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## ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

The board of directors (the “Board”) of Far East Global Group Limited (the “Company”) hereby announces the unaudited interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2018 together with the restated comparative figures as follows:

### UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

|  | Note | For the six months ended 30 June |                                |
|--|------|----------------------------------|--------------------------------|
|  |      | 2018<br>HK\$'000                 | 2017<br>HK\$'000<br>(restated) |
| <b>Revenue</b>                                       | 4    | <b>1,763,034</b>                 | 1,515,646                      |
| Costs of sales                                       |      | <b>(1,532,368)</b>               | (1,300,584)                    |
| <b>Gross profit</b>                                  |      | <b>230,666</b>                   | 215,062                        |
| Other income and other gains, net                    | 5    | <b>2,242</b>                     | 3,011                          |
| Administrative, selling and other operating expenses |      | <b>(110,128)</b>                 | (96,144)                       |
| Finance costs  | 6    | <b>(11,115)</b>                  | (7,944)                        |
| <b>Profit before tax</b>                             | 7    | <b>111,665</b>                   | 113,985                        |
| Income tax charge                                    | 8    | <b>(23,615)</b>                  | (30,204)                       |
| <b>Profit for the period</b>                         |      | <b>88,050</b>                    | 83,781                         |
| <b>Profit/(loss) for the period attributable to:</b> |      |                                  |                                |
| Owners of the Company                                |      | <b>90,888</b>                    | 86,225                         |
| Non-controlling interests                            |      | <b>(2,838)</b>                   | (2,444)                        |
|  |      | <b>88,050</b>                    | 83,781                         |
| <b>Earnings per share (HK cents)</b>                 |      |                                  |                                |
| Basic and diluted                                    | 10   | <b>4.22</b>                      | (restated)<br>4.00             |

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

|   | <b>For the six months ended 30 June</b> |                |
|---|---|----------------|
|   | <b>2018</b>                             | 2017           |
|   | <b>HK\$'000</b>                         | HK\$'000       |
|   |   | (restated)     |
| Profit for the period   | <u>88,050</u>                           | <u>83,781</u>  |
| <b>Other comprehensive income</b>                                 |   |                |
| <i>Items that may be reclassified to profit or loss</i>           |   |                |
| Exchange differences arising on translation of foreign operations | <u>2,087</u>                            | <u>21,296</u>  |
| <b>Other comprehensive income for the period, net of tax</b>      | <u>2,087</u>                            | <u>21,296</u>  |
| <b>Total comprehensive income for the period, net of tax</b>      | <u>90,137</u>                           | <u>105,077</u> |
| <b>Total comprehensive income for the period attributable to:</b> |   |                |
| Owners of the Company   | <u>93,349</u>                           | 106,886        |
| Non-controlling interests   | <u>(3,212)</u>                          | <u>(1,809)</u> |
|   | <u>90,137</u>                           | <u>105,077</u> |

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

|                                      |      | 30 June<br>2018 | 31 December<br>2017    |
|--------------------------------------|------|-----------------|------------------------|
|                                      | Note | HK\$'000        | HK\$'000<br>(restated) |
| <b>Non-current Assets</b>            |      |                 |                        |
| Property, plant and equipment        |      | 296,419         | 231,420                |
| Prepaid lease payments               |      | 34,160          | 34,929                 |
| Goodwill                             | 11   | 138,149         | 138,149                |
| Deferred tax assets                  |      | 93,429          | 94,058                 |
|                                      |      | 562,157         | 498,556                |
| <b>Current Assets</b>                |      |                 |                        |
| Inventories                          |      | 13,218          | 9,928                  |
| Contract assets                      |      | 988,396         | 688,810                |
| Trade and other receivables          | 12   | 1,186,276       | 1,181,690              |
| Deposits and prepayments             |      | 58,242          | 56,627                 |
| Tax recoverable                      |      | 541             | 1,097                  |
| Amounts due from fellow subsidiaries |      | 20,443          | 46,474                 |
| Bank and cash balances               |      | 365,176         | 478,137                |
|                                      |      | 2,632,292       | 2,462,763              |
|                                      |      | 3,194,449       | 2,961,319              |

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF  
FINANCIAL POSITION (continued)**

|  |      | <b>30 June</b>          | 31 December      |
|--|------|-------------------------|------------------|
|  |      | <b>2018</b>             | 2017             |
|  | Note | <u>HK\$'000</u>         | <u>HK\$'000</u>  |
|  |      |                         | (restated)       |
| <b>Current Liabilities</b>                   |      |                         |                  |
| Bank borrowings                              | 13   | <b>404,045</b>          | 401,693          |
| Contract liabilities                         |      | <b>129,288</b>          | 112,447          |
| Trade payables, other payables and accruals  | 14   | <b>996,978</b>          | 831,145          |
| Finance lease payables                       |      | <b>820</b>              | 865              |
| Current tax payables                         |      | <b>88,938</b>           | 88,424           |
| Dividend payables                            |      | <b>21,555</b>           | -                |
| Amounts due to fellow subsidiaries           |      | <b>304,325</b>          | 346,076          |
|  |      | <u><b>1,945,949</b></u> | <u>1,780,650</u> |
| <b>Total Assets less Current Liabilities</b> |      | <u><b>1,248,500</b></u> | <u>1,180,669</u> |
| <b>Capital and Reserves</b>                  |      |                         |                  |
| Share capital                                | 15   | <b>21,555</b>           | 21,555           |
| Share premium and reserves                   |      | <b>1,069,459</b>        | 997,338          |
| Equity attributable to owners of the Company |      | <b>1,091,014</b>        | 1,018,893        |
| Non-controlling interests                    |      | <b>(57,413)</b>         | (54,201)         |
|  |      | <u><b>1,033,601</b></u> | <u>964,692</u>   |
| <b>Non-current Liabilities</b>               |      |                         |                  |
| Bank borrowings                              | 13   | <b>212,436</b>          | 213,185          |
| Finance lease payables                       |      | <b>2,170</b>            | 2,499            |
| Deferred tax liabilities                     |      | <b>293</b>              | 293              |
|  |      | <u><b>214,899</b></u>   | <u>215,977</u>   |
|  |      | <u><b>1,248,500</b></u> | <u>1,180,669</u> |

## **NOTES:**

### **(1) BASIS OF PREPARATION**

The unaudited condensed consolidated financial statements for the six months ended 30 June 2018 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards.

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis.

The unaudited condensed consolidated financial statements are presented in Hong Kong dollars which is also the functional currency of the Company.

On 26 June 2018, the Group completed the acquisition of 100% of equity interests in China Overseas Supervision Limited (“COS”) from Shenzhen CS Grand Wealth Investment Company Limited, a wholly owned subsidiary of China State Construction International Holdings Limited (“CSCIHL”), which is the intermediate holding company of the Company, at a cash consideration of RMB70,000,000.

The transfer of the equity interests in COS (the “Acquired Company”) was regarded as common control combination. Accordingly, the consolidated financial statements of the Group for the period ended 30 June 2018 had been prepared using the principle of Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the HKICPA, as if the Acquired Company had been combined from the date when the Acquired Company first came under the control of the controlling party of the Group and Acquired Company. The comparative figures of the consolidated financial statements have been restated accordingly.

**(1) BASIS OF PREPARATION (continued)**

The effect of the combination of the Acquired Company on the result of the Group for the six months ended 30 June 2017 and the financial position of the Group as at 31 December 2017 are summarised below:

|  | For the six months<br>ended<br>30 June 2017<br>HK\$'000<br>(previously stated) | Combination of<br>the Acquired<br>Company<br>HK\$'000 | Combination<br>Adjustment<br>HK\$'000 | For the six months<br>ended<br>30 June 2017<br>HK\$'000<br>(restated) |
|--|--|---|---------------------------------------|---|
| Revenue  | 1,403,707  | 111,939   | -                                     | 1,515,646   |
| Cost of sales                                      | <u>(1,217,837)</u>   | <u>(82,747)</u>                                       | <u>-</u>                              | <u>(1,300,584)</u>  |
| Gross profit                                       | 185,870  | 29,192  | -                                     | 215,062   |
| Other income and other<br>gains, net               | 2,634  | 377   | -                                     | 3,011   |
| Administrative, selling and<br>other expenses      | (84,090)   | (12,054)  | -                                     | (96,144)  |
| Finance costs                                      | <u>(7,944)</u>   | <u>-</u>  | <u>-</u>                              | <u>(7,944)</u>  |
| Profit before tax                                  | 96,470   | 17,515  | -                                     | 113,985   |
| Income tax charge                                  | <u>(25,382)</u>  | <u>(4,822)</u>  | <u>-</u>                              | <u>(30,204)</u>   |
| Profit for the period                              | <u><u>71,088</u></u>   | <u><u>12,693</u></u>                                  | <u><u>-</u></u>                       | <u><u>83,781</u></u>  |
| Profit / (loss) for the period<br>attributable to: |  |   |                                       |   |
| Owners of the Company                              | 73,532   | 12,693  | -                                     | 86,225  |
| Non-controlling interests                          | <u>(2,444)</u>   | <u>-</u>  | <u>-</u>                              | <u>(2,444)</u>  |
|  | <u><u>71,088</u></u>   | <u><u>12,693</u></u>                                  | <u><u>-</u></u>                       | <u><u>83,781</u></u>  |

**(1) BASIS OF PREPARATION (continued)**

|  | 31 December 2017<br>HK\$'000<br>(previously stated) | Combination of<br>the Acquired<br>Company<br>HK\$'000 | Combination<br>Adjustment<br>(Note i)<br>HK\$'000 | 31 December 2017<br>HK\$'000<br>(restated) |
|--|---|---|---|--|
| <b>Non-current Assets</b>                        |   |   |   |  |
| Property, plant and equipment                    | 229,000   | 2,420   | -   | 231,420                                    |
| Prepaid lease payments                           | 34,929  | -   | -   | 34,929                                     |
| Goodwill   | 138,149   | -   | -   | 138,149                                    |
| Deferred tax assets                              | <u>94,058</u>                                       | <u>-</u>  | <u>-</u>  | <u>94,058</u>                              |
|  | <u>496,136</u>                                      | <u>2,420</u>  | <u>-</u>  | <u>498,556</u>                             |
| <b>Current Assets</b>                            |   |   |   |  |
| Inventories                                      | 9,928   | -   | -   | 9,928                                      |
| Contract assets                                  | 688,810   | -   | -   | 688,810                                    |
| Trade and other receivables                      | 943,563   | 238,127   | -   | 1,181,690                                  |
| Deposits and prepayments                         | 54,520  | 2,107   | -   | 56,627                                     |
| Tax recoverable                                  | 1,097   | -   | -   | 1,097                                      |
| Amounts due from fellow<br>subsidiaries          | 34,924  | 11,550  | -   | 46,474                                     |
| Bank and cash balances                           | <u>386,949</u>                                      | <u>91,188</u>   | <u>-</u>  | <u>478,137</u>                             |
|  | <u>2,119,791</u>                                    | <u>342,972</u>  | <u>-</u>  | <u>2,462,763</u>                           |
| <b>Current Liabilities</b>                       |   |   |   |  |
| Bank borrowings                                  | 401,693   | -   | -   | 401,693                                    |
| Contract liabilities                             | 112,447   | -   | -   | 112,447                                    |
| Trade payables, other<br>payables and accruals   | 782,822   | 48,323  | -   | 831,145                                    |
| Finance lease payables                           | 865   | -   | -   | 865  |
| Current tax payables                             | 45,592  | 42,832  | -   | 88,424                                     |
| Amounts due to fellow<br>subsidiaries (note ii)  | <u>93,514</u>                                       | <u>169,229</u>  | <u>83,333</u>                                     | <u>346,076</u>                             |
|  | <u>1,436,933</u>                                    | <u>260,384</u>  | <u>83,333</u>                                     | <u>1,780,650</u>                           |
| <b>Total Assets less Current<br/>Liabilities</b> | <u>1,178,994</u>                                    | <u>85,008</u>   | <u>(83,333)</u>                                   | <u>1,180,669</u>                           |
| Capital and reserve                              | 1,017,218   | 85,008  | (83,333)  | 1,018,893                                  |
| Non-controlling interests                        | (54,201)  | -   | -   | (54,201)                                   |
| Non-current liabilities                          | <u>215,977</u>                                      | <u>-</u>  | <u>-</u>  | <u>215,977</u>                             |
|  | <u>1,178,994</u>                                    | <u>85,008</u>   | <u>(83,333)</u>                                   | <u>1,180,669</u>                           |

Notes :

- i) The combination adjustment represents the consideration payable to acquire the Acquired Company.
- ii) The balance mainly represents a distribution payable to a former shareholder of the Acquired Company, which is also a fellow subsidiary of the Group after the combination of the Acquired Company.

## (2) PRINCIPAL ACCOUNTING POLICIES

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017 except for the adoption of amendments to HKAS effective for the financial year ending 31 December 2018.

In the current interim period, 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 HKFRS 2               | Classification and Measurement of Share-based Payment Transaction       |
| Amendments to HKFRS 4               | Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts |
| HKFRS 9                             | Financial Instruments   |
| HKFRS 15                            | Revenue from Contracts with Customers                                   |
| Amendments to HKFRS 15              | Clarifications to HKFRS 15, Revenue from Contracts with Customers       |
| Amendments to HKAS 40               | Transfers of Investment Property  |
| HK (IFRIC)-Int 22                   | Foreign Currency Transactions and Advance Consideration                 |
| Annual Improvements 2014-2016 Cycle | Amendments to HKFRS 1 and HKAS 28                                       |

The application of the above new standards, amendments and improvements to existing standards and interpretation in the current period has had no material impact on the Group's results and financial position, except HKFRS 9 "Financial Instruments" and HKFRS 15 "Revenue from Contracts with Customers". As a result of adopting the standards, the Group had to change its accounting policies. The impact of adoption is disclosed in Note 3.

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

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

Notes:

- 1 Effective for annual periods beginning on or after 1 January 2019
- 2 Effective for annual periods beginning on or after 1 January 2021
- 3 The mandatory effective date will be determined



## (2) PRINCIPAL ACCOUNTING POLICIES (*continued*)

The Group will adopt the above new standards, amendments and improvements to existing standards and interpretation 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 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.

### (3) CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of HKFRS 9 “Financial Instruments” and HKFRS 15 “Revenue from Contracts with Customers” on the Group’s financial statements and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

#### (a) HKFRS 9 “Financial Instruments”

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. In accordance with the transitional provisions in HKFRS 9, comparative figures have not been restated.

The new accounting policies applied from 1 January 2018 are as follows:

##### (i) Classification

###### *Debts instruments*

HKFRS 9 has three financial asset classification categories for investments in debt instruments:

- those to be measured at amortised cost;
- those to be measured subsequently at fair value through other comprehensive income (“FVOCI”); and
- those to be measured subsequently at fair value through profit or loss (“FVPL”).

Classification depends on the entity’s business model for managing the debt instruments and the debt instruments’ contractual cash flow characteristics.

The Group classifies its financial assets as at amortised cost only if both of the following criteria are met:

- the asset is held within a business model with the objective of collecting the contractual cash flows; and
- the contractual terms of the debt instruments give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

The Group classifies its financial assets as at FVOCI only if both of the following criteria are met:

- the objective of the Group’s business model is to hold the asset to collect the contractual cash flows and to sell financial assets; and
- the contractual terms of the debt instruments give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL.

### **(3) CHANGES IN ACCOUNTING POLICIES *(continued)***

#### **(a) HKFRS 9 “Financial Instruments” *(continued)***

##### ***Equity instruments***

Investment in equity instruments are always measured at fair value. Equity instruments that are held for trading are measured at FVPL.

For equity instruments which are not held for trading, the Group has made an irrevocable election at initial recognition to recognise changes in fair value through other comprehensive income rather than profit or loss.

##### **(ii) Measurement**

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

##### ***Financial assets measured at amortised cost***

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a financial asset that is subsequently measured at amortised cost is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

##### ***Equity instruments classified as fair value through other comprehensive income***

The Group subsequently measures all equity instruments at fair value. Since the Group’s management has elected to present fair value gains and losses on equity instruments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss. Equity investments that are elected by the Group’s management to be classified as FVOCI are not subject to impairment. Dividends from such instruments continue to be recognised in profit or loss as other income when the Group’s right to receive payments is established.

##### **(iii) Impairment**

The Group assesses on a forward looking basis the expected credit losses associated with its debt instrument assets carried at amortised cost and contract assets. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade and other receivables and contract assets, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

### **(3) CHANGES IN ACCOUNTING POLICIES *(continued)***

#### **(a) HKFRS 9 “Financial Instruments” *(continued)***

For other financial assets originally categorised as loans and receivables under HKAS 39 which all have been classified as financial assets at amortised cost under HKFRS 9 from 1 January 2018, the Group has determined that reliably assessing the probability of default of the counterparties at the initial recognition of each financial asset would result in undue cost and effort. As permitted by a transition provision in HKFRS 9, provision for doubtful debts account for these financial assets will be determined based on whether their credit risk are low at each reporting date, and if so by recognising a 12 months expected losses amount until the financial asset is derecognised. If the financial asset is not of a low credit risk, the corresponding provision for doubtful debts account will be recognised as equal to lifetime expected losses.

The impact of the adoption of HKFRS 9 is shown as follows:

##### **(i) Classification and measurement of financial assets and liabilities**

At the date of initial application of HKFRS 9 (1 January 2018), the Company’s management has assessed which business models apply to the financial assets held by the Group and has classified its financial assets and liabilities into the appropriate HKFRS 9 categories.

The application of HKFRS 9 does not have material impact on the classification, recognition and measurement of the other financial assets held by the Group at 30 June 2018.

The application of HKFRS 9 does not affect the Group’s accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 and have not been changed.

##### **(ii) Impairment of financial assets**

The new impairment model requires the recognition of impairment provisions based on expected credit losses model rather 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. At 30 June 2018, the Group assessed the impact of loss allowance is immaterial.

### **(3) CHANGES IN ACCOUNTING POLICIES (continued)**

#### **(b) HKFRS 15 “Revenue from Contracts with Customers”**

The Group has adopted HKFRS 15 “Revenue from Contracts with Customers” from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the modified retrospective approach in HKFRS 15, comparative figures have not been restated.

The accounting policies were changed to comply with HKFRS 15, which replaces both the provisions of HKAS 18 Revenue and HKAS 11 Construction Contracts and the related interpretations that relate to the recognition, classification and measurement of revenue and costs.

The new accounting policies and the impact of the adoption of HKFRS 15 is shown as follows:

#### **Accounting for revenue from construction contracts**

In prior reporting periods, the Group accounted for revenue from construction contracts when the outcome of construction contracts can be estimated reliably by reference to the stage of completion of the contract activities at the end of the reporting periods.

Under HKFRS 15, revenue from construction contracts is recognised when or as the construction projects are transferred to the customer. Depending on the terms of the contracts and the laws that are applicable to the contracts, control of the construction projects may transfer over time or at a point in time. If construction projects have no alternative use to the Group contractually and the Group has an enforceable right to payment from the customers for performance completed to date, the Group satisfies the performance obligation over time and therefore, recognises revenue over time in accordance with the input method for measuring progress.

The excess of cumulative revenue recognised in profit or loss over the cumulative billings to customers is recognised as contract assets. The excess of cumulative billings to customers over the cumulative revenue recognised in profit or loss is recognised as contract liabilities.

#### **Presentation of contract assets and liabilities**

Reclassifications were made as at 1 January 2018 to be consistent with the terminology used under HKFRS 15:

- contract assets recognised in relation to construction contracts were previously presented as amounts due from customers for contract work
- contract liabilities recognised in relation to construction contracts were previously presented as amounts due to customers for contract work and deposits received and advances from customers

**(3) CHANGES IN ACCOUNTING POLICIES (continued)**

**(b) HKFRS 15 “Revenue from Contracts with Customers” (continued)**

The following adjustments were made to the amounts recognised in the statement of financial position on 1 January 2018:

|   | At 31<br>December<br>2017<br>(as previously<br>presented)<br>HK\$'000 | Effects of<br>adoption of<br>HKFRS 15<br>HK\$'000 | At 1<br>January<br>2018<br>(as restated)<br>HK\$'000 |
|---|---|---|--|
| <b>Condensed consolidated statement<br/>of financial position (extract)</b> |   |   |  |
| Amounts due from customers for<br>contract work                             | 688,810   | (688,810)   | -  |
| Contract assets   | -   | 688,810   | 688,810  |
| Amounts due to customers for<br>contract work                               | 60,212  | (60,212)  | -  |
| Deposits received and advances from<br>customers                            | 52,235  | (52,235)  | -  |
| Contract liabilities  | -   | 112,447   | 112,447  |

The following adjustments were made to the amounts recognised in the statement of financial position on 30 June 2018:

|   | At 30 June<br>2018<br>(without the<br>adoption of<br>HKFRS 15)<br>HK\$'000 | Effects of<br>adoption of<br>HKFRS 15<br>HK\$'000 | At 30 June<br>2018<br>(as reported)<br>HK\$'000 |
|---|--|---|---|
| <b>Condensed consolidated statement<br/>of financial position (extract)</b> |  |   |   |
| Amounts due from customers for<br>contract work                             | 988,396  | (988,396)   | -   |
| Contract assets   | -  | 988,396   | 988,396   |
| Amounts due to customers for<br>contract work                               | 71,918   | (71,918)  | -   |
| Deposits received and advances from<br>customers                            | 57,370   | (57,370)  | -   |
| Contract liabilities  | -  | 129,288   | 129,288   |

The adoption of HKFRS 15 has no material impact to the condensed consolidated income statement and has no impact to the net cash flow from operating, investing and financing activities on the condensed consolidated statement of cash flows.

#### (4) 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.

The Group has three reportable segments principally based on reportable business units as well as the reporting organisation hierarchy, and are determined as follows:

- Façade Contracting Works
- General Contracting Works
- Operating Management

For the six months ended 30 June 2018, the Group recognised revenue from façade contracting business, general contracting business and operating management over time of HK\$1,763,034,000.

Unaudited segment results for the six months ended 30 June 2018 and 2017 are as follows:

|                                   | <u>Revenue</u>          |                  | <u>Gross profit</u>   |                | <u>Segment results</u> |                |
|-----------------------------------|-------------------------|------------------|-----------------------|----------------|------------------------|----------------|
|                                   | <b>2018</b>             | 2017             | <b>2018</b>           | 2017           | <b>2018</b>            | 2017           |
|                                   | <b>HK\$'000</b>         | HK\$'000         | <b>HK\$'000</b>       | HK\$'000       | <b>HK\$'000</b>        | HK\$'000       |
|                                   |                         | (restated)       |                       | (restated)     |                        | (restated)     |
| Reportable segments:              |                         |                  |                       |                |                        |                |
| Façade Contracting Works          | <b>1,055,469</b>        | 1,015,032        | <b>127,109</b>        | 172,357        | <b>60,998</b>          | 113,126        |
| General Contracting Works         | <b>589,250</b>          | 388,675          | <b>53,035</b>         | 13,513         | <b>51,023</b>          | 12,300         |
| Operating Management              | <b><u>118,315</u></b>   | <u>111,939</u>   | <b><u>50,522</u></b>  | <u>29,192</u>  | <b><u>35,946</u></b>   | <u>17,515</u>  |
| Total                             | <b><u>1,763,034</u></b> | <u>1,515,646</u> | <b><u>230,666</u></b> | <u>215,062</u> | <b><u>147,967</u></b>  | <u>142,941</u> |
| Unallocated corporate expenses    |                         |                  |                       |                | <b>(26,488)</b>        | (21,885)       |
| Other income and other gains, net |                         |                  |                       |                | <b>1,301</b>           | 873            |
| Finance costs                     |                         |                  |                       |                | <b><u>(11,115)</u></b> | <u>(7,944)</u> |
| Profit before tax                 |                         |                  |                       |                | <b><u>111,665</u></b>  | <u>113,985</u> |

#### (5) OTHER INCOME AND OTHER GAINS, NET

|                      | <b>For the six months ended 30 June</b> |              |
|----------------------|---|--------------|
|                      | <b>2018</b>                             | 2017         |
|                      | <b>HK\$'000</b>                         | HK\$'000     |
|                      |   | (restated)   |
| Bank interest income | <b>851</b>                              | 1,331        |
| Sundry income        | <b><u>1,391</u></b>                     | <u>1,680</u> |
|                      | <b><u>2,242</u></b>                     | <u>3,011</u> |

## (6) FINANCE COSTS

|                                       | For the six months ended 30 June |              |
|---------------------------------------|----------------------------------|--------------|
|                                       | 2018                             | 2017         |
|                                       | HK\$'000                         | HK\$'000     |
| Interest on bank loans and overdrafts | 11,016                           | 7,848        |
| Finance lease charges                 | 99                               | 96           |
|                                       | <u>11,115</u>                    | <u>7,944</u> |

## (7) PROFIT BEFORE TAX

|   | For the six months ended 30 June |              |
|---|----------------------------------|--------------|
|   | 2018                             | 2017         |
|   | HK\$'000                         | HK\$'000     |
|   |                                  | (restated)   |
| Profit before tax has been arrived at after charging:                         |                                  |              |
| Amortisation of prepaid lease payments  | 309                              | 337          |
| Depreciation included in cost of contracting works performed                  | 5,827                            | 4,774        |
| Depreciation included in administrative, selling and other operating expenses | 3,643                            | 3,745        |
|   | <u>9,470</u>                     | <u>8,519</u> |

## (8) INCOME TAX CHARGE

|                                     | For the six months ended 30 June |               |
|-------------------------------------|----------------------------------|---------------|
|                                     | 2018                             | 2017          |
|                                     | HK\$'000                         | HK\$'000      |
|                                     |                                  | (restated)    |
| Current tax – Hong Kong profits tax |                                  |               |
| Provision for the period            | 17,300                           | 14,300        |
| Overprovision in prior years        | (12)                             | -             |
|                                     | <u>17,288</u>                    | <u>14,300</u> |
| Current tax – overseas              |                                  |               |
| Provision for the period            | 7,005                            | 16,170        |
| Overprovision in prior years        | (678)                            | (266)         |
|                                     | <u>6,327</u>                     | <u>15,904</u> |
| Income tax charge for the period    | <u>23,615</u>                    | <u>30,204</u> |

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

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.



## (9) DIVIDENDS

|   | For the six months ended 30 June |               |
|---|----------------------------------|---------------|
|   | 2018                             | 2017          |
|   | HK\$'000                         | HK\$'000      |
| Dividend recognised as distribution during the period:  |                                  |               |
| 2017 final dividend of HK1.0 cent per share paid on 6 July 2018 (six months ended 30 June 2017: 2016 final dividend of HK0.8 cent per share paid) | <u>21,555</u>                    | <u>17,244</u> |

The Board has declared the payment of an interim dividend of HK1.0 cent per share (30 June 2017: HK1.0 cent per share), amounting to approximately HK\$21,555,000 (30 June 2017: approximately HK\$21,555,000) payable on 5 October 2018. This interim dividend has not been recognised as a liability at the end of the reporting period.

## (10) 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 data:

|  | For the six months ended 30 June |                  |
|--|----------------------------------|------------------|
|  | 2018                             | 2017             |
|  | HK\$'000                         | HK\$'000         |
| <b>Earnings</b>  |                                  | (restated)       |
| Profit attributable to owners of the Company, used in the basic and diluted earnings per share calculation | <u>90,888</u>                    | <u>86,225</u>    |
|  | <u>2018</u>                      | <u>2017</u>      |
|  | <u>'000</u>                      | <u>'000</u>      |
| <b>Number of shares</b>  |                                  |                  |
| Weighted average number of ordinary shares used in the basic and diluted earnings per share calculation    | <u>2,155,545</u>                 | <u>2,155,545</u> |
|  |                                  | (restated)       |
| Basic and diluted earnings per share (HK cents)  | <u>4.22</u>                      | <u>4.00</u>      |

No diluted earnings per share are presented as the Company did not have any dilutive potential ordinary shares for the six months ended 30 June 2018 (30 June 2017: Nil).

## (11) GOODWILL

|  | <u>HK\$'000</u> |
|--|-----------------|
| Cost, at 30 June 2018 and 31 December 2017                   | 159,707         |
| Accumulated impairment, at 30 June 2018 and 31 December 2017 | (21,558)        |
| Carrying values, at 30 June 2018 and 31 December 2017        | <u>138,149</u>  |

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (“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 within the North America segment.

The recoverable amounts of the CGU are 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 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 on market development.

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 are ranging from 22.58% to 23.18%. With all other variables held constant, if the revenue growth rates used in the value-in-use calculation had been decreased by 1.43% or the pre-tax discount rate used in the value-in-use calculation had been increased by 0.5% than management estimated as at 30 June 2018, the headroom would drop to Nil.

## (12) TRADE AND OTHER RECEIVABLES

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

|                             | <b>30 June<br/>2018<br/>HK\$'000</b> | 31 December<br>2017<br>HK\$'000<br>(restated) |
|-----------------------------|--------------------------------------|---|
| Trade receivables:          |                                      |   |
| 0 to 30 days                | <b>314,247</b>                       | 375,220                                       |
| 31 to 60 days               | <b>26,443</b>                        | 68,409  |
| 61 to 90 days               | <b>18,617</b>                        | 3,641   |
| More than 90 days           | <b>278,315</b>                       | 230,952                                       |
|                             | <b>637,622</b>                       | 678,222                                       |
| Retention receivables       | <b>500,265</b>                       | 456,247                                       |
|                             | <b>1,137,887</b>                     | 1,134,469                                     |
| Other receivables           | <b>48,389</b>                        | 47,221  |
| Trade and other receivables | <b>1,186,276</b>                     | 1,181,690                                     |

## (13) BANK BORROWINGS

The bank borrowings are repayable as follows:

|  | <b>30 June<br/>2018<br/>HK\$'000</b> | 31 December<br>2017<br>HK\$'000 |
|--|--------------------------------------|---------------------------------|
| On demand or within one year                         | <b>404,045</b>                       | 401,693                         |
| In the second year                                   | <b>463</b>                           | 200,472                         |
| In the third to fifth years, inclusive               | <b>201,512</b>                       | 1,542                           |
| More than five years                                 | <b>10,461</b>                        | 11,171                          |
|  | <b>616,481</b>                       | 614,878                         |
| Less: Amount due for settlement within twelve months | <b>(404,045)</b>                     | (401,693)                       |
| Amount due for settlement after twelve months        | <b>212,436</b>                       | 213,185                         |

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

|                  | Hong Kong<br>dollar<br>HK\$'000 | Canadian<br>dollar<br>HK\$'000 | United States<br>dollar<br>HK\$'000 | Total<br>HK\$'000 |
|------------------|---------------------------------|--------------------------------|-------------------------------------|-------------------|
| 30 June 2018     | <b>200,000</b>                  | <b>17,659</b>                  | <b>398,822</b>                      | <b>616,481</b>    |
| 31 December 2017 | 200,000                         | 28,852                         | 386,026                             | 614,878           |

The average bank loans interest rates at 30 June 2018 was 3.42% (31 December 2017: 3.15%).

#### (14) 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:

|   | <b>30 June<br/>2018<br/>HK\$'000</b> | 31 December<br>2017<br>HK\$'000<br>(restated) |
|---|--------------------------------------|---|
| Trade payables:                             |                                      |   |
| 0 to 30 days                                | <b>629,617</b>                       | 436,771                                       |
| 31 to 60 days                               | <b>25,775</b>                        | 41,656  |
| More than 60 days                           | <b>69,626</b>                        | 51,585  |
|   | <b>725,018</b>                       | 530,012                                       |
| Retention payables                          | <b>143,640</b>                       | 131,994                                       |
|   | <b>868,658</b>                       | 662,006                                       |
| Other payables and accruals                 | <b>128,320</b>                       | 169,139                                       |
| Trade payables, other payables and accruals | <b>996,978</b>                       | 831,145                                       |

As at 30 June 2018, the amount of retention payables expected to be due after more than twelve months was approximately HK\$104,002,000 (31 December 2017: approximately HK\$91,673,000).

#### (15) SHARE CAPITAL

|  | <u>Issued and fully paid</u> |  |
|--|------------------------------|--|
|  | Number of<br>shares<br>'000  | <b>Share Capital<br/>Amount<br/>HK\$'000</b> |
| Ordinary share of HK\$0.01 each                      |                              |  |
| At 1 January 2017, 31 December 2017 and 30 June 2018 | <u>2,155,545</u>             | <u>21,555</u>                                |

## **BUSINESS REVIEW**

In the first half of 2018, the global economy continued to present an overall upward trend but the recovery slowed down with the polarizing trend in economic growth of the United States and other developed and emerging economies. With the Federal Reserve's fast interest rates hike and the impact of the US trade protectionism, emerging economies experienced intensified turbulence in light of the volatility in exchange rates, interest rates and commodity prices, casting a shadow over the outlook for global economic growth. Against the backdrop of the escalated US-China trade dispute coupled with the deleveraging cycle and the deepening of supply-side reform, the pace of economic restructuring and industrial transformation and upgrading in China has further accelerated, and China's economy has shown a stable and decelerating growth trend.

The Group adhered to the operational strategy of "rooting in Hong Kong and Macau, relying on Mainland, 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**

Hong Kong and Macau are the traditional key markets of the Group. Given the overall prosperous curtain wall market in Hong Kong, the Group strived to further strengthen its advantages in order to maintain its leading market position in Hong Kong. In Macau, the high-end curtain wall market still suffered from a downturn, though the economy began to bottom out. The Group is a leading high-end curtain wall total solution provider recognised in the market. As it focused on deepening the strategic cooperative relation with its big clients, it also actively strived to create long-term and stable cooperation opportunities with new clients, contributing to the continuous business growth in the region. In the first half of 2018, the Group's newly awarded projects in the region included Tuen Mun Kwun Chui Road Project of TMTL 500, The Curtain Wall and Barrage Section Project of Tai Po Town Lot No. 221 at Shan Tong Road, Lai Chi Shan, Tai Po, New Territories, and The Lohas Park Phase IX Project at Tseung Kwan O, etc. The Group has put emphasis on improving the project performance capacity and 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 maximise project teams' motivation.

The construction and curtain wall markets in North America experienced continuous growth. The Group paid special attention to profitable premium projects with controllable risks that were undertaken by private developers. During the first half of the year, in North America, the Group was awarded, among others, the project of 540 West 21st Street in New York, the US; the project of Queen's Marque in Halifax, Canada and the project of Empire Landmark in Vancouver, Canada. Apart from these, more potential projects are being under way. With the Group's effort in strengthening project cost control and contract management as well as enhancing cross-field resources allocation and coordination, the level of management and control over the Group's business in North America was improving continuously. All projects in progress are making good progress.

There has been a structural imbalance between supply and demand in the curtain wall business in Mainland China which intensified disorderly competitions. The Group has been selective in choosing curtain wall projects in Mainland China and has focused on major projects owned by creditworthy landlords. During the first half of 2018, the Group leveraged its branding effect to proactively explore high-end curtain wall projects. Capitalizing on the internal synergy, the Group was awarded a number of projects such as the curtain wall project of Binhai Commercial Centre in Zhongzhou (Stage I), the daylighting roof works for Huawei's training academy in Songshan Lake, the curtain wall subcontracting works for Phase II of the eastern land parcel of International City (North), the project of Nike's flagship store in Shanghai and the project of Apple Store in Sanlitun, Beijing.

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 of the new Zhuhai Factory was progressing smoothly, and its trial production commenced in late June as scheduled. The new Zhuhai Factory is built as an intelligent factory equipped with cutting-edge production equipment and processing technique, which will further sharpen the Group's advantages in terms of production scale in the future.

In addition to the Greater China region and North America, the Group actively kept abreast of premium curtain wall projects in other overseas regions. During the first half of 2018, the Group was awarded the project for the supply of single components for West Side Place Stage I in Melbourne, Australia, further bolstering the Australian market. At the same time, the Group was successfully awarded the project of the Stage in London, the UK during the first half of the year.

## **2. General Contracting Business**

The development of our general contracting business has been gaining momentum. The Group actively participated in the bidding of medium and small housing projects in Hong Kong, continuously exploring cooperation opportunities with various China-funded property developers in Hong Kong. Our bidding effort has been progressing in a coordinated manner. Our projects in progress are experiencing steady development, with the project in Tsing Lung Tau from MCC Real Estate, 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 being carried out well without any hiccups.

## **3. Operating Management Business**

In the first half of 2018, with the strong backing of our parent company, the Group accelerated the expansion of our operating management business and completed the acquisition of China Overseas Supervision Limited (“中海監理有限公司”), a company that holds First Class License for Agencies of Project Tender (“工程招標代理機構甲級執照”) and Qualified license for Project Commission (“工程監理綜合資質執照”), from China State Construction International Holdings Limited, our controlling shareholder. The acquisition, while enhancing the synergy of our operating management business of the Group, will also generate coupling effects with our curtain wall business. In the first half of 2018, the Group was awarded a number of projects, for examples, the projects of managing Lot No. 0405 of Songshan Lake Lake Shore Garden in Huawei, Dongguang, and Dongtian Estate in Pinghu, Zhejiang. In addition, the Group continued to step up efforts on the investment transformation and operating management business expansion in Mainland China, and actively participated in a number of project tenders. The urban planning and operation project in progress was carried out smoothly.

## OVERALL PERFORMANCE

For the six months ended 30 June 2018, the Group recorded aggregate revenue of HK\$1,763 million (30 June 2017 (restated): HK\$1,516 million), an increase of 16.3% as compared with the corresponding period of last year. The profit attributable to owners of the Company was HK\$90.9 million (30 June 2017 (restated): HK\$86.2 million), an increase of 5.4% as compared with the corresponding period of last year. The basic earnings per share was HK4.22 cents (30 June 2017 (restated): HK4.0 cents), representing the growth of 5.5% as compared with the same period last year.

During the period, the Group acquired 100% of equity interests in China Overseas Supervision Limited (“COS”) from Shenzhen CS Grand Wealth Investment Company Limited, a wholly owned subsidiary of China State Construction International Holdings Limited (“CSCIHL”) for a cash consideration of RMB70 million. The acquisition was treated as common control combination and merger accounting was adopted as if COS had been combined from the date when COS first came under the control of the controlling party. The comparative figures of the consolidated financial statements have been restated.

### Segment analysis

#### Facade Contracting Business

Revenue contribution from the segment remained stable, the segment’s revenue recorded a slightly increase to HK\$1,055 million for the six months ended 30 June 2018 (30 June 2017: HK\$1,015 million). The operating profit decreased to HK\$61 million for the six months ended 30 June 2018 (30 June 2017: HK\$113 million). It is due to the fact that the certain projects substantially completed in 2017 has made less contribution in the first half of the year and the newly awarded projects of 2018 have not yet made a significant contribution in the preliminary stage of construction.

#### General Contracting Business

Benefiting from the increase in secured construction projects in Hong Kong, the segment delivered a satisfactory growth of revenue to HK\$589 million for the six months ended 30 June 2018 (30 June 2017: HK\$389 million). The segment profit increased to HK\$51 million for the six months ended 30 June 2018 (30 June 2017: HK\$12 million) as a results of the increase of revenue of certain projects reaching the peak of construction.

#### Operating Management Business

Riding on the contribution from the acquisition of COS and the progress of an urban planning and consultancy project, the segment’s revenue recorded a slightly increase to HK\$118 million for the six months ended 30 June 2018 (30 June 2017 (restated): HK\$112 million). The operating profit increased to HK\$36 million for the six months ended 30 June 2018 (30 June 2017 (restated): HK\$17 million).

#### Administrative, selling and other operating expenses

With the continuous expansion of three core business and the acquisition of COS, administrative expenses increased by 14.5% to HK\$110 million (30 June 2017 (restated): HK\$96 million).

#### Finance costs

For the six months ended 30 June 2018, the Group’s finance costs increased to HK\$11 million (30 June 2017: HK\$8 million) as a results of the rise of interest rate.

### **New contracts awarded**

The Group recorded a new contract value of HK\$2,793 million for the six months ended 30 June 2018, representing a growth of 49.0% as compared with the same period last year. Major new contracts include the following:

#### **Facade Project**

- Lohas Park Package 9, Town Lot No. 70RP (Site J), Tseung Kwan O, Hong Kong
- Tai Po Town Lot No. 221, Shan Tong Road, Lai Chi Shan, Tai Po, Hong Kong
- TMTL 500 Kwun Chui Road, Tuen Mun, Hong Kong
- 深圳中洲濱海商業中心，Shenzhen, Mainland China
- West Side Place Stage 1, 250 Spencer Street, Melbourne, Australia
- The Stage, Plough Yard, Shoreditch, EC2A 3LP, London, United Kingdom
- Landmark On Robson, 1400 Robson Street, Vancouver, Canada
- Queen's Marque, Halifax, Canada
- 540 West 21<sup>st</sup> Street, New York, USA

As of 30 June 2018, the on-hand contract value amounted to HK\$10,068 million, among which the backlog was HK\$6,211 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 30 June 2018, the Group had bank balances and cash of HK\$365 million (31 December 2017 (restated): HK\$478 million), total borrowings of the Group were HK\$616 million (31 December 2017: HK\$615 million). The Group's net gearing ratio (net debt to total net assets) as at 30 June 2018 was approximately 24.6% (31 December 2017 (restated): 14.5%). Furthermore, the Group had unutilised banking facilities (including performance guarantee facilities, working capital facilities and loan facilities) of approximately HK\$1,305 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 30 June 2018 and 31 December 2017 are set out as follows:

|  | 30 June 2018<br>HK\$'000 | 31 December 2017<br>HK\$'000 |
|--|--------------------------|------------------------------|
| On demand or within one year                     | 404,045                  | 401,693                      |
| More than one year but not exceeding two years   | 463                      | 200,472                      |
| More than two years but not more than five years | 201,512                  | 1,542                        |
| More than five years                             | 10,461                   | 11,171                       |
| <b>Total borrowings</b>                          | <b>616,481</b>           | <b>614,878</b>               |



The portfolio of the currencies of bank deposits of the Group as at 30 June 2018 and 31 December 2017 is set out as follows:

|                      | 30 June 2018 | 31 December 2017<br>(restated) |
|----------------------|--------------|--------------------------------|
|                      | %            | %                              |
| Hong Kong dollar     | 25           | 27                             |
| United States dollar | 17           | 4                              |
| Renminbi             | 41           | 46                             |
| Macau Pataca         | 8            | 9                              |
| Others               | 9            | 14                             |

As at 30 June 2018, the Group's equity attributable to owners of the Company amounted to HK\$1,091 million (31 December 2017 (restated): HK\$1,019 million), comprising issued capital of HK\$22 million (31 December 2017: HK\$22 million) and reserves of HK\$1,069 million (31 December 2017 (restated): HK\$997 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 US dollar. 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 30 June 2018, the Group employed a total of 2,737 (31 December 2017: 1,758) 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.

## **FOREIGN CURRENCY RISK**

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, Canadian dollar, Pound Sterling and Macau Pataca. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currencies should the need arise.

## PROSPECTS

It is expected that in the second half of 2018, global currency and trade policies will proceed to a further balanced adjustment; emerging economies will experience an increasing capital flight while trade conflicts between major economies will be intensified, which bring new risks and challenges to the world economy. The construction market of North America will remain prosperous with the US stimulation policies on infrastructures; overseas curtain wall markets such as Australia and UK enjoy a bright prospect. Hong Kong's construction market will face increasing competition due to its stabilized market size, while Macau's economy will revive after significant adjustments. The planning in Guangdong-Hong Kong-Macau Greater Bay Area will also bring new opportunities to the construction industries of Hong Kong and Macau. China's economy will face great downward pressure for a short period of time, but it will maintain the momentum of stable growth when benefiting from a series of stable development measures such as the "Belt and Road" and supply-side reform.

### 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.

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.

In respect of the operating management business field, while closely monitoring the development of national policies, the Group will improve the operation model of its operating management business to further explore opportunities of investment transformation in Mainland China. Drawing on the synergy from China Overseas Supervision and the Group's operating management business, the Group will 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.

## **INTERIM DIVIDEND**

The Board declares the payment of an interim dividend of HK1.0 cent per share (30 June 2017: HK1.0 cent per share), payable on Friday, 5 October 2018 to shareholders whose names appear on the register of members of the Company on Friday, 7 September 2018.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Thursday, 6 September 2018 to Friday, 7 September 2018, both days inclusive, for the purpose of determining shareholders' entitlement to the interim dividend.

In order to qualify for the interim dividend, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Wednesday, 5 September 2018.

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

During the six months ended 30 June 2018, neither the Company nor any of its subsidiaries has made any purchase, sale or redemption of any of the Company's listed securities.

## **CORPORATE GOVERNANCE**

The Company has complied throughout the six months to 30 June 2018 with all code provisions of the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, save for the following deviation:

Code provisions A.6.7 and E.1.2 - code provision A.6.7 stipulates that independent non-executive directors and other non-executive directors should attend general meetings and code provision E.1.2 stipulates that the chairman of the board should attend the annual general meeting. Mr. Zhou Yong, Chairman of the Board and Non-executive Director, was unable to attend the annual general meeting and extraordinary general meeting held on 29 May 2018 due to other business engagement and Mr. Zhu Yijian, Vice Chairman and Chief Executive Officer chaired the meetings in his stead to answer questions at the meetings. The Vice Chairman reported back to the Chairman the views of shareholders after the meetings.

## **REVIEW OF ACCOUNTS**

The unaudited interim results of the Company and its subsidiaries for the six months ended 30 June 2018 have been reviewed by the Audit Committee which comprises three Independent Non-executive Directors.

## **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, 17 August 2018

*As at the date of this announcement, the Board comprises Mr. Zhou Yong as Chairman and Non-executive Director; Mr. Zhu Yijian (Vice Chairman and Chief Executive Officer), Mr. Luo Haichuan, Mr. Wang Hai and Mr. Chan Sim Wang as Executive Directors; Mr. Huang Jiang as Non-executive Director; and Mr. Zhou Jinsong, Mr. Hong Winn and Ms. Kwong Sum Yee Anna as Independent Non-executive Directors.*