386,891 |
| | | 2,119,791 | 1,822,860 |
| | | 2,615,927 | 2,284,652 |
| **Current Liabilities** | | | |
| Bank borrowings | 23 | 401,693 | 322,843 |
| Amounts due to customers for contract work | 19 | 60,212 | 137,440 |
| Trade payables, other payables and accruals | 24 | 782,822 | 572,351 |
| Finance lease payables | 25 | 865 | 774 |
| Current tax payables | | 45,592 | 68,269 |
| Amounts due to fellow subsidiaries | 21 | 93,514 | 29,370 |
| Deposits received and advances from customers | | 52,235 | 66,947 |
| | | 1,436,933 | 1,197,994 |
| Total Assets less Current Liabilities | | 1,178,994 | 1,086,658 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

| | Note | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|
| **Capital and Reserves** | | | |
| Share capital | 28 | 21,555 | 21,555 |
| Share premium and reserves | 29 | 995,663 | 907,930 |
| Equity attributable to owners of the Company | | 1,017,218 | 929,485 |
| Non-controlling interests | | (54,201) | (45,258) |
| | | 963,017 | 884,227 |
| **Non-current liabilities** | | | |
| Bank borrowings | 23 | 213,185 | 200,000 |
| Finance lease payables | 25 | 2,499 | 2,138 |
| Deferred tax liabilities | 26 | 293 | 293 |
| | | 215,977 | 202,431 |
| | | 1,178,994 | 1,086,658 |

On behalf of the Board

**Zhu Yijian**
*Director*

**Chan Sim Wang**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

| | Attributable to owners of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital (note 28) HK$'000 | Share premium (note 29) HK$'000 | Special reserve (note 29) HK$'000 | Share-based payments reserve (note 29) HK$'000 | Investment revaluation reserve (note 29) HK$'000 | Foreign currency translation reserve (note 29) HK$'000 | Statutory reserves (note 29) HK$'000 | Retained profits HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total equity HK$'000 |
| At 1 January 2016 | 21,555 | 898,654 | (25,053) | 4,636 | (440) | (34,069) | 12 | 307,284 | 1,172,579 | (206,974) | 965,605 |
| Profit/(loss) for the year | – | – | – | – | – | – | – | 88,391 | 88,391 | (127,717) | (39,326) |
| Release of investment revaluation reserve to profit and loss upon disposal of available-for-sale investments | – | – | – | – | 440 | – | – | – | 440 | – | 440 |
| Exchange differences arising on translation of foreign operations | – | – | – | – | – | (13,980) | – | – | (13,980) | 1,665 | (12,315) |
| Total comprehensive income for the year | – | – | – | – | 440 | (13,980) | – | 88,391 | 74,851 | (126,052) | (51,201) |
| Acquisition of additional interests in subsidiaries | – | – | (287,768) | – | – | – | – | – | (287,768) | 287,768 | – |
| 2015 final dividend paid | – | – | – | – | – | – | – | (12,933) | (12,933) | – | (12,933) |
| 2016 interim dividend paid | – | – | – | – | – | – | – | (17,244) | (17,244) | – | (17,244) |
| At 31 December 2016 and 1 January 2017 | 21,555 | 898,654 | (312,821) | 4,636 | – | (48,049) | 12 | 365,498 | 929,485 | (45,258) | 884,227 |
| Profit/(loss) for the year | – | – | – | – | – | – | – | 100,935 | 100,935 | (9,916) | 91,019 |
| Exchange differences arising on translation of foreign operations | – | – | – | – | – | 25,019 | – | – | 25,019 | 936 | 25,955 |
| Total comprehensive income for the year | – | – | – | – | – | 25,019 | – | 100,935 | 125,954 | (8,980) | 116,974 |
| Capital contribution relating to share-based payment borne by an intermediate holding company (Note 30) | – | – | 615 | – | – | – | – | – | 615 | – | 615 |
| Acquisition of additional interest in a subsidiary | – | – | (37) | – | – | – | – | – | (37) | 37 | – |
| 2016 final dividend paid | – | – | – | – | – | – | – | (17,244) | (17,244) | – | (17,244) |
| 2017 interim dividend paid | – | – | – | – | – | – | – | (21,555) | (21,555) | – | (21,555) |
| **At 31 December 2017** | **21,555** | **898,654** | **(312,243)** | **4,636** | **–** | **(23,030)** | **12** | **427,634** | **1,017,218** | **(54,201)** | **963,017** |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

| | Note | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|
| Profit before tax | | **198,342** | 18,470 |
| Adjustments for: | | | |
| Finance costs | | **17,340** | 15,295 |
| Bank interest income | | **(1,817)** | (916) |
| (Gain)/loss on disposal of property, plant and equipment | | **(164)** | 74 |
| Warranty provisions, net | | **17,381** | 14,921 |
| Depreciation | | **6,898** | 7,442 |
| Amortisation of prepaid lease payments | | **690** | 117 |
| Provision for trade and other receivables, net | | **442** | 1,325 |
| Share-based payment borne by intermediate holding company | | **615** | — |
| Operating cash flows before working capital changes | | **239,727** | 56,728 |
| Decrease in inventories | | **413** | 3,308 |
| Increase in amounts due from/to customers for contract work, net | | **(191,057)** | (28,555) |
| (Increase)/decrease in trade and other receivables | | **(150,599)** | 23,148 |
| Increase in deposits and prepayments | | **(13,077)** | (9,609) |
| Increase in amounts due from/to fellow subsidiaries, net | | **53,747** | 3,116 |
| Increase in trade payables, other payables and accruals | | **192,583** | 94,619 |
| (Decrease)/increase in deposits received and advances from customers | | **(14,712)** | 23,821 |
| Net cash generated from operations | | **117,025** | 166,576 |
| Income tax paid, net | | **(76,106)** | (21,093) |
| Net cash generated from operating activities | | **40,919** | 145,483 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | **(107,285)** | (19,377) |
| Payment for prepaid lease | | **24** | (33,240) |
| Proceeds from disposals of property, plant and equipment | | **8,359** | 77 |
| Proceeds from disposals of available-for-sale investments | | **—** | 19,501 |
| Interest received | | **1,817** | 916 |
| Net cash used in investing activities | | **(97,085)** | (32,123) |
| **Cash flows from financing activities** | | | |
| Finance costs paid | | **(17,166)** | (15,295) |
| Drawdown/(repayment) of bank loans, net | 31 | **91,023** | 125,972 |
| New/(repayment) of finance lease payables, net | 31 | **278** | (758) |
| Dividends paid | | **(38,799)** | (30,177) |
| Net cash generated from financing activities | | **35,336** | 79,742 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(20,830)** | 193,102 |
| Effect of foreign exchange rate changes | | **20,888** | (6,696) |
| **Cash and cash equivalents at the beginning of year** | | **386,891** | 200,485 |
| **Cash and cash equivalents at the end of year** | | **386,949** | 386,891 |
| **Analysis of cash and cash equivalents** | | | |
| Bank and cash balances | | **386,949** | 386,891 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1 GENERAL INFORMATION

Far East Global Group Limited (the "Company") and its subsidiaries (together the "Group") are involved in the general contracting business, the facade contracting business and consultancy services business, including the design, engineering, manufacture and installation of curtain wall systems made primarily of fabricated aluminium cladding, stainless steel and glass.

The Company is a limited liability company incorporated in the Cayman Islands and under the Companies Law of the Cayman Islands. The address of its registered office is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The address of its principal place of business is 16th Floor, Eight Commercial Tower, No. 8 Sun Yip Street, Chai Wan, Hong Kong.

Its immediate holding company is Add Treasure Holdings Limited, a company incorporated in the British Virgin Islands and a wholly owned subsidiary of China State Construction International Holdings Limited ("CSCIHL") whose shares are listed on the Stock Exchange of Hong Kong Limited.

Its intermediate holding company is China Overseas Holdings Limited, a company incorporated in Hong Kong which, in turn, is a wholly-owned subsidiary of China State Construction Engineering Corporation Limited ("CSCECL"). CSCECL is a joint stock company established in the People's Republic of China ("PRC") with its shares listed on the Shanghai Stock Exchange. The Company's ultimate holding company is 中國建築集團有限公司 ("CSCGL"), previously known as China State Construction Engineering Corporation, which is a state-owned enterprise established in the PRC.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited since 30 March 2010.

These consolidated financial statements are presented in the thousands of Hong Kong dollars, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 14 March 2018.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### (a) Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (a) Basis of preparation *(Continued)*

The adoption of amendments and improvements to existing standards

In the current year, the Group has applied the following amendments and improvements to existing Hong Kong Accounting Standards ("HKAS(s)"), HKFRS (hereinafter collectively referred to as the "new HKFRSs") issued by the HKICPA.

| | |
|---|---|
| Amendments to HKAS 7 | Disclosure Initiative |
| Amendments to HKAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses |
| Annual Improvements 2014–2016 | Amendments to HKAS 12 |

The application of the above amendments and improvements to existing standards in the current year has had no material impact on the Group's results and financial position.

New standards, amendments and improvements to existing standards and interpretations not yet effective

The Group has not early applied the following new standards, amendments and improvements to existing standards and interpretations that have been issued but are not yet effective:

| | |
|---|---|
| Amendments to HKFRS 2 | Classification and Measurement of Share-based Payment Transactions[1] |
| Amendments to HKFRS 4 | Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1] |
| HKFRS 9 | Financial Instruments[1] |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation[2] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |
| HKFRS 15 | Revenue from Contracts with Customers[1] |
| Amendments to HKFRS 15 | Clarifications to HKFRS 15 Revenue from Contracts with Customers[1] |
| HKFRS 16 | Leases[2] |
| Amendments to HKAS 40 | Transfers of Investment Property[1] |
| HK(IFRIC)–Int 22 | Foreign Currency Transactions and Advance Consideration[1] |
| HK(IFRIC)–Int 23 | Uncertainty over Income Tax Treatments[2] |
| Annual Improvements 2014–2016 Cycle | Amendments to HKFRS 1 and HKAS 28[1] |

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 No mandatory effective date yet determined but available for adoption

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (a) Basis of preparation *(Continued)*

New standards, amendments and improvements to existing standards and interpretations not yet effective *(Continued)*

The Group will adopt the above standards, amendments and improvements to existing standards and interpretations as and when they become effective. None of the above is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

*HKFRS 9 "Financial Instruments"*

HKFRS 9, "Financial Instruments" replaces the whole of HKAS 39 "Financial Instruments: Recognition and Measurement". It addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

HKFRS 9 has three financial asset classification categories for investments in debt instruments: amortised cost, fair value through other comprehensive income ("OCI") and fair value through profit or loss. Classification is driven by the entity's business model for managing the debt instruments and their contractual cash flow characteristics. Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in OCI, provided the instrument is not held for trading.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) model rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost and contract assets under HKFRS 15 "Revenue from Contracts with Customers".

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

The Group will apply the new rules from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

*HKFRS 15 "Revenue from Contracts with Customers"*

HKFRS 15 replaces HKAS 18 "Revenue" and HKAS 11 "Construction Contracts" and the related interpretations. HKFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach:

Step 1: Identify the contract(s) with customer;

Step 2: Identify separate performance obligations in a contract;

Step 3: Determine the transaction price;

Step 4: Allocate transaction price to performance obligations; and

Step 5: Recognise revenue when performance obligations is satisfied.

The core principle is that a company should recognise revenue when control of a good or service transfers to a customer. Under HKFRS 15, an entity normally recognises revenue when a performance obligation is satisfied. Incremental costs incurred to obtain a contract, if recoverable, are capitalised as contract assets and subsequently amortised when the related revenue is recognised.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (a) Basis of preparation *(Continued)*

New standards, amendments and improvements to existing standards and interpretations not yet effective *(Continued)*

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

The adoption of HKFRS 15 is mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt HKFRS 15 using the modified retrospective approach which the cumulative impact of the adoption, if any, will be recognised in retained profits as of 1 January 2018 and comparatives will not be restated.

*HKFRS 16 "Leases"*

HKFRS 16 addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from HKFRS 16 is that most operating leases will be accounted for on the statements of financial position for lessees. HKFRS 16 is mandatory for the Group's financial statements for annual periods beginning on or after 1 January 2019. The Group currently plans to adopt this new standard from 1 January 2019.

The Group is a lessee of certain premises and properties which are currently classified as operating leases. HKFRS 16 provides a new provision for the accounting treatment of leases when the Group is the lessee, almost all leases should be recognised in the form of an asset (for the right of use) and a financial liability (for the payment obligation). Short-term leases of less than twelve months and leases of low-value assets are exempt from the reporting obligation. The new standard will therefore result in an increase in assets and financial liabilities in the consolidated statements of financial position. As for the financial performance impact in the consolidated statements of comprehensive income, straight-line depreciation expense on the right-of-use asset and the interest expenses on the lease liability are recognised and no rental expenses will be recognised. The combination of a straight-line depreciation of the right-of-use asset and the effective interest rate method applied to the lease liability will result in a higher total charge to consolidated income statements in the initial years of the lease, and decreasing expenses during the latter part of the lease term.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (b) Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

(i) Subsidiaries

A subsidiary is an entity (including structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

*Business combinations — common control combinations*

Business combinations under common control are accounted for in accordance with the Accounting Guideline 5 'Merger Accounting for Common Control Combinations'. In applying merger accounting, the consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The consolidated income statement also takes into account the profit or loss attributable to the non-controlling interests of the controlling party. Upon the completion of common control combinations, the retained profit of the combining entities or business is transferred to the retained profits of the Group.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the beginning of the previous reporting period or when they first came under common control, whichever is shorter.

*Business combinations — acquisition method*

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (b) Consolidation *(Continued)*

(i) Subsidiaries *(Continued)*

*Business combinations — acquisition method (Continued)*

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in the consolidated income statement.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquire and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the income statement.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated unless the transaction provides evidence of an impairment of the transferred asset. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(ii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions — that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iii) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to income statement.

### (c) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (d) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that makes strategic decisions.

### (e) Foreign currency translation

#### (i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars (HK$), which is the Company's functional and the Group's presentation currency.

#### (ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses are presented in the income statement within 'other income and other gains, net' and 'administrative, selling and other operating expenses' respectively.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (e) Foreign currency translation *(Continued)*

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;

(b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(c) all resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

(iv) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the Company are reclassified to consolidated income statement.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint ventures that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to consolidated income statement.

### (f) Property, plant and equipment

Land and buildings comprise mainly factories and offices. Leasehold land classified as finance lease and all other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Leasehold land classified as finance lease commences amortisation from the time when the land interest becomes available for its intended use. Amortisation on leasehold land classified as finance lease and depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

| | |
|---|---|
| Freehold land | Not depreciated |
| Land and buildings | Over the shorter of the term of the relevant lease or 50 years |
| Leasehold improvements | 4 years |
| Plant and machinery | 5 years |
| Furniture, fixtures and equipment | 5 years |
| Motor vehicles | 4–5 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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

Construction in progress represents buildings under construction and plant and machinery pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other income and other gains, net' in the income statement.

### (g) Leasehold land and building

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

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (h) Intangible assets

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

### (i) Impairment of non-financial assets

Assets that have an indefinite useful life — for example, goodwill is not subject to amortisation and is tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### (j) Financial assets

The Group classifies its financial assets in the following category: loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than twelve months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprises 'deposits and prepayments', 'trade and other receivables' and 'bank and cash balances' in the statement of financial position.

(ii) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (k) Impairment of financial assets

Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognized in the consolidated income statement.

### (l) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

### (m) Construction contracts

When the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, as measured by the proportion that contract costs incurred for work performed to date relative to the estimated total contract cost, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognized as expenses in the period in which they are incurred.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (m) Construction contracts *(Continued)*

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

When a contract covers a number of assets, the construction of each asset is treated as a separate contract when separate proposals have been submitted for each asset, each asset has been separately negotiated and the costs and revenue of each asset can be separately identified. A group of contracts, performed concurrently or in a continuous sequence, is treated as a single construction contract when they were negotiated as a single package and are so closely inter-related that they constitute a single project with an overall profit margin.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as an amount due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as an amount due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as receipt in advance. Amounts billed for work performed, but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

### (n) Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. See Note 2(j) for further information about the Group's accounting for trade receivables and Note 2(k) for a description of the Group's impairment policies.

### (o) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the consolidated and entity statement of financial position, bank overdrafts are shown within borrowings in current liabilities.

### (p) Trade payables, other payables and accruals

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables, other payables and accruals are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables, other payables and accruals are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (q) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

### (r) Borrowing costs

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

### (s) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### (t) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

#### (i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Group's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

# 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

## (t) Current and deferred income tax *(Continued)*

### (ii) Deferred income tax

*Inside basis differences*

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

*Outside basis differences*

Deferred income tax liabilities are provided on temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

### (iii) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

## (u) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (v) Leases, the Group as a lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

### (w) Employee benefits

#### (i) Pension obligations

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies. The Group has defined contribution plans.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

#### (ii) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

# 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

## (x) Share-based payments

### (a) Equity-settled share-based payment transactions

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in consolidated income statement such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve. When the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium.

When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

### (b) Share-based payment transactions among group entities

Incentive shares granted by an intermediate holding company to the employees of the Group is treated as capital contribution. The fair value of employee services received, measured by reference to the fair value of incentive shares on the date of grant, is recognised as an expense over the vesting period, with a corresponding credit to equity.

At the end of each reporting period, the Group revises its estimates of the number of incentive shares that are expected to be vested. The impact of the revision of the original estimates, if any, is recognised in profit or loss, with a corresponding adjustment to equity.

## (y) Revenue recognition

### (i) Construction contracts

When the outcome of a fixed price construction contract can be estimated reliably, revenue is recognized on the percentage of completion method, measured by reference to the proportion that costs incurred to date bear to estimated total costs for each contract, after making due allowances for contingencies. Provisions are made for any foreseeable losses when they are identified. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

When the outcome of a cost-plus construction contract including construction services of the infrastructure under service concession arrangements can be estimated reliably, revenue is recognized by reference to the recoverable costs incurred during the year plus the fee earned, measured by the proportion that costs incurred to date bear to the estimated total costs of the contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (y) Revenue recognition *(Continued)*

(ii) Interest income

Interest income on bank deposits is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(iii) Rental income

Rental income is recognised on a straight-line basis over the term of the lease.

(iv) Consultancy service income/service income

Service income is recognised on accrual basis when the services are rendered.

### (z) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability, other than that assumed in a business combination, is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

A contingent asset is not recognised but is disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

### (aa) Insurance contracts

The Group assesses at the end of each reporting period the liabilities under its insurance contracts using current estimates of future cash flows. If the carrying amount of the relevant insurance liabilities is less than the best estimate of the expenditure required to settle the relevant insurance liabilities at the end of the reporting period, the Group recognises the entire difference in the consolidated income statement. These estimates are recognised only when the outflow is probable and the estimates can be reliably measured.

### (ab) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders/directors.

# 3 FINANCIAL RISK MANAGEMENT

## 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

### (a) Market risk

#### *(i) Foreign exchange risk*

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States dollar, Renminbi and the Australian dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group's foreign currency exposures primarily arise from monetary assets and liabilities that are denominated in a currency that is not the entity's functional currency, where these assets and liabilities are mainly denominated in United States dollar, Renminbi and Australian dollar.

In view of the fact that the Hong Kong dollar is pegged to the United States dollar, the foreign currency exposure of operating units having the Hong Kong dollar as their functional currency on United States dollar transactions and balances is minimal.

At 31 December 2017, if the Hong Kong dollar had weakened/strengthened 5% against Renminbi and the Australian dollar with all other variables held constant, the consolidated profit for the year would have been HK$300,000 higher/lower (2016: HK123,000 higher/lower) and HK$663,000 lower/higher (2016: HK$595,000 lower/higher), respectively.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

The Group currently does not have a formal foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. However, the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.1 Financial risk factors *(Continued)*

### (a) Market risk *(Continued)*

#### *(ii) Interest rate risk*

The Group's interest rate risk arises from bank and other borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. During 2017 and 2016, the Group's borrowings at variable rate were denominated in the Hong Kong dollar, Canadian dollar and United States dollar.

The sensitivity analyses below have been determined based on the exposure to interest rates for floating interest debt securities and variable-rate trade and other receivables and bank borrowings. The analysis is prepared assuming the amount of asset and liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 (2016: 50) basis points increase or decrease representing management's assessment of the reasonably possible change in interest rates is used.

At 31 December 2017, if interest rates at that date had been 50 basis points higher/lower with all other variables held constant, consolidated profit for the year would have been HK$2,139,000 lower/higher (2016: HK$1,670,000 lower/higher), arising mainly as a result of higher/lower interest expense on bank and other borrowings, netting off against bank interest income.

### (b) Credit risk

The carrying amount of the bank and cash balances, deposits and prepayments, amounts due from fellow subsidiaries and trade and other receivables included in the consolidated statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

The Group has policies in place to ensure that sales are made to customers and fellow subsidiaries with an appropriate credit history. In addition, the directors review the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

The credit risk on bank and cash balances is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.1 Financial risk factors *(Continued)*

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | Less than 1 year HK$'000 | Between 1 and 2 years HK$'000 | Between 2 and 5 years HK$'000 | Over 5 years HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Group** | | | | | |
| **At 31 December 2017** | | | | | |
| Trade payables, other payables and accruals, excluding warranty provision | **657,154** | **91,673** | **—** | **—** | **748,827** |
| Amounts due to fellow subsidiaries | **93,514** | **—** | **—** | **—** | **93,514** |
| Bank borrowings | **408,158** | **206,918** | **3,053** | **11,959** | **630,088** |
| Finance lease payables | **892** | **819** | **2,132** | **—** | **3,843** |
| | **1,159,718** | **299,410** | **5,185** | **11,959** | **1,476,272** |
| At 31 December 2016 | | | | | |
| Trade payables, other payables and accruals, excluding warranty provision | 514,514 | 30,882 | — | — | 545,396 |
| Amounts due to fellow subsidiaries | 29,370 | — | — | — | 29,370 |
| Bank borrowings | 328,032 | 4,720 | 204,720 | — | 537,472 |
| Finance lease payables | 797 | 644 | 1,717 | 263 | 3,421 |
| | 872,713 | 36,246 | 206,437 | 263 | 1,115,659 |

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current bank borrowings' as shown in the consolidated statement of financial position) less bank and cash balances. Total capital is calculated as 'equity attributable to the owners of the Company' and 'non-controlling interests' as shown in the consolidated statement of financial position.

The gearing ratio is calculated as follows:

| | **2017**<br>**HK$'000** | 2016<br>HK$'000 |
|---|---|---|
| Bank borrowings | **614,878** | 522,843 |
| Add: finance lease payables | **3,364** | 2,912 |
| Less: bank and cash balances | **(386,949)** | (386,891) |
| Net debt | **231,293** | 138,864 |
| Net assets | **963,017** | 884,227 |
| Gearing ratio | **24.0%** | 15.7% |

The gearing ratio increased from 15.7% to 24.0% was resulted by an increase in bank borrowings.

## 3.3 Fair value estimation

The fair value of the following financial assets and liabilities approximate their carrying amount:

- Trade and other receivables
- Deposits and prepayments
- Bank and cash balances
- Amounts due from/to fellow subsidiaries
- Deposits received and advances from customers
- Trade payables, other payables and accruals
- Bank borrowings

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### (i) Construction contracts

As explained in note 2(y), revenue recognition on a project is dependent on management's estimation of the total outcome of the construction contract, as well as the work done to date. The Group reviews and revises the estimates of contract revenue, contract costs, variation orders and contract claims prepared for each construction contract as the contract progresses. Budgeted construction income is determined in accordance with the terms set out in the relevant contracts. Budgeted construction costs are prepared by management on the basis of quotations from time to time provided by the major contractors, suppliers or vendors involved and the experience of management. In order to keep the budget accurate and up-to-date, management conducts periodic reviews of management budgets by comparing the budgeted amounts to the actual amounts incurred.

A considerable amount of judgement is required in estimating the total contract revenue, contract costs, variation works and contract claims which may have an impact in terms of percentage of completion and job profit taken.

### (ii) Estimation of foreseeable losses in respect of construction works

Management estimates the amount of foreseeable losses of construction works based on management budgets prepared for the construction works. Budgeted construction income is determined in accordance with the terms set out in the relevant contracts. Budgeted construction costs which mainly comprise subcontracting charges and costs of materials are prepared by management on the basis of quotations from time to time provided by the major contractors/suppliers/vendors involved and experience of management. In order to keep the budget accurate and up-to-date, management conducts periodic review of management budgets by comparing the budgeted amounts to the actual amounts incurred.

### (iii) Impairment of assets

#### Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 2(h). The recoverable amount of goodwill is the higher of the fair values less costs of disposal and value in use.

A considerable amount of judgement and assumptions are required in estimating the recoverable amount of goodwill, including growth rate, gross margin and weighted average discount rate applied to the discounted cashflows.

# 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

## (iii) Impairment of assets *(Continued)*

### Impairment of property, plant and equipment

The Group regularly reviews whether there are any indications of impairment and will recognise an impairment loss if the carrying amount of an asset is lower than its recoverable amount which is the greater of its net selling price or its value in use. In determining the value in use, the Group assesses the present value of the estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life.

Estimates and judgements are applied in determining these future cash flows and the discount rate. The Group estimates the future cash flows based on certain assumptions, such as market competition and development and the expected growth in business.

## (iv) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain.

The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

The recognition of deferred tax assets is based upon whether it is more likely than not that sufficient and suitable taxable profits will be available in the future against which the reversal of temporary differences can be deducted. To determine the future taxable profits, reference is made to the latest available profit forecasts and relevant tax law is considered to determine the availability of the losses to offset against the future taxable profits.

The Group has exercised significant accounting judgement on recognition and utilisation of deferred tax assets in respect of losses, particular for the North America division. The amounts recognised in the consolidated financial statements are derived from the Group's best estimation and judgement regarding the future financial performance of the relevant division. Those significant estimations and judgement include gross profit margin, overhead and capital expenditure applied to the profit forecasts.

## (v) Allowances for bad and doubtful debts

The allowances for bad and doubtful debts of the Group are based on the evaluation of collectability and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the creditworthiness and the past collection history of each customer.

## (vi) Warranty provision

The Group provides a maintenance warranty for a period of 10 years for the projects completed by the Group. The Group undertakes to rectify the product that fail to perform satisfactorily. The warranty provision has been recognised at the year end for expected warranty claims based on past experience of the level of repairs and returns. Management will review the sufficiency of provision and make adjustments, if appropriate, at the end of each reporting period.

## 5 REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the facade contracting business, general contracting business and operating management business. The Group's revenue represents revenue from construction and management contracts.

As a result of a reporting structure reorganisation, the Group has reclassified the reportable segments into three operating segments, principally based on reportable business units as well as the reporting organisation hierarchy, which are determined as follows:

— Façade Contracting Works

— General Contracting Works

— Operating Management

Operating management segment includes the Group's urban planning management and consultation services and engineering consultancy services

The executive directors of the Company are the Group's chief operating decision-maker ("CODM"). The CODM assesses the performance of the operating segments based on a measure of adjusted profit or loss before interest and tax. This measurement basis excludes the effects of non-recurring expenditure from the operating segments, if any, such as restructuring costs, legal expenses and impairment of goodwill. The measurement also excludes the effects of share-based payments and unrealised gains/losses on financial instruments. Interest income and expenses resulting from the central treasury function are not allocated to segments.

Segment results for the years ended 31 December 2017 and 2016 are as follows:

| | Revenue | | Gross profit | | Segment result | |
|---|---|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Façade Contracting Works | **2,209,728** | 2,190,069 | **324,592** | 139,679 | **201,125** | 37,210 |
| General Contracting Works | **660,276** | 457,203 | **43,634** | 49,861 | **40,073** | 49,756 |
| Operating Management | **40,938** | — | **22,570** | — | **22,387** | — |
| Total | **2,910,942** | 2,647,272 | **390,796** | 189,540 | **263,585** | 86,966 |
| Unallocated corporate expenses | | | | | **(49,498)** | (54,262) |
| Other income and other gains, net | | | | | **1,595** | 1,061 |
| Finance costs | | | | | **(17,340)** | (15,295) |
| Profit before tax | | | | | **198,342** | 18,470 |

Segment revenue of facade contracting works comprises revenue from Greater China, Asia and other regions amounting to HK$1,669,006,000 (2016: HK$1,570,081,000) and the revenue from North America region amounting to HK$540,722,000 (2016: HK$619,988,000). Segment revenue of general contracting works and operating management represent revenue from Greater China region.

## 5 REVENUE AND SEGMENT INFORMATION *(Continued)*

Amounts included in the measurement of segment result:

| | Depreciation of property, plant and equipment | | (Gain)/loss on disposal of property, plant and equipment | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Façade Contracting Works | **6,820** | 7,442 | **(164)** | 74 |
| General Contracting Works | **78** | — | **—** | — |
| | **6,898** | 7,442 | **(164)** | 74 |

An analysis of the Group's financial position by territory is as follows:

| | Non-current assets* | | Additions to property, plant and equipment | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| North America | **202,536** | 214,217 | **2,665** | 6,271 |
| Greater China, Asia and Others | **199,542** | 100,562 | **104,621** | 13,106 |
| | **402,078** | 314,779 | **107,286** | 19,377 |

* Other than deferred tax assets.

### Segment assets and liabilities

No assets and liabilities are included in the measurements of the Group's segment reporting that are used by the CODM for performance assessment and resource allocation. Accordingly, no segment assets and liabilities are presented.

### Major customer information

Revenue from two (2016: two) customers, one in both Façade Contracting Works and General Contracting Works and one in General Contracting Works (2016: one in Façade Contracting Works and one in General Contracting Works), amounted to approximately HK$469,919,000 and approximately HK$438,301,000 respectively (2016: approximately HK$694,838,000 and approximately HK$309,315,000 respectively), each of which represents more than 10 per cent (2016: 10 per cent) of the Group's total revenue.

## 6 OTHER INCOME AND OTHER GAINS, NET

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Bank interest income | 1,817 | 916 |
| Exchange gain | — | 2,855 |
| Insurance claim received | 1,460 | 210 |
| Rental income | 586 | 237 |
| Service income | 1,189 | 1,397 |
| Sundry income | 1,622 | 949 |
| Provision for trade and other receivables, net | (442) | (1,325) |
| Gain/(loss) on disposal of property, plant and equipment | 164 | (74) |
| | 6,396 | 5,165 |

## 7 EXPENSES BY NATURE

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| **Cost of sales** | | |
| Cost of contracting works performed | 2,502,765 | 2,442,811 |
| Warranty provisions, net | 17,381 | 14,921 |
| | 2,520,146 | 2,457,732 |
| **Administrative, selling and other operating expenses** | | |
| Staff costs, including directors' emoluments: | | |
| Salaries, bonuses and allowances | 488,606 | 512,576 |
| Retirement benefits scheme contributions | 12,266 | 12,292 |
| Less: amounts included in cost of contracting works performed | (405,175) | (430,885) |
| | 95,697 | 93,983 |
| Depreciation of property, plant and equipment | 16,320 | 14,059 |
| Less: amounts included in cost of contracting works performed | (9,422) | (6,617) |
| | 6,898 | 7,442 |
| Operating lease charges — land and buildings | 43,480 | 35,492 |
| Less: amounts included in cost of contracting works performed | (29,530) | (24,084) |
| | 13,950 | 11,408 |
| Auditor's remuneration | | |
| — Audit services | 2,563 | 2,371 |
| — Non-audit services | 464 | 482 |
| | 3,027 | 2,853 |
| Amortisation of prepaid lease payments | 690 | 117 |
| Exchange loss, net | 6,890 | — |
| Others | 54,358 | 45,137 |
| | 181,510 | 160,940 |

## 8 FINANCE COSTS

| | **2017 HK$'000** | 2016 HK$'000 |
|---|---|---|
| Interest on bank loans and overdrafts | **17,166** | 15,076 |
| Finance lease charges | **174** | 219 |
| | **17,340** | 15,295 |

## 9 INCOME TAX CHARGE

(a) The amount of taxation charged to the consolidated income statement represents:

| | **2017 HK$'000** | 2016 HK$'000 |
|---|---|---|
| Current tax — Hong Kong profits tax | | |
| Provision for the year | **42,396** | 40,587 |
| Overprovision in prior years | **(917)** | (46) |
| | **41,479** | 40,541 |
| Current tax — overseas | | |
| Provision for the year | **11,510** | 4,321 |
| (Over)/underprovision in prior years | **(266)** | 418 |
| | **11,244** | 4,739 |
| Deferred tax, net (note 26) | **54,600** | 12,516 |
| Income tax charge for the year | **107,323** | 57,796 |

Hong Kong profits tax has been provided at 16.5% of the estimated assessable profit for both years.

Certain of the Group's subsidiaries in the Mainland China were approved as new and high technology enterprises pursuant to which the Mainland China subsidiaries can enjoy a preferential income tax rate of 15% effective from 2015 to 2017.

The tax charge on estimated assessable profits elsewhere has been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices.

Pursuant to the Tax Cuts and Jobs Act enacted by the government of the United States ("US") on 22 December 2017, the US corporate tax rate is reduced for tax years beginning after 31 December 2017. This rate change resulted in a reduction of the deferred tax assets of approximately HK$54,600,000 as of 31 December 2017.

## 9 INCOME TAX CHARGE *(Continued)*

(b) The taxation on the Group's profit before tax differs from the theoretical amount that would arise using the taxation rate of Hong Kong as follows:

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Profit before tax | **198,342** | 18,470 |
| Taxation at Hong Kong profits tax rate at 16.5% | **32,726** | 3,048 |
| Effect of different taxation rates in other countries | **(25,099)** | (57,145) |
| Income not subject to taxation | **(210)** | (4,361) |
| Expenses not deductible for taxation purposes | **11,638** | 26,508 |
| Temporary differences not recognised | **(907)** | 114 |
| Tax losses not recognised | **35,758** | 89,260 |
| Remeasurement of deferred tax — change in tax rate | **54,600** | — |
| (Over)/underprovision in prior years | **(1,183)** | 372 |
| Income tax charge | **107,323** | 57,796 |

## 10 BENEFITS AND INTERESTS OF DIRECTORS

### (a) Directors' and chief executive's emoluments

The remuneration of every director and the chief executive is set out below:

**For the year ended 31 December 2017:**

| | Emoluments paid or receivable in respect of a person's services as a director, whether of the company or its subsidiary undertaking | | | | |
|---|---|---|---|---|---|
| Name | Fees HK$'000 | Salary and allowances HK$'000 | Discretionary bonuses HK$'000 | Employer's contribution to benefit scheme HK$'000 | Total HK$'000 |
| Zhou Yong | — | — | — | — | — |
| Zhu Yijian | — | 2,064 | 2,062 | 18 | 4,144 |
| Luo Haichuan | — | 1,524 | 2,106 | 18 | 3,648 |
| Wang Hai | — | 1,857 | 1,705 | — | 3,562 |
| Chan Sim Wang | — | 1,218 | 326 | 18 | 1,562 |
| Huang Jiang (i) | 95 | — | — | — | 95 |
| Qin Jidong (ii) | — | 286 | — | — | 286 |
| Zhou Jinsong | 180 | — | — | — | 180 |
| Hong Winn | 150 | — | — | — | 150 |
| Kwong Sum Yee Anna | 150 | — | — | — | 150 |
| | 575 | 6,949 | 6,199 | 54 | 13,777 |

## 10 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

### (a) Directors' and chief executive's emoluments *(Continued)*

For the year ended 31 December 2016:

| | Emoluments paid or receivable in respect of a person's services as a director, whether of the company or its subsidiary undertaking | | | | |
|---|---|---|---|---|---|
| Name | Fees<br>HK$'000 | Salary and allowances<br>HK$'000 | Discretionary bonuses<br>HK$'000 | Employer's contribution to benefit scheme<br>HK$'000 | Total<br>HK$'000 |
| Zhou Yong | 800 | — | — | — | 800 |
| Zhu Yijian | — | 2,064 | 2,209 | 18 | 4,291 |
| Luo Haichuan | — | 1,524 | 1,877 | 18 | 3,419 |
| Wang Hai | — | 1,695 | 1,480 | — | 3,175 |
| Chan Sim Wang | — | 1,174 | 300 | 18 | 1,492 |
| Qin Jidong (ii) | — | 1,253 | 1,301 | — | 2,554 |
| Zhou Jinsong | 165 | — | — | — | 165 |
| Hong Winn | 135 | — | — | — | 135 |
| Kwong Sum Yee Anna | 135 | — | — | — | 135 |
| | 1,235 | 7,710 | 7,167 | 54 | 16,166 |

Notes:

(i) Appointed as Non-executive Director on 16 March 2017.

(ii) Resigned as Executive Director on 16 March 2017.

(iii) Except for Zhou Yong who has decided to waive the director fee of HK$800,000, there was no arrangement under which a director waived or agreed to waive any emoluments during the year.

## 10 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

### (b) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

#### Five highest paid individuals

The five highest paid individuals in the Group during the year included 3 (2016: 4) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining 2 (2016: 1) individuals is set out below:

| | **2017 HK$'000** | 2016 HK$'000 |
|---|---|---|
| Basic salaries and allowances | **2,661** | 1,957 |
| Discretionary bonuses | **1,812** | 163 |
| Retirement benefit scheme contributions | **125** | 46 |
| | **4,598** | 2,166 |

The emoluments fell within the following bands:

| | **2017 No. of employees** | 2016 No. of employees |
|---|---|---|
| HK$1,500,001 to HK$2,000,000 | **1** | — |
| HK$2,000,001 to HK$2,500,000 | **—** | 1 |
| HK$2,500,001 to HK$3,000,000 | **1** | — |
| | **2** | 1 |

During the year, no emoluments were paid by the Group to any of the directors or the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

## 11 SENIOR MANAGEMENT EMOLUMENTS

The emoluments of the senior management for the year ended 31 December 2017 and 2016 were as follows:

| | **2017 HK$'000** | 2016 HK$'000 |
|---|---|---|
| Salaries and other benefits | **16,807** | 14,418 |
| Contributions to retirement benefit schemes | **530** | 554 |
| | **17,337** | 14,972 |

## 11 SENIOR MANAGEMENT EMOLUMENTS *(Continued)*

The emoluments of the senior management for 2017 and 2016 were within the following bands:

| | **2017 No. of employees** | 2016 No. of Employees |
|---|---|---|
| HK$1,000,000 or less | **—** | 1 |
| HK$1,000,001 to HK$1,500,000 | **3** | 1 |
| HK$1,500,001 to HK$2,000,000 | **6** | 6 |
| HK$2,000,001 to HK$2,500,000 | **—** | 1 |
| HK$2,500,001 to HK$3,000,000 | **1** | — |
| | **10** | 9 |

## 12 DIVIDENDS

| | **2017 HK$'000** | 2016 HK$'000 |
|---|---|---|
| Interim dividend paid of HK1.0 cent (2016: HK0.8 cent) per ordinary share | **21,555** | 17,244 |
| Final proposed dividend of HK1.0 cent (2016: HK0.8 cent) per ordinary share | **21,555** | 17,244 |
| | **43,110** | 34,488 |

The final dividend proposed after 31 December 2017 was not recognised as a liability at 31 December 2017 and is subject to approval by shareholders in the forthcoming annual general meeting. The final dividend for 2016 was recognised and paid during the year.

## 13 EARNINGS PER SHARE

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

| | **2017 HK$'000** | 2016 HK$'000 |
|---|---|---|
| **Earnings** | | |
| Profit attributable to owners of the Company, used in the basic and diluted earnings per share calculation | **100,935** | 88,391 |
| **Number of shares** | **'000** | '000 |
| Weighted average number of ordinary shares used in diluted earnings per share calculation | **2,155,545** | 2,155,545 |
| Basic earnings per share (HK cents) | **4.68** | 4.10 |

No diluted earnings per share are presented as the Company did not have any dilutive potential ordinary shares during the year ended 31 December 2017 (2016: Nil).

# 14 PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings HK$'000 | Leasehold improvements HK$'000 | Plant and machinery HK$'000 | Furniture, fixtures and equipment HK$'000 | Motor vehicles HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| Cost | | | | | | | |
| At 1 January 2016 | 130,142 | 2,334 | 38,328 | 40,858 | 4,127 | 4,770 | 220,559 |
| Exchange difference | 218 | 41 | (206) | (580) | 462 | – | (65) |
| Additions | 3,629 | 650 | 9,898 | 4,440 | 671 | 89 | 19,377 |
| Disposals | – | – | (50) | (590) | (603) | – | (1,243) |
| At 31 December 2016 | 133,989 | 3,025 | 47,970 | 44,128 | 4,657 | 4,859 | 238,628 |
| Exchange difference | 2,024 | 98 | 2,231 | 1,835 | 239 | 7 | 6,434 |
| Additions | 554 | 1,517 | 3,335 | 4,387 | 995 | 96,497 | 107,285 |
| Disposals | (19,896) | – | – | (2,694) | – | (4,770) | (27,360) |
| At 31 December 2017 | **116,671** | **4,640** | **53,536** | **47,656** | **5,891** | **96,593** | **324,987** |
| Accumulated depreciation and impairment | | | | | | | |
| At 1 January 2016 | 24,275 | 1,640 | 22,268 | 25,741 | 3,365 | 4,770 | 82,059 |
| Exchange difference | 5 | 36 | (65) | (340) | 466 | – | 102 |
| Charge for the year | 2,689 | 487 | 4,479 | 5,913 | 491 | – | 14,059 |
| Disposals | – | – | (14) | (475) | (603) | – | (1,092) |
| At 31 December 2016 | 26,969 | 2,163 | 26,668 | 30,839 | 3,719 | 4,770 | 95,128 |
| Exchange difference | 504 | 95 | 1,394 | 1,495 | 216 | – | 3,704 |
| Charge for the year | 2,880 | 580 | 5,921 | 6,464 | 475 | – | 16,320 |
| Disposals | (11,722) | – | – | (2,673) | – | (4,770) | (19,165) |
| At 31 December 2017 | **18,631** | **2,838** | **33,983** | **36,125** | **4,410** | **–** | **95,987** |
| Net book value as at | | | | | | | |
| At 31 December 2017 | **98,040** | **1,802** | **19,553** | **11,531** | **1,481** | **96,593** | **229,000** |
| At 31 December 2016 | 107,020 | 862 | 21,302 | 13,289 | 938 | 89 | 143,500 |

## 14 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

An analysis of the cost of the Group's land and buildings is as follows:

| | **2017** **HK$'000** | 2016 HK$'000 |
|---|---|---|
| Located in: | | |
| Hong Kong, under medium-term leases | **50,645** | 50,645 |
| Mainland China, under medium-term leases | **7,306** | 7,306 |
| Canada, freehold | **22,189** | 19,611 |
| The United States of America, freehold | **36,531** | 56,427 |
| | **116,671** | 133,989 |

At 31 December 2017, the carrying amount of the Group's land and buildings pledged as security for the Group's banking facilities amounted to HK$19,103,000 (2016: HK$18,383,000) (Note 23).

At 31 December 2017, the carrying amount of property and motor vehicles held under finance lease is HK$34,414,000 (2016: HK$34,092,000) (Note 25).

## 15 PREPAID LEASE PAYMENTS

As at 31 December 2017, the Group's prepaid lease payments comprise leasehold land located in Mainland China under medium-term lease.

## 16 GOODWILL

| | HK$'000 |
|---|---|
| Cost, at 31 December 2017 and 31 December 2016 | 159,707 |
| Accumulated impairment, at 31 December 2017 and 31 December 2016 | (21,558) |
| Carrying values, at 31 December 2017 and 31 December 2016 | 138,149 |

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating unit ("CGU") that is expected to benefit from that business combination.

The carrying amount of goodwill had been allocated to the CGU relating to the operations of Gamma North America, Inc. and its subsidiaries ("Gamma Group") within the North America division.

The recoverable amount of the CGU is determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and budgeted gross margin and turnover during the period. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. The growth rates are based on the long-term average economic growth rate of the geographical area in which the businesses of the CGU operate. Budgeted gross margin and turnover are based on past practices and expectations of market development.

## 16 GOODWILL *(Continued)*

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors for the next ten years with the average growth rate ranging from 4%–15% and the residual period using the growth rate of 4%. These rates do not exceed the average long-term growth rate for the relevant markets. A financial budget of ten years reflects the medium term plan of management in expanding the customer base and market share. The pre-tax rates used to discount the forecast cash flows range from 22.58% to 23.18%. With all other variables held constant, if the revenue growth rates used in the value-in-use calculation was decreased by 1.43% or the pre-tax discount rate used in the value-in-use calculation had been increased by 0.5% than the management estimates as at 31 December 2017, the headroom would drop to Nil.

## 17 SUBSIDIARIES

The following is a list of the principal subsidiaries at 31 December 2017:

| Name | Place of incorporation/ registration and operation | Issued and paid up capital | Percentage of ownership interest 2017 | 2016 | Principal activities |
|---|---|---|---|---|---|
| Far East Aluminium (B.V.I.) Limited | British Virgin Islands | 6,000 ordinary shares of US$1 each | **100%** | 100% | Investment holding |
| Far East Aluminium Works Company Limited | Hong Kong | 900,000 ordinary shares of HK$188,952,242<br>5,000 non-voting deferred shares of HK$500,000 | **100%** | 100% | Design, manufacture and installation of curtain walls, aluminium windows and other related products |
| Treasure Construction Engineering Limited | Hong Kong | 2 ordinary shares of HK$2 | **100%** | 100% | Building constructions |
| Far East Facade (UK) Limited | United Kingdom | 1 ordinary share of GBP1 | **100%** | 100% | Design, manufacture and installation of curtain walls, aluminium windows and other related products |
| Far East Facade (UAE) Limited | British Virgin Islands | 10,000 ordinary shares of US$1 each | **100%** | 100% | Investment holding |
| World Eastern Cladding Works (LLC) | United Arab of Emirates | 100 ordinary shares of AED3,000 each | **100%** | 100% | Installation of curtain walls, aluminium windows and other related products |
| Far East Facade, Inc. | United States of America | 100,000 common shares of US$0.01 each | **100%** | 100% | Installation of curtain walls, aluminium windows and other related products |
| Heng Fai International Limited | Hong Kong | 1 ordinary share of HK$1 | **100%** | 100% | Investment holding |
| Venture Synergy Limited | British Virgin Islands | 1 ordinary share of US$1 | **100%** | 100% | Investment holding |
| Netfortune Limited | Hong Kong | 500,000 ordinary shares of HK$500,000 | **100%** | 100% | Investment holding |
| Netfortune Enterprise Limited | British Virgin Islands | 1 ordinary share of US$1 | **100%** | 100% | Investment holding |

## 17 SUBSIDIARIES *(Continued)*

| Name | Place of incorporation/ registration and operation | Issued and paid up capital | Percentage of ownership interest 2017 | 2016 | Principal activities |
|---|---|---|---|---|---|
| China State Development Holdings Limited (Formerly known as Far East Global Investment (China) Limited) | Hong Kong | 5,000,000 ordinary shares of HK$5,000,000 | **100%** | 100% | Investment holding |
| 中建興業投資(湖南)有限公司[1] | The People's Republic of China | Registered capital of RMB200,000,000 | **100%** | – | Investment holding |
| 湖南遠東力進建築工程有限公司[1] | The People's Republic of China | Registered capital of RMB50,000,000 | **100%** | – | Consultancy and construction service |
| Willbert Limited | British Virgin Islands | 1 ordinary shares of US$1 | **100%** | 100% | Property holding |
| Far East Aluminium Works (Guangzhou) Company Limited | Hong Kong | 2 ordinary shares of HK$2 | **100%** | 100% | Property holding |
| FEA Engineering Limited | British Virgin Islands | 100 ordinary shares of US$1 each | **100%** | 100% | Investment holding |
| FEA Investments Limited | British Virgin Islands | 1 ordinary share of US$1 | **100%** | 100% | Investment holding |
| Better View Investment Limited | Hong Kong | 2 ordinary shares of HK$2 | **100%** | 100% | Property holding |
| FEA Corporate Services Limited | Hong Kong | 2 ordinary shares of HK$2 | **100%** | 100% | Provision of company secretarial services to Group companies |
| Far East Global Investment Ltd | British Virgin Islands | 1 ordinary shares of US$1 | **100%** | 100% | Investment holding |
| Far East Global Property Development Ltd | Hong Kong | 1 ordinary share of HK$1 | **100%** | 100% | Building construction and project management |
| Far East Aluminium Works (Singapore) Pte. Limited | Singapore | 700,000 ordinary shares of SGD1 each | **100%** | 100% | Installation of curtain walls, aluminum windows and other related products |
| 上海力進鋁質工程有限公司 | The People's Republic of China | Registered capital of RMB10,000,000 | **100%** | 100% | Design, manufacture and installation of curtain walls, aluminium windows and other related products |
| Netfortune Engineering (FEA) Macau Limited | Macau | 25,000 ordinary shares of MOP1 each | **100%** | 100% | Installation of curtain walls, aluminum windows and other related products |
| Far East Aluminium Works (U.S.) Corporation | United States of America | 200,000,000 common stock of US$0.001 each | **100%** | 100% | Installation of curtain walls, aluminium windows and other related products |
| China Construction Think Tank Limited (formerly known as China State Construction Urban Development Consulting Limited) | Hong Kong | 1,000,000 ordinary shares of HK$1,000,000 | **100%** | 100% | Consultancy Service |

## 17 SUBSIDIARIES *(Continued)*

| Name | Place of incorporation/ registration and operation | Issued and paid up capital | Percentage of ownership interest 2017 | 2016 | Principal activities |
|---|---|---|---|---|---|
| Far East Facade Investments Limited | British Virgin Islands | 10,000 ordinary share of US$1 each | **100%** | 100% | Investment holding |
| Far East Aluminium Works Canada Corp. | Canada | 100 common stock of CAD1 each | **100%** | 100% | Installation of curtain walls, aluminium windows and other related products |
| Far East Aluminium Works Chile Limitada | Chile | Registered share capital of PESO10,000,000 | **100%** | 100% | Installation of curtain walls, aluminium windows and other related products |
| 遠東幕牆制品(深圳)有限公司 | The People's Republic of China | Registered capital of HK$70,000,000 | **100%** | 100% | Manufacture of curtain walls, aluminium windows and other related products |
| 遠東恆輝幕牆(珠海)有限公司 | The People's Republic of China | Registered capital of US$15,000,000 | **100%** | 100% | Manufacture of curtain walls, aluminium windows and other related products |
| Gamma Buffalo , Inc. | United States of America | 1 share of US$1 | **100%** | 100% | Property holding |
| Gamma North America, Inc. | United States of America | 1,000 shares of US$0.001 each | **93.63%** | 93.63% | Investment holding |
| Gamma USA, Inc. | United States of America | 1,000 shares of US$0.001 each | **93.63%** | 93.63% | Design, manufacture and installation of curtain walls, aluminium windows and other related products |
| Gamma Installations, Inc. | United States of America | 100 shares of US$0.001 each | **93.63%** | 93.63% | Installation of curtain walls, aluminium windows and other related products |
| Gamma Windows and Walls International Inc. | Canada | 100 common shares of CAD 53,362.36 each | **93.63%** | 93.63% | Design, manufacture and installation of curtain walls, aluminium windows and other related products |
| Gamma North Corporation | United States of America | 1 share of US$1 | **93.63%** | 93.63% | Manufacture of curtain walls, aluminium windows and other related products |

Note:

(1) Newly incorporated/registered in 2017, where applicable.

## 17 SUBSIDIARIES *(Continued)*

### (a) Material non-controlling interests

The non-controlling interest as at 31 December 2017 of HK$54,201,000 (2016: HK$45,258,000) is mainly for Gamma Group within the North America division.

Set out below is the summarised financial information for Gamma Group that has non-controlling interests that are material to the Group.

Summarised statement of financial position

| | Gamma Group | |
|---|---|---|
| | **2017** | 2016 |
| | **HK$'000** | HK$'000 |
| Current | | |
| Assets | **515,489** | 502,236 |
| Liabilities | **(1,468,750)** | (1,385,071) |
| Total current net liabilities | **(953,261)** | (882,835) |
| Non-current | | |
| Assets | **115,580** | 172,104 |
| Liabilities | **(13,994)** | (66) |
| Total non-current net assets | **101,586** | 172,038 |
| Net liabilities | **(851,675)** | (710,797) |

Summarised income statement

| | Gamma Group | |
|---|---|---|
| | **2017** | 2016 |
| | **HK$'000** | HK$'000 |
| Revenue | **540,722** | 619,771 |
| Loss before tax | **(100,800)** | (287,343) |
| Income tax charge | **(54,777)** | (42) |
| Other comprehensive income | **14,699** | 6,026 |
| Total comprehensive income | **(140,878)** | (281,359) |
| Other comprehensive income allocated to non-controlling interests | **936** | 1,665 |

# 17 SUBSIDIARIES *(Continued)*

## (a) Material non-controlling interests *(Continued)*

Summarised cash flow

| | Gamma Group | |
|---|---|---|
| | **2017** | 2016 |
| | **HK$'000** | HK$'000 |
| **Operating cash flows** | | |
| Cash used in operations | **(101,867)** | (137,180) |
| Interest paid | **12,767** | 8,100 |
| Income tax paid | **—** | 42 |
| Net cash used in operating activities | **(89,100)** | (129,038) |
| Net cash used in investing activities | **(2,653)** | (6,228) |
| Net cash from financing activities | **92,665** | 125,635 |
| **Net increase/(decrease) in cash and cash equivalents** | **912** | (9,631) |
| Cash and cash equivalents at beginning of year | **6,611** | 12,432 |
| Effect of foreign exchange rate changes | **—** | 3,810 |
| Cash and cash equivalents at end of year | **7,523** | 6,611 |

The information above is before inter-company eliminations.

# 18 INVENTORIES

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Raw materials | **9,928** | 10,341 |

The cost of inventories recognised as expense and included in 'cost of sales' amounted to approximately HK$306,566,000 (2016: HK$218,935,000).

## 19 AMOUNTS DUE FROM/TO CUSTOMERS FOR CONTRACT WORKS

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Contract costs incurred plus recognised profits less foreseeable losses | **10,736,376** | 8,580,654 |
| Less: progress billings | **(10,107,778)** | (8,152,331) |
| | **628,598** | 428,323 |
| Amounts due from contract customers | **688,810** | 565,763 |
| Amounts due to contract customers | **(60,212)** | (137,440) |
| | **628,598** | 428,323 |

## 20 TRADE AND OTHER RECEIVABLES

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Trade receivables | **478,006** | 371,926 |
| Retention receivables | **446,014** | 392,546 |
| | **924,020** | 764,472 |
| Less: Provision for impairment | **(16,270)** | (15,828) |
| | **907,750** | 748,644 |
| Other receivables | **35,813** | 44,762 |
| Trade and other receivables | **943,563** | 793,406 |

The Group's trade receivables mainly represent progress billing receivables from facade building contracting works and general contracting works. The Group adopts credit policies which are consistent with the trade practices prevalent in the building industry in countries in which the Group has operations. The Group recognises its trade receivables when the value of the subcontract works is certified by the architect. Pursuant to the trade practices, the main contractor from time to time makes applications for payment certificates which include the certified value of the nominated subcontract works.

Retention receivables represents certified contract payments in respect of works performed, for which payments are withheld by customers for retention purposes, and the amount retained is withheld on each payment up to a maximum amount calculated as a prescribed percentage of the contract sum. No aging analysis of retention receivables is presented as the retentions are released to the Group pursuant to the provisions of the relevant contracts after the completion of the projects in question.

## 20 TRADE AND OTHER RECEIVABLES *(Continued)*

The analysis of trade and other receivables, including the aging analysis of trade receivables, based on invoice date, and net of provisions, is as follows:

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Trade receivables: | | |
| 0 to 30 days | **338,639** | 272,228 |
| 31 to 60 days | **64,744** | 28,008 |
| 61 to 90 days | **3,641** | 9,589 |
| More than 90 days | **63,213** | 54,773 |
| | **470,237** | 364,598 |
| Retention receivables | **437,513** | 384,046 |
| | **907,750** | 748,644 |
| Other receivables | **35,813** | 44,762 |
| Trade and other receivables | **943,563** | 793,406 |

Except for the receivables arising from construction contracts which are billed and immediately payable in accordance with the terms of the relevant agreement, the Group generally allows an average credit period not exceeding 90 days (2016: 90 days) to its customers and the retention receivables are repayable approximately one year after the expiry of the defect liability period of construction projects.

As of 31 December 2017, trade receivables of HK$63,213,000 (2016: HK$54,773,000) were past due based on credit terms but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| 90 to 365 days | **21,643** | 45,627 |
| Over 365 days | **41,570** | 9,146 |
| | **63,213** | 54,773 |

As at 31 December 2017, trade and retention receivables of approximately HK$16,270,000 (2016: HK$15,828,000) were impaired and fully provided.

The individually impaired trade and retention receivables relate to contracts under disputes with customers and are expected not to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

## 20 TRADE AND OTHER RECEIVABLES *(Continued)*

Movements of provision for impairment of the trade and retention receivables are as follows:

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| At 1 January | 15,828 | 15,208 |
| Addition of provisions | 442 | 1,325 |
| Exchange difference | — | (705) |
| At 31 December | 16,270 | 15,828 |

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| United States dollar | 126,848 | 124,533 |
| Hong Kong dollar | 394,689 | 369,842 |
| Macau Pataca | 126,097 | 76,928 |
| Canadian dollar | 199,868 | 142,330 |
| Renminbi | 79,868 | 57,688 |
| Great British Pound | 2,455 | 5,050 |
| United Arab Emirates Dirham | 9,524 | 13,121 |
| Others | 4,214 | 3,914 |
| | 943,563 | 793,406 |

There is no concentration of credit risk with respect to trade and retention receivables, as the Group has a large number of customers.

The carrying amounts of the Group's trade and other receivables approximate the fair value of these balances.

## 21 AMOUNTS DUE FROM/TO FELLOW SUBSIDIARIES

Balances with fellow subsidiaries are unsecured, interest-free and repayable on demand. The amount is denominated in Hong Kong dollar and United Arab Emirates Dirham.

## 22 BANK AND CASH BALANCES

Bank and cash balances of the Group are denominated in the following currencies:

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Hong Kong dollar | 128,715 | 223,279 |
| Renminbi | 129,105 | 54,262 |
| Macau Pataca | 45,128 | 20,244 |
| Australian dollar | 15,878 | 14,250 |
| United States dollar | 17,513 | 68,988 |
| Canadian dollar | 15,960 | 4,503 |
| United Arab Emirates Dirham | 32,957 | 523 |
| Others | 1,693 | 842 |
| | 386,949 | 386,891 |

In respect of the balance denominated in RMB of the Group's subsidiaries incorporated in the PRC, conversion into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

## 23 BANK BORROWINGS

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Bank loans, secured | 13,638 | 13,153 |
| Bank loans, unsecured | 601,240 | 509,690 |
| | 614,878 | 522,843 |
| The borrowings are repayable as follows: | | |
| On demand or within one year | 401,693 | 322,843 |
| In the second year | 200,472 | — |
| In the third to fifth years, inclusive | 1,542 | 200,000 |
| More than five years | 11,171 | — |
| | 614,878 | 522,843 |
| Less: amounts due for settlement within twelve months | (401,693) | (322,843) |
| Amounts due for settlement after twelve months | 213,185 | 200,000 |

At 31 December 2017, a bank loan of HK$13,638,000 (2016: HK$13,153,000) is secured by the Group's land and buildings of HK$19,103,000 (2016: HK$18,383,000) (Note 14).

## 23 BANK BORROWINGS *(Continued)*

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

| | Hong Kong dollar HK$'000 | Canadian dollar HK$'000 | United States dollar HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| 31 December 2017 | | | | |
| Bank loans | **200,000** | **28,852** | **386,026** | **614,878** |
| 31 December 2016 | | | | |
| Bank loans | 200,000 | 56,241 | 266,602 | 522,843 |

The average bank loans interest rate at 31 December 2017 was 3.15% (2016: 3.24%).

Most bank borrowings are arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

The carrying amounts of bank and other borrowings approximate the fair value of these balances.

## 24 TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

The analysis of trade payables, other payables and accruals, including the aging analysis of trade payables, based on invoice date, is as follows:

| | **2017 HK$'000** | 2016 HK$'000 |
|---|---|---|
| Trade payables: | | |
| 0 to 30 days | **436,771** | 325,118 |
| 31 to 60 days | **41,656** | 22,682 |
| More than 60 days | **47,031** | 26,657 |
| | **525,458** | 374,457 |
| Retention payables | **131,994** | 99,081 |
| | **657,452** | 473,538 |
| Other payables and accruals | **125,370** | 98,813 |
| Trade payables, other payables and accruals | **782,822** | 572,351 |

As at 31 December 2017, the amount of retention payables expected to be due after more than twelve months was approximately HK$91,673,000 (2016: HK$57,431,000).

## 24 TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS *(Continued)*

The carrying amounts of the Group's trade payables, other payables and accruals are denominated in the following currencies:

| | **2017**<br>**HK$'000** | 2016<br>HK$'000 |
|---|---|---|
| Hong Kong dollar | **377,355** | 259,232 |
| Renminbi | **190,829** | 122,704 |
| Macau Pataca | **59,300** | 29,458 |
| United States dollar | **59,930** | 82,967 |
| Canadian dollar | **93,567** | 76,271 |
| Great British Pound | **765** | 662 |
| Others | **1,076** | 1,057 |
| | **782,822** | 572,351 |

The carrying amounts of trade payables, other payables and accruals approximate the fair value of these balances.

Movement of warranty provisions included in other payables and accruals are as follows:

| | **2017**<br>**HK$'000** | 2016<br>HK$'000 |
|---|---|---|
| At 1 January | **26,955** | 21,174 |
| Addition | **17,381** | 14,921 |
| Exchange differences | **508** | 157 |
| Utilisation | **(10,849)** | (9,297) |
| At 31 December | **33,995** | 26,955 |

The Group provides warranties to its customers on façade contracting works in accordance with terms and conditions as stipulated in contracts, under which defective works are rectified or replaced.

The amount of the warranty provision is estimated based on the past experience of the level of defective works and the estimation basis is regularly reviewed and revised where appropriate.

## 25 FINANCE LEASE PAYABLES

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Within one year | **892** | 797 | **865** | 774 |
| In the second to fifth years, inclusive | **2,951** | 2,361 | **2,499** | 1,951 |
| Over five years | **—** | 263 | **—** | 187 |
| | **3,843** | 3,421 | **3,364** | 2,912 |
| Less: Future finance charges | **(479)** | (509) | | |
| Present value of lease obligations | **3,364** | 2,912 | | |
| Less: Amount due for settlement within twelve months | | | **(865)** | (774) |
| Amount due for settlement after twelve months | | | **2,499** | 2,138 |

The average lease term is 5 years. At 31 December 2017, the average effective borrowing rate was 5.97% (2016: 6.25%). All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. At the end of each lease term, the Group has the option to purchase the property and motor vehicles at nominal prices.

All finance lease payables are denominated in the following currencies:

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| United States dollar | **3,350** | 2,849 |
| Canadian dollar | **14** | 63 |
| | **3,364** | 2,912 |

The Group's finance lease payables are secured by the lessor's title to the leased assets (Note 14).

## 26 DEFERRED TAXATION

The analysis of the Group's deferred tax liabilities and (assets) is as follows:

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Deferred tax liabilities to be crystalised after more than twelve months | **3,036** | 3,036 |
| Deferred tax assets to be recovered after more than twelve months | **(79,553)** | (134,321) |
| Deferred tax assets to be recovered within twelve months | **(17,248)** | (15,435) |
| | **(96,801)** | (149,756) |

## 26 DEFERRED TAXATION *(Continued)*

The following are the major deferred tax liabilities and (assets) recognised by the Group.

| | Accelerated tax depreciation HK$'000 | Revaluation of land and buildings HK$'000 | Tax losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1 January 2016 | 2,283 | 753 | (164,262) | (161,226) |
| Exchange difference | — | — | 1,990 | 1,990 |
| Charged to consolidated income statement (note 9) | — | — | 12,516 | 12,516 |
| At 31 December 2016 | 2,283 | 753 | (149,756) | (146,720) |
| Exchange difference | — | — | (1,645) | (1,645) |
| Charged to consolidated income statement (note 9) | — | — | 54,600 | 54,600 |
| **At 31 December 2017** | **2,283** | **753** | **(96,801)** | **(93,765)** |

The following is an analysis of net deferred tax balances for statement of financial position purposes:

| | **2017 HK$'000** | 2016 HK$'000 |
|---|---|---|
| Deferred tax liabilities | **293** | 293 |
| Deferred tax assets | **(94,058)** | (147,013) |
| | **(93,765)** | (146,720) |

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK$1,020,635,000 (2016: HK$856,138,000) to be carried forward in offsetting future taxable income. The expiry dates of these tax losses are subject to the tax rulings of the respective jurisdictions.

## 27 MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2016, the Group acquired additional interest in a subsidiary through capitalization of shareholder's loans into equity, resulted in a reduction of non-controlling interests of approximately HK$287,768,000.

## 28 SHARE CAPITAL

| | Issued and fully paid Number of shares '000 | Share capital Amount HK$'000 |
|---|---|---|
| Ordinary shares of HK$0.01 each | | |
| At 1 January 2016, 1 January 2017 and 31 December 2017 | 2,155,545 | 21,555 |

## 29 SHARE PREMIUM AND RESERVES

### (a) Group

The amounts of the Group's reserves and the movements therein are presented in the consolidated statement of changes in equity.

### (b) Nature and purpose of reserves

(i) Share premium and retained profits

Under the Companies Law of the Cayman Islands, the funds in the share premium and retained profits of the Company are 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 they fall due in the ordinary course of business. The distributable reserves of the Company amounted to approximately HK$939,889,000 (2016: HK$935,424,000).

(ii) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 2 to the financial statements.

(iii) Investment revaluation reserve

The investment revaluation reserve comprises the cumulative net change in the fair value of available-for-sale financial assets held at the end of the reporting period and is dealt with in accordance with the accounting policy in note 2 to the financial statements.

(iv) Share-based payment reserve

The share-based payment reserve represents the fair value of the equity instruments granted to directors and employees of the Group, recognised in accordance with the accounting policy adopted for share-based payments in note 2 to the financial statements.

(v) Statutory reserves

The statutory reserves, which are non-distributable, are appropriated from the profit after taxation of the Group's PRC and Macau subsidiaries under the applicable laws and regulations in the PRC and Macau respectively.

(vi) Special reserve

On 11 March 2014, the Group acquired 100% of the equity interests in Treasure Construction Engineering Limited from Barkgate Enterprises Limited, a wholly owned subsidiary of China State Construction International Holdings Limited ("CSCIHL"), which is an intermediate holding company of the Company, at a cash consideration of HK$2,000,000. The excess of approximately HK$1,970,000, representing the difference between the fair value of consideration paid for the acquisition and the net asset value of Treasure Construction at the acquisition date, was charged to special reserve.

During 2016, the Group increased its equity interests in its subsidiary, Gamma North America, Inc. by 38.63% through capitalisation of shareholder's loans. The net liability value of Gamma North America, Inc. of HK$287,768,000 has been transferred from non-controlling interests to special reserve in equity.

(vii) Included in retained profits as at 31 December 2017 is the proposed 2017 final dividend of approximately HK$21,555,000.

## 30 SHARE-BASED PAYMENTS

Pursuant to the A-shares Restricted Stock Incentive Plan (Phase II) (the "Incentive Plan") of CSCECL, an intermediate holding company of the Company, 1,215,000 incentive shares were granted to certain directors and employees of the Company (the "Eligible Persons") on 29 December 2016 (the "Grant Date") with an exercise price of RMB4.866 per share (the "Exercise Price"), subject to a lock-up period of two years' service from the Grant Date (the "Lockup Period"). During the Lock-up Period, these shares are not transferrable, nor subject to any guarantee, indemnity or pledge. One-third of the awards are vested each year starting from the beginning of the third year on a time apportionment basis since the Grant Date. Subject to CSCECL's achievement of performance conditions and the individual's key performance indicators, the restriction over these shares will be removed, otherwise, CSCECL has a constructive obligation to repurchase the ordinary shares in cash if the performance conditions of CSCECL or the individual's key performance indicators are not achieved.

The fair value of incentive shares on the date of grant determined using the Black-Scholes valuation model was RMB2.21 per share. The significant inputs into the model include closing price of RMB9.16 per share on the Grant Date, exercise price of RMB4.866 per share, share-based payments cap at 40% of the respective Eligible Persons'remuneration, average volatility of 44%, average dividend yield of 3.32% and an average annual risk-free interest rate of 2.84%. The volatility measured at the standard deviation of continuously compounded share returns is calculated based on statistical analysis of historical daily share prices.

## 31 CASH FLOW INFORMATION

### Reconciliation of liabilities from financing activities

| | Finance leases due within 1 year HK$'000 | Finance leases due after 1 year HK$'000 | Borrowings due within 1 year HK$'000 | Borrowings due after 1 year HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 January 2017 | 774 | 2,138 | 322,843 | 200,000 | 525,755 |
| Cash flows | 47 | 231 | 77,838 | 13,185 | 91,301 |
| Foreign exchange adjustments | — | — | 1,012 | — | 1,012 |
| Other non-cash movements | 44 | 130 | — | — | 174 |
| At 31 December 2017 | 865 | 2,499 | 401,693 | 213,185 | 618,242 |

## 32 LEASE COMMITMENTS

At 31 December 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | **2017 HK$'000** | 2016 HK$'000 |
|---|---|---|
| Within one year | **31,665** | 28,003 |
| In the second to fifth years inclusive | **62,272** | 46,545 |
| After fifth year | **6,530** | 12,148 |
| | **100,467** | 86,696 |

Operating lease payments represent rentals payable by the Group for certain of its offices, factories and staff quarters. Leases are negotiated for a term ranging from one to ten years and rentals are fixed over the lease terms and do not include contingent rentals.

## 33 COMMITMENTS

At 31 December 2017, the Group had the following commitments contracted but not provided for in the consolidated financial statements:

| | **2017**<br>**HK$'000** | 2016<br>HK$'000 |
|---|---|---|
| Contracted but not provided for<br>— Construction in progress for property, plant and equipment | **96,324** | — |

## 34 RELATED PARTY TRANSACTIONS

In addition to those related party transactions and balances disclosed elsewhere in the financial statements, the Group had the following transactions with its related parties during the year:

### (a) Transactions with related parties

i) Transactions with fellow subsidiaries

| | **2017**<br>**HK$'000** | 2016<br>HK$'000 |
|---|---|---|
| Construction fee received from fellow subsidiaries | **1,087,265** | 975,172 |
| Service income received from fellow subsidiaries | **12,405** | 13,476 |
| Service fees paid to fellow subsidiaries | **33,367** | 14,219 |

ii) Transactions with other state-controlled entities in the Mainland China

Certain of the Group's business is operated in an economic environment currently predominated by entities directly or indirectly owned, controlled or significantly influenced by the government of the Mainland China. In addition, the Group is itself part of a larger group of companies under CSCGL.

Apart from transactions with its fellow subsidiaries, the Group has transactions with other state-controlled entities, mainly interest income.

These transactions are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that are not state-controlled.

### (b) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

| | **2017**<br>**HK$'000** | 2016<br>HK$'000 |
|---|---|---|
| Short term employee benefits | **30,530** | 30,530 |
| Post-employment benefits | **584** | 608 |
| | **31,114** | 31,138 |

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

# 35 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

## Statement of financial position of the Company

| | Note | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|---|
| **Non-current Asset** | | | |
| Interests in subsidiaries | | **917,024** | 912,906 |
| **Current Assets** | | | |
| Deposits, prepayments and other receivables | | **374** | 377 |
| Amounts due from subsidiaries | | **50,000** | 50,000 |
| Tax recoverable | | **248** | 474 |
| Bank and cash balances | | **801** | 366 |
| | | **51,423** | 51,217 |
| **Current Liabilities** | | | |
| Other payables and accruals | | **1,752** | 1,658 |
| Current tax payables | | **—** | 850 |
| | | **1,752** | 2,508 |
| Total Assets less Current Liabilities | | **966,695** | 961,615 |
| **Capital and Reserves** | | | |
| Share capital | | **21,555** | 21,555 |
| Share premium and reserves | (Note (a)) | **945,140** | 940,060 |
| | | **966,695** | 961,615 |

On behalf of the Board

**Zhu Yijian**
*Director*

**Chan Sim Wang**
*Director*

## 35 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

Note (a) Reserve movement of the Company

| | Share premium HK$'000 | Share-based payment reserve HK$'000 | Special reserve HK$'000 | Retained earnings HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 January 2016 | 898,654 | 4,636 | — | 63,084 | 966,374 |
| Profit for the year | — | — | — | 3,863 | 3,863 |
| 2015 final dividend paid | — | — | — | (12,933) | (12,933) |
| 2016 interim dividend paid | — | — | — | (17,244) | (17,244) |
| At 31 December 2016 and 1 January 2017 | 898,654 | 4,636 | — | 36,770 | 940,060 |
| Profit for the year | — | — | — | 43,264 | 43,264 |
| Capital contribution relating to share-based payment borne by an intermediate holding company | — | — | 615 | — | 615 |
| 2016 final dividend paid | — | — | — | (17,244) | (17,244) |
| 2017 interim dividend paid | — | — | — | (21,555) | (21,555) |
| **At 31 December 2017** | **898,654** | **4,636** | **615** | **41,235** | **945,140** |

# FIVE-YEAR FINANCIAL SUMMARY

The table set out below summarizes the results and the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the Group's published consolidated financial statements of the respective years and restated/ reclassified as appropriate. This summary is not part of the audited consolidated financial statements.

## CONSOLIDATED RESULTS

| | 2013<br>HK$'000<br>(restated) | 2014<br>HK$'000 | 2015<br>HK$'000 | 2016<br>HK$'000 | **2017**<br>**HK$'000** |
|---|---|---|---|---|---|
| Revenue | 1,418,808 | 1,682,149 | 2,194,896 | 2,647,272 | **2,910,942** |
| Gross profit | 8,443 | 175,338 | 211,513 | 189,540 | **390,796** |
| Profit/(loss) before tax | (168,168) | (32,697) | 26,718 | 18,470 | **198,342** |
| Profit attributable to owners of the Company | 50,398 | 57,738 | 71,463 | 88,391 | **100,935** |
| Basic earnings per share (HK cents) | 2.34 | 2.68 | 3.32 | 4.10 | **4.68** |
| Diluted earnings per share (HK cents) | 2.34 | 2.68 | 3.32 | 4.10 | **4.68** |

## CONSOLIDATED NET ASSETS

| | 2013<br>HK$'000<br>(restated) | 2014<br>HK$'000 | 2015<br>HK$'000 | 2016<br>HK$'000 | **2017**<br>**HK$'000** |
|---|---|---|---|---|---|
| Non-current assets | 456,054 | 467,982 | 438,168 | 461,792 | **496,136** |
| Current assets | 1,756,800 | 1,431,386 | 1,658,767 | 1,822,860 | **2,119,791** |
| Current liabilities | 496,475 | 647,541 | 915,598 | 1,197,994 | **1,436,933** |
| Non-current liabilities | 634,984 | 219,551 | 215,732 | 202,431 | **215,977** |
| Net asset | 1,081,395 | 1,032,276 | 965,605 | 884,227 | **963,017** |

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