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

50th anniversary

EXPANDING NEW FUTURE
ANNUAL REPORT 2018

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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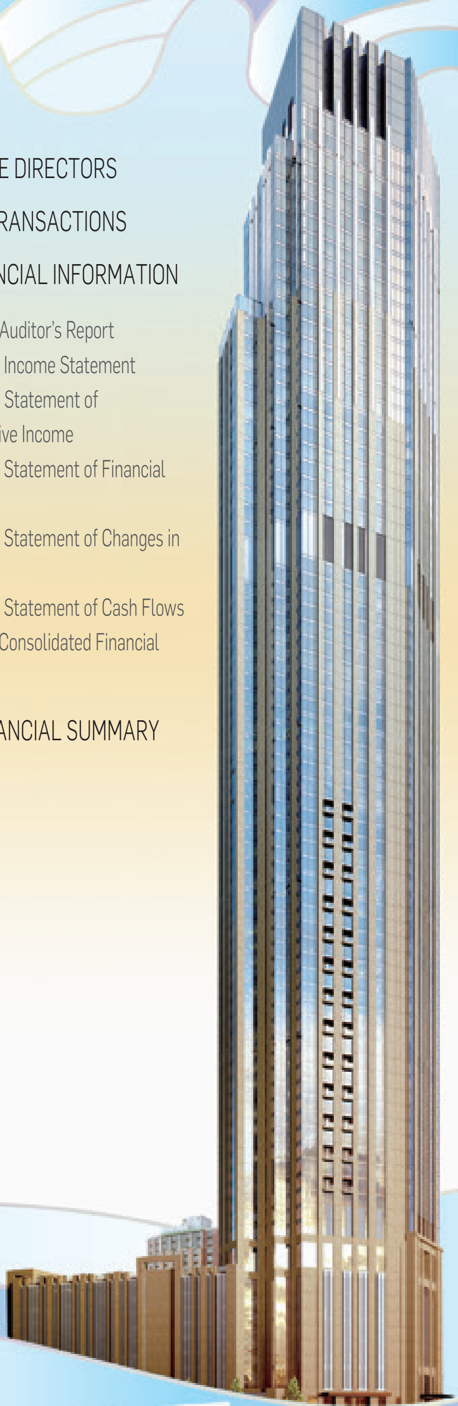


INTERNATIONAL ADVANTAGES

With the new development 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
   - Harbourside Phase 1 & 1A
6. **New York *(USA)***
   - 605 42nd Street
   - 1568 Broadway
   - New York Police Academy
   - Sanitation Garage
   - United Nations HQ
   - UAE Mission
   - 540 West 21st Street
   - 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
    - The One
    - York Region
13. **Vancouver *(Canada)***
    - Landmark On Robson
    - 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
- The Stage

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

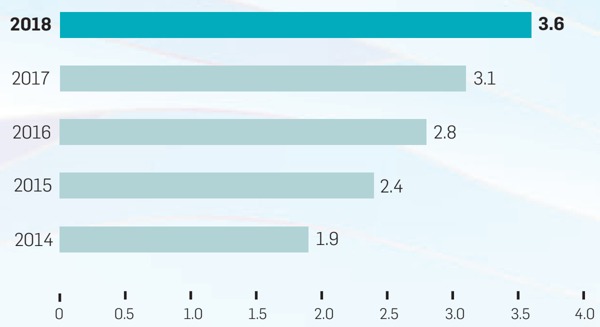
FINANCIAL HIGHLIGHTS

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	2014 HK$'000 restated	2015 HK$'000 restated	2016 HK$'000 restated	2017 HK$'000 restated	**2018 HK$'000**
Revenue	1,930,702	2,431,140	2,841,966	3,132,665	**3,611,770**
Profit attributable to owners of the Company	99,319	111,233	119,168	123,691	**148,571**
Total assets	2,221,619	2,410,470	2,578,047	2,961,319	**3,366,811**
Equity attributable to owners of the Company	1,317,991	1,302,155	1,053,906	1,020,469	**1,097,291**
Return on Equity attributable to owners of the Company (%)	7.5	8.5	11.3	12.1	**13.5**
Basic earnings per share (HK cents)	4.61	5.16	5.53	5.74	**6.89**
Dividend (HK cents)	1.0	1.2	1.6	2.0	**2.2**

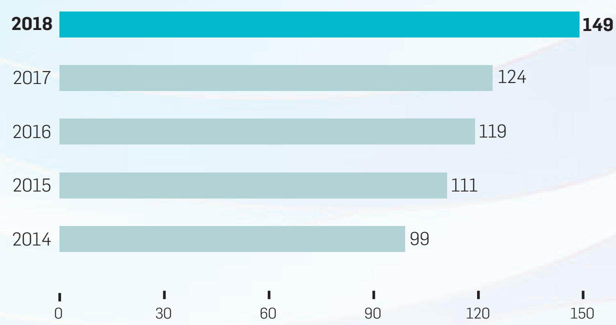
REVENUE

HK$ billion
(restated)

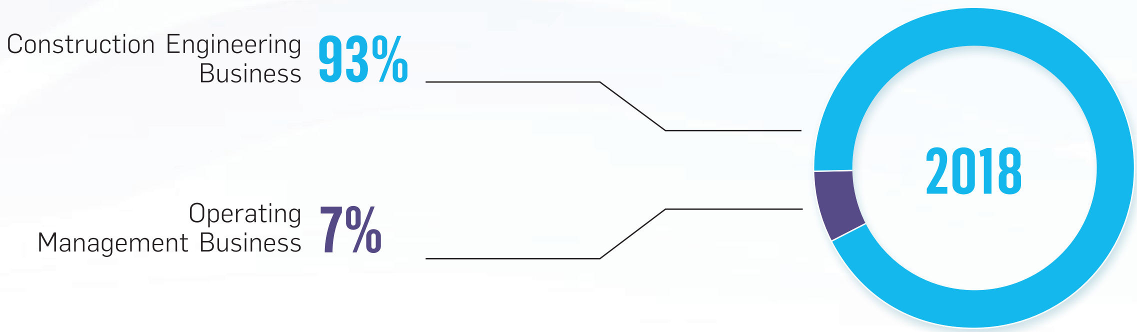


PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

HK$ million
(restated)



2018 REVENUE BY SEGMENTS



* *Construction Engineering Business including facade contracting and general contracting business*

CORPORATE STRUCTURE

FAR EAST
GLOBAL GROUP LIMITED

- Construction Engineering Business
- Operating Management Business

MAJOR EVENTS OF THE YEAR 2018

JANUARY

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

MARCH

1) Far East Global obtained the "Caring Company 5+" label.

2) Far East Global encourage employees to join the "Earth Hour" event which was organized by World Wide Fund for Nature on 24 March 2018.

3) Far East Global announced the acquisition of China Overseas Supervision Limited for RMB70 million.

MAY

1) Far East Global obtained the "Talent-Wise Employment Charter and Inclusive Organisations Recognition Scheme Inclusive Organisation" label.

JUNE

1) Far East Global obtained the "Happy Company 2018" label.

JULY

1) Far East Global obtained the "Outstanding Corporate Social Responsibility Award" by The Mirror.

AUGUST

1) Zhuhai Factory was officially put in use. The factory covers about 85,000 square meters, including two workplaces, an office building, a residential hall and a testing center, which dedicated to design and production, as well as to develop a modern intelligent processing center.

2) Far East Global held the "Company Day" series activities.

3) Announced that Far East Canada has invested a piece of land at Waterloo, Toronto, Canada, for developing senior housing.

4) Gamma Windows and Walls International Inc. won the bid of "The One" project in Toronto, Canada. This is the greatest curtain wall contract since Far East Canada's 50 years of development. With technical and management advantages, we have won the bid of a well-known contractor, Permasteelisa, and have also established the company's market in Canada, as well as to consolidate the global leadership of Far East Global's curtain wall industry. It shows Far East Global's outstanding performance and local engineering strength.

NOVEMBER

1) Far East Global obtained the "Green Office" and "Eco-Healthy Workplace" label by World Green Organization.

DECEMBER

1) Far East Global held "Arts for All" with Treats at the Islamic Dharwood Pau Memorial Primary School. 13 Islamic students and 21 volunteers joined this event.

2) Far East Global obtained the "The 9th Merit Award in the Hong Kong Corporate Citizenship Award" label.

3) Far East Global, Far East Aluminium Works Co. Ltd. and Treasure Construction Engineering Ltd. are awarded the Family Friendly Employers Award Scheme — "Family-Friendly Employers" and "Awards for Breastfeeding Support". Also, the "Family-Friendly Employers 2017/18" label.

BOARD OF DIRECTORS AND COMMITTEES

BOARD OF DIRECTORS

Chairman and Non-executive Director
ZHANG Haipeng

Executive Directors
WU Mingqing
(Vice Chairman and Chief Executive Officer)
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)*
ZHANG Haipeng
WU Mingqing
HONG Winn
KWONG Sum Yee Anna

Nomination Committee
ZHANG Haipeng *(Chairman)*
WU Mingqing
ZHOU Jinsong
HONG Winn
KWONG Sum Yee Anna

West Side Place Stage 1,
250 Spencer Street, Melbourne, Australia

CORPORATE INFORMATION

AUTHORISED REPRESENTATIVES
ZHANG Haipeng
WU Mingqing

COMPANY SECRETARY
LAU Shuk Yin Connie

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
MaplesFS Limited
P.O. Box 1093
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Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
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Hong Kong

REGISTERED OFFICE
P.O. Box 309
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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 Bank Company Limited — Hong Kong Branch
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
20 March 2019

Closure of register of members for Annual General Meeting
24-29 May 2019 (both days inclusive)

Annual General Meeting
29 May 2019

Closure of register of members for Final Dividend
13-14 June 2019 (both days inclusive)

Payment of Final Dividend
5 July 2019

MAJOR PROJECTS IN PROGRESS OVERVIEW

Tai Po Town Lot No.221, Shan Tong Road, Lai Chi Shan, Tai Po, Hong Kong

Project Name	Project Type	Estimated Contract Sum HK$ million	Year of Estimated Project Completion
Facade Contracting Works			
Mainland China			
華為蘇州企業項目, Suzhou	Commercial	150.8	2019
信德橫琴口岸服務A03地塊開發項目, Zhuhai	Commercial	198.9	2019
深圳中洲濱海商業中心, Shenzhen	Commercial	103.2	2020
Hong Kong, Macau & Others			
CUHK Medical Centre, Hong Kong	Hospital	173.9	2019
Hong Kong Science Park Extension Stage 1, Pak Shek Kok, Tai Po, Hong Kong	Commercial	259.9	2019
Lohas Park Package 9, Town Lot No 70RP (Site J, Tseung Kwan O, Hong Kong)	Residential	292.3	2020
Lot No.541, So Kwun Wat Road, Area 56, Tuen Mun, Hong Kong	Residential	272.3	2019
Lohas Park Package 5 at TKOTL No.70, Area 86G, Tseung Kwan O, Hong Kong	Residential	287.5	2019
Tai Po Town Lot No.214 at Fo Yin Road, Pak Shek Kok, Hong Kong	Residential	303.5	2019
Tai Po Town Lot No.221, Shan Tong Road, Lai Chi Shan, Tai Po, Hong Kong	Residential	486.6	2020
TMTL 500 Kwun Chui Road, Tuen Mun, Hong Kong	Residential	276.8	2020
Treasury Building, Cheung Sha Wan, Hong Kong	Public Building	134.4	2020
Rua do Comandante João Belo C, Fai Chi Kei, Macau	Residential	91.0	2019
Macau Science Centre, Macau	Public Building	89.1	2019
Elizabeth Quays, Perth, Australia	Commercial	83.1	2019
Victoria Police Centre, Melbourne, Australia	Public Building	124.8	2019
West Side Place Stage 1, 250 Spencer Street, Melbourne, Australia	Commercial	107.6	2019
The Stage, London, UK	Residential	486.2	2021
North America			
99 Hudson, Jersey City, New Jersey, USA	Residential	529.5	2019
540 West 21st Street, New York, USA	Commercial	208.7	2020
1568 Broadway, New York, USA	Commercial	301.1	2020
Harborside Phase 1 & 1A, New Jersey, USA	Commercial	132.6	2020
UAE Mission, New York, USA	Public Building	64.7	2019
Landmark On Robson, 1400 Robson Street, Vancouver, Canada	Commercial	176.0	2020
Mackenzie Vaughan Hospital, Vaughan, Canada	Hospital	141.8	2019
Symphony Tower, Edmonton, Canada	Residential	33.5	2019
Queen's Marque, Halifax, Canada	Commercial	116.3	2020
The One, Toronto, Canada	Residential	533.2	2021
General Contracting Works			
57–59 Ma Tau Wai Road and 2–20 Bailey Street, KIL, 1151, Hong Kong	Residential	591.0	2020
Residential & Commercial Development at Tuen Mun Town Lot No 514, Hong Kong	Residential	550.0	2019
Operating Management			
長沙望城	Public Facilities	95.8	2019

CHAIRMAN'S STATEMENT

Expanding
NEW FUTURE


SHUN
TAK

CHAIRMAN'S STATEMENT

Mr. ZHANG Haipeng
Chairman and Non-executive Director

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.

In 2018, Far East Global Group Limited and its subsidiaries (collectively the "Group") continued to strengthen the traditional curtain wall business by accurately forecasted the landscape changes in both the international and local markets and make full use of its internal synergy effects. It also actively promoted the deployments for every operation to keep improving the competitive advantages of the industry. The Group has further established its strategic positioning, where it accelerated the pace of capital operation and implemented an in-depth dual-core-driven strategy of "traditional business and investment business". It has successively injected the supervision business from its parent company and initiated the acquisitions of the infrastructure operation business of two bridges in Nanchang. It was then proposed to change the name of the Company to "CHINA STATE CONSTRUCTION DEVELOPMENT HOLDINGS LIMITED". The newly awarded contract value of the curtain wall business, our core business, hit a history record high, while the general contracting business made a steady progress and the supervision business in the Mainland China also maintained a smooth momentum.

Harbourside Phase 1 & 1A, New Jersey, USA

RESULTS

During the year ended 31 December 2018, the audited profit attributable to shareholders amounted to HK$149 million, representing a year-on-year increase of 20.1%; the total revenue of the principal activities amounted to HK$3,612 million, representing a year-on-year increase of 15.3%; earnings per share was HK6.89 cents, representing a year-on-year increase of 20.0%.

DISTRIBUTION OF DIVIDENDS

The board of directors recommends to distribute a final dividend of HK1.20 cents per share for the year ended 31 December 2018, representing a year-on-year increase of 20.0%. The total dividends for the year amounted to HK2.20 cents per share, representing a year-on-year increase of 10.0%.

BUSINESS REVIEW

Market conditions

In 2018, the world's political and economic conditions underwent ups and downs, as a result, the recovery of global economy has shown a diversified trend. Being affected by the impacts of the intensified US trade protectionism coupled with the US tax reform and the Federal Reserve continued to hike interest rates, except the US economy, which remained an accelerated pace, other developed economies such as Europe, the UK and Japan were suffering from a downturn. In light of the volatility in exchange rates, interest rates and commodity prices, emerging markets experienced a more obvious economic downward trend, casting a shadow over the outlook for global economic growth. The US-China trade dispute has become the market focus, the pace of economic restructuring and industrial upgrading in China has further accelerated and the "Belt and Road" development and the supply-side structural reform continued to proceed, which have led the Chinese economy move to a development transformation period.

The Group adhered to the operational strategy of "rooting in Hong Kong and Macau, relying on the 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. Construction Engineering Business

Curtain Wall Business

Hong Kong and Macau are the traditional key markets of the Group. Given the overall prosperous construction market in Hong Kong, the Group strived to further strengthen its advantages in order to maintain its leading position in the curtain wall market of 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 2018, the Group's newly awarded contract value in the region was HK$1,304 million, the newly awarded projects 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 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 measurements such as enhancing safety control and implementing incentive schemes, so as to adjust and maximise project teams' motivation.

The construction and curtain wall markets in North America have experienced continuous growth. 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, among others, the project of 540 West 21st Street and the project of Broadway Tower Construction in New York, the US; the project of renovation of curtain wall in New Jersey, the US; the project of The One in Toronto, the Queen's Marque in Halifax and the project of Empire Landmark in Vancouver, Canada, with the total new contract value amounted to HK$1,468 million. 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 the Mainland China which intensified disorderly competitions. The Group has been selective in choosing curtain wall projects in the Mainland China and has focused on major projects owned by creditworthy landlords. During 2018, apart from dedicated in the curtain wall projects of Apple Stores to keep its traditional strengths, the Group leveraged its branding effect and capitalizing on the internal synergy, and 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 project for the buildings of Lot No. A03 of Hengqin Shun Tak Control Point Service Zone, the curtain wall subcontracting works for Phase II of the eastern land parcel of International City (North) and the project of Nike's flagship store in Shanghai.

In order to fulfil the growing capacity demand of projects in Hong Kong, Macau and overseas, the Group has proactively expanded its production and manufacturing base in the Mainland China. The construction of the new Zhuhai Factory has been completed, and its production commenced in August 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 and to further bolstering Australian market through providing design and supply services. During 2018, the Group was awarded the project for the supply of single components for West Side Place Stage I in Melbourne, Australia. At the same time, the Group was successfully awarded the project of The Stage in London, the UK.

Contracting Business

The Group actively participated in the bidding of medium and small housing projects in Hong Kong. It was awarded the general contracting of Ma Tau Wai project from Henderson during the year. Meanwhile, our projects in progress were 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.

2. Operating Management Business

In 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 ("China State Construction International"), 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 2018, China Overseas Supervision Limited was awarded a number of projects, for examples, the projects of managing Lot No. 0405 of Songshan Lake Lake Shore Garden in Huawei, Dongguan, and Dongtian Estate in Pinghu, Zhejiang.

At the same time, the Group proactively explores in the investment operating business of pension industry. In August 2018, an investment project of a pension apartment in Toronto, Canada has been formally implemented. The Group has acquired a parcel in Toronto, Canada at a consideration of HK$120 million, which will be developed as a pension apartment in three stages, with a total investment of HK$1,200 million. This has made a beneficial attempt for the Group's investment business.

According to the strategic deployment for the business transformation of the Group by our parent company, while the Group will extend and strengthen its traditional curtain wall business, it will also further expand the operation management business. On 7 January, 2019, the Group officially announced to acquire the operation businesses of Nan Chang Bridge and Nan Chang Zhong Hai Xin Ba Yi Bridge from China State Construction International, our controlling shareholder. It is expected that the acquisition will bring stable cash flow and considerable returns, laying a solid foundation for the Group's expansion into new operating businesses, making a further step in the transition of the Group towards a professional operation enterprise and promoting the vertical in-depth development of the Group's dual-core-driven strategy. Furthermore, the name of the Company has been changed from "Far East Global Group Limited" to "CHINA STATE CONSTRUCTION DEVELOPMENT HOLDINGS LIMITED". The change of the Company's name will better reflect the strong branding effect of "China State Construction" and is more compatible to the direction of the Group's future business development.

New Projects Awarded

In 2018, the Group undertook 43 projects in total, with an aggregate contract value of HK$4,791 million. Among them, Asia Pacific and Greater China region accounted for HK$2,837 million, representing 59% of the total; while North America region accounted for HK$1,468 million, representing 31% of the total, and other oversea regions accounted for HK$486 million, representing 10% of the total.

Projects in Progress

As at 31 December 2018, the Group's total contract value of projects in progress amounted to HK$11,665 million, among which the contract value attributable to uncompleted projects on hand amounted to HK$6,726 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 the ability of risk predictions and the effects of risk management and control, and promote 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

In 2018, the Group continued to enhance its financial management. Under the principle of stringent financial management, the Group improved the efficiency in 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 pragmatically. The net operation cash flow was optimistic, it continued to show a significant growth and has effectively fulfilled the capital needs for the projects in progress and investment projects. As at 31 December 2018, the Group's bank deposits amounted to a total of HK$387 million. Total borrowings amounted to HK$717 million, and the net gearing ratio was 32.1%. 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$1,420 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 mechanism for staff selection and employment to provide its employees with a healthy environment for professional competition and development. During the year, the Group implemented 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 more 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》) in Hong Kong, Macau and the Mainland China 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 2018, the Group had a total of 2,735 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

Looking forward to 2019, the uncertainties in the global political and economic conditions have not been eliminated, couple with the complicated and ever-changing general outlook of the macroeconomy, the market environment is still under threats. The global trade and currency policies will proceed to a further balanced adjustment, this will lead to an overall slowdown of the economic growth in developed economies. Trade conflicts between major economies will be intensified and emerging economies will experience fluctuations and downturns, which will bring new risks and challenges to the world economy. China's economy will face great downward pressure for a short period of time, but as it keeps transforming, it will experience a slow while stable momentum of growth when the economy of the Mainland China continues to enjoy the benefits from a series of stable development measures such as the "Belt and Road" and supply-side reform.

The construction market in North America is expected to expand continuously with the boost of tax reduction and 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 UK show promising prospects. Hong Kong's construction market size will be stable, while there will be stiffer competition. The economy in Macau will recover gradually after recession and the implementation of Guangdong-Hong Kong-Macau Bay Area planning will also bring new opportunities to the construction industry in Hong Kong and Macau. The imbalance between demand and supply in the curtain wall market in the Mainland 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. It will further dive into the Hong Kong and Macau markets and participate in the competition in North America and the Mainland China markets with sustainable strategies. At the same time, it will further explore other overseas markets such as Australia, the UK and Asia-Pacific region. The Group will continue to focus on the work schedule, quality, safety, capital and cost management of projects and production restructuring plan 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 the Mainland China, by continuously recruiting additional experts and collaborating and better utilising the resources in different regions 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, the Group will leverage on the rich experience of China State Construction International, our controlling shareholder, especially those about general contracting, and utilize the synergy with China State Construction Engineering (Hong Kong), so as to secure premium projects.

In respect of the operating management business field, while continue to closely monitoring the development of national policies, the Group will dedicate in its existing operation business, to further explore the operation model of its new business. At the same time, the Group will enhance the resource linkage with the parent company, and further expand the scope of investment transformation in the Mainland China. The Group will strive to increase the contribution of its operating management business as soon as possible and achieve its dual-core-driven strategic objective.

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 general employees as well as customers 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
Zhang Haipeng
Chairman and Non-executive Director

Hong Kong, 20 March 2019

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

MANAGEMENT DISCUSSION AND ANALYSIS

OVERALL PERFORMANCE

For the year ended 31 December 2018, the Group delivered solid results with both revenue and profit improvement guided by its three core business strategy. The Group recorded aggregate revenue of HK$3,612 million (2017 (restated): HK$3,133 million), an increase of 15.3% as compared to last year. The profit attributable to owners of the Company was HK$149 million (2017 (restated): HK$124 million), an increase of 20.1% as compared to last year. The basic earnings per share was HK6.89 cents (2017 (restated): HK5.74 cents), representing the growth of 20.0% over last year. The Board of Directors recommends the payment of a final dividend of HK1.20 cents per share and together with the interim dividend of HK1.00 cent per share paid in the year, the total dividends for the year amounted to HK2.20 cents per share, representing 31.9% payout of the distributable profit for the year.

During the year, 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 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 an increase to HK$2,518 million for the year ended 31 December 2018 (2017: HK$2,210 million). The operating profit decreased to HK$144 million for the year ended 31 December 2018 (2017: HK$201 million). It is due to the fact that the certain projects substantially completed in 2017 has made less contribution in 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$851 million for the year ended 31 December 2018 (2017: HK$660 million). The segment profit increased to HK$64 million for the year ended 31 December 2018 (2017: HK$40 million) as a results of the increase of revenue of certain projects reaching the peak of construction.

Operating Management Business

With the contribution from newly acquired COS and the progress of an urban planning and consultancy project, the segment's revenue recorded a revenue of HK$243 million for the year ended 31 December 2018 (2017 (restated): HK$263 million). The operating profit increased to HK$76 million for the year ended 31 December 2018 (2017 (restated): HK$52 million).

During the year, the Group has acquired a piece of land in Canada at a cash consideration of HK$120 million for the development of senior housing project. The Acquisition will enable the Company to expand its revenue generating sources to senior housing business and hence a big step towards expansion of the scope of its operating management business.

Administrative expenses

Benefiting from the continuous resources allocation of three core business, administrative expenses decreased by 8.6% to HK$191 million (2017 (restated): HK$209 million).

Finance costs

For the year ended 31 December 2018, the Group's finance costs increased to HK$27 million (2017: HK$17 million) as a result of the increase in bank borrowings.

New contracts awarded

The Group recorded a new contract value of HK$4,791 million for the year ended 31 December 2018, representing a growth of 14.6% as compared to 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
- Treasury Building, Cheung Sha Wan, Hong Kong
- Refurbishment for Macau Science Centre, Macau
- 深圳中洲濱海商業中心, Shenzhen, Mainland China
- 信德橫琴口岸服務區A03地塊開發裙樓項目, 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
- The One, Toronto, Canada
- 540 West 21st Street, New York, USA
- 1568 Broadway, New York, USA
- Harborside Phase 1 &1A, New Jersey, USA

General Contracting Project

- 57–69 Ma Tau Wai Road and 2–20 Bailey Street, KIL 1151, Hong Kong

As of 31 December 2018, the on-hand contract value amounted to HK$11,665 million, among which the backlog was HK$6,726 million which meets the Group's expected future works.

深圳中洲濱海商業中心

Treasury Building, Cheung Sha Wan, Hong Kong

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 2018, the Group had bank balances and cash of HK$387 million (31 December 2017 (restated): HK$478 million), total borrowings of the Group were HK$717 million (31 December 2017: HK$615 million). The Group's net gearing ratio (net debt to total net assets) as at 31 December 2018 was approximately 32.1% (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$1,420 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 2018 and 31 December 2017 are set out as follows:

	31 December 2018 HK$'000	31 December 2017 HK$'000
On demand or within one year	**505,178**	401,693
More than one year but not exceeding two years	**455**	200,472
More than two years but not more than five years	**201,485**	1,542
More than five years	**9,806**	11,171
Total borrowings	**716,924**	614,878

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

	31 December 2018 %	31 December 2017 % (restated)
Hong Kong Dollars	**20**	27
Renminbi	**35**	46
United States Dollars	**3**	4
Macau Pataca	**6**	9
Others	**36**	14

As at 31 December 2018, the Group's equity attributable to owners of the Company amounted to HK$1,097 million (31 December 2017 (restated): HK$1,020 million), comprising issued capital of HK$22 million (31 December 2017: HK$22 million) and reserves of HK$1,076 million (31 December 2017 (restated): HK$999 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 2018, the Group employed a total of 2,735 (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.

DIRECTORS AND ORGANISATION

BOARD OF DIRECTORS

Mr. ZHANG Haipeng

Chairman and Non-executive Director
Chairman of the Nomination Committee
Member of the Remuneration Committee

Aged 43, was appointed as Chairman of the Board and a Non-executive Director on 18 August 2018. Mr. Zhang graduated from the Harbin Institute of Technology, and obtained a degree of Master of Business Administration from Hong Kong Baptist University and a degree of Executive Master of Business Administration from Nankai University. He joined 中國建築集團有限公司 (China State Construction Engineering Corporation*, "CSCEC") in 2000 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) in 2002. Mr. Zhang has been a director of certain subsidiaries of CSCIHL since 2008. Currently, he is an executive director and chief executive officer of CSCIHL. CSCEC and CSCIHL are controlling shareholders of the Company. Mr. Zhang has over 19 years of experience in construction engineering management.

Mr. WU Mingqing

Vice Chairman, Executive Director and Chief Executive Officer
Member of the Nomination Committee
Member of the Remuneration Committee

Aged 54, was appointed as Vice Chairman of the Board, an Executive Director and Chief Executive Officer on 18 August 2018. Mr. Wu is also a director of the Company's subsidiaries. He graduated from Shanxi University of Finance and Economics and obtained a degree of Executive Master of Business Administration from Nankai University. Mr. Wu was awarded the title of Senior Accountant. He joined CSCEC in 1986 and was seconded to CSCIHL in 2000. Mr. Wu has been a director of certain subsidiaries of CSCIHL since 2002. He was an executive director of CSCIHL between June 2014 and August 2018. Mr. Wu has over 33 years of experience in financial management, construction engineering, infrastructure investment and project management.

* The English name is a translated name and is for identification purpose only.

Mr. WANG Hai
Executive Director, Senior Vice President

Aged 46, 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 CSCEC 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 25 years of experience in international corporation management in the industry of building and infrastructure investment in North America, Hong Kong and Mainland China.

Mr. CHAN Sim Wang
Executive Director and Chief Financial Officer

Aged 50, 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 and Fellow of the Association of Chartered Certified 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 26 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. HUANG Jiang
Non-executive Director

Aged 44, 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 CSCEC 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 22 years of experience in contract and project management.

Mr. ZHOU Jinsong
Independent Non-executive Director
Chairman of the Audit Committee
Member of the Nomination Committee
Chairman 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. 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 49, 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 19 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 69, 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 41 years of professional experience in the architectural field.

SENIOR MANAGEMENT

Mr. HO Wai Man, Raymond

Senior Vice President

Aged 57, 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 33 years of experience in engineering, construction, contract administration, project management, tendering and business development in Hong Kong and overseas.

Mr. WANG Yapeng

Assistant President

Aged 43, joined the Group in June 2018 and is responsible for the overall management of the Group's construction supervision business. Mr. Wang graduated from Huazhong University of Science and Technology and Renmin University of China, and holds a Bachelor's degree in Engineering and a Master's degree in Management. He joined CSCEC in 2004 and was seconded to the CSCIHL Group in 2007. Mr. Wang has over 15 years of experience in enterprise management, human resources and administration.

Mr. TAN Yong

Deputy Chief Financial Officer

Aged 43, joined the Group in September 2016 and is responsible for the treasury function of the Group and in charge of the finance departments 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 China Overseas Holdings Limited in 2000 and has over 17 years of experience in finance, accounting, taxation and funds management in property development, construction and infrastructure investment businesses.

Mr. ZHU Minfeng

General Manager, 遠東恒輝幕牆(珠海)有限公司 (Far East Heng Fai Facade (Zhuhai) Limited)

Aged 39, joined the Group in September 2018 and is the general manager of Far East Heng Fai Facde (Zhuhai) Limited. Mr. Zhu graduated from Southeast University and Huazhong University of Science and Technology, and holds a Bachelor's degree and a Master's degree in Engineering. He joined the CSCIHL Group in 2003 and has over 16 years of experience in construction engineering management.

Mr. LAU Sai Ying, Alan

Marketing Director, Far East Aluminium Works Company Limited

Aged 58, 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 29 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 59, 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 38 years of experience in curtain wall design.

Mr. MOK Wai Him

Project Director, Far East Aluminium Works Company Limited

Aged 58, 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 30 years of experience in project management.

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 2018, save for the following deviation:

Code provision E.1.2 — code provision E.1.2 stipulates that the chairman of the board should attend the annual general meeting. Mr. Zhou Yong, who was Chairman of the Board at the time, was unable to attend the annual general meeting held on 29 May 2018 due to other business engagement and Mr. Zhu Yijian, who was Vice Chairman at the time, chaired the meeting in his stead to answer questions at the meeting.

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 2018, the Board comprised eight Directors — three 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 2018 are set out in the "Board of Directors and Committees" section of this Annual Report and their biographical details are set out on pages 29 to 32.

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. Although some of the Independent Non-executive Directors has served more than nine years, the Company continues to consider all of them to be independent having regard to (i) their annual confirmation on independence; (ii) the absence of their involvement in the day-to-day management of the Company; and (iii) the absence of any relationships or circumstances which would interfere with the exercise of their independent judgement.

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, and Mr. Zhang Haipeng who succeeded Mr. Zhou after his resignation on 18 August 2018, 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, and Mr. Wu Mingqing who succeeded Mr. Zhu after his resignation on 18 August 2018, 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 and a special meeting. 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
Chairmen and Non-executive Directors					
Zhou Yong (Note 1)	4/4	—	2/2	2/2	1/3
Zhang Haipeng (Note 2)	1/1	—	—	—	—
Executive Directors					
Zhu Yijian (Note 1)	4/4	—	2/2	2/2	3/3
Wu Mingqing (Note 2)	1/1	—	—	—	—
Luo Haichuan (Note 1)	4/4	—	—	—	3/3
Wang Hai	5/5	—	—	—	3/3
Chan Sim Wang	5/5	—	—	—	3/3
Non-executive Director					
Huang Jiang	5/5	—	—	—	3/3
Independent Non-executive Directors					
Zhou Jinsong	5/5	4/4	2/2	2/2	3/3
Hong Winn	5/5	4/4	2/2	2/2	3/3
Kwong Sum Yee Anna	5/5	4/4	2/2	2/2	3/3

Notes:

1. Mr. Zhou, Mr. Zhu and Mr. Luo resigned from the Board with effect from 18 August 2018.

2. Mr. Zhang and Mr. Wu joined the Board on 18 August 2018.

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		
Zhang Haipeng	√	√
Executive Directors		
Wu Mingqing	√	√
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 2017, and for the first quarter, half-year and third quarter of 2018, 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 2018 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 2018 amounted to approximately HK$2,847,000 and HK$456,000 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 2019 annual general meeting of the Company recommending their reappointment.

Nomination Committee

The Nomination Committee is chaired by Mr. Zhang Haipeng, the Chairman of the Board and Non-executive Director and its other members include Mr. Wu Mingqing, 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. During the year, Mr. Zhang Haipeng was appointed as chairman of the committee following the resignation of Mr. Zhou Yong and Mr. Wu Mingqing was appointed to the committee following the resignation of Mr. Zhu Yijian. All other 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 two meetings 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 an 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. Zhang Haipeng, the Chairman of the Board and Non-executive Director, Mr. Wu Mingqing, Vice Chairman, Executive Director and Chief Executive Officer and two Independent Non-executive Directors, namely, Mr. Hong Winn and Ms. Kwong Sum Yee Anna. Mr. Zhang Haipeng and Mr. Wu Mingqing were appointed to the committee following the resignations of Mr. Zhou Yong and Mr. Zhu Yijian. All other 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 two meetings during the year. The committee determined the remuneration package for an Executive Director on his appointment which was determined with reference to his responsibilities in the Company 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 2018 is set out in note 11 to the consolidated financial statements.

The remuneration of members of the senior management by band for the year end 31 December 2018 is set out in note 12 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 2018.

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 2018. 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.

DIVIDEND POLICY

The dividend policy of the Company will be approximately 30% of the profits available for distribution, which will be declared/ recommended by the Board for distribution semi-annually when the Board approves the interim results and annual results. The amount of dividends actually distributed to shareholders will depend upon the earnings and financial position, operating requirements, capital requirements and any other conditions that the Directors may deem relevant. There is no assurance that dividends of any amount will be declared or distributed in any year.

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 2018, 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 16th Floor, Eight Commercial Tower 8 Sun Yip Street Chai Wan 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 2019.

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 report is prepared in accordance with Appendix 27 "Environmental, Social and Governance Reporting Guide" (the "ESG Reporting Guide") promulgated by the The Stock Exchange of Hong Kong Limited ("HKEX"). This report covers the policies, measures and performances of Far East Global Group Limited (the "Company") and its subsidiaries (collectively the "Group") in environmental, social and governmental aspects, allowing all stakeholders to better understand the progress and development direction of the Group. This report is available in both Chinese and English, and has been uploaded to the website of the Company (www.fareastglobal.com).

REPORTING BOUNDARY

This report focuses on the operation of the Group's glass façade business from 1st January 2018 to 31st December 2018. The reporting boundary covers the office of the Hong Kong headquarters, the production facility in Buffalo, NY, USA and the production facilities and offices at Shenzhen, Shanghai, Quebec, Canada and Miami, FL, USA ("each site of operation"). To enhance the Group's operational transparency, the Group improves the scope of disclosure of this report covering the offices and production facilities in all regions.

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

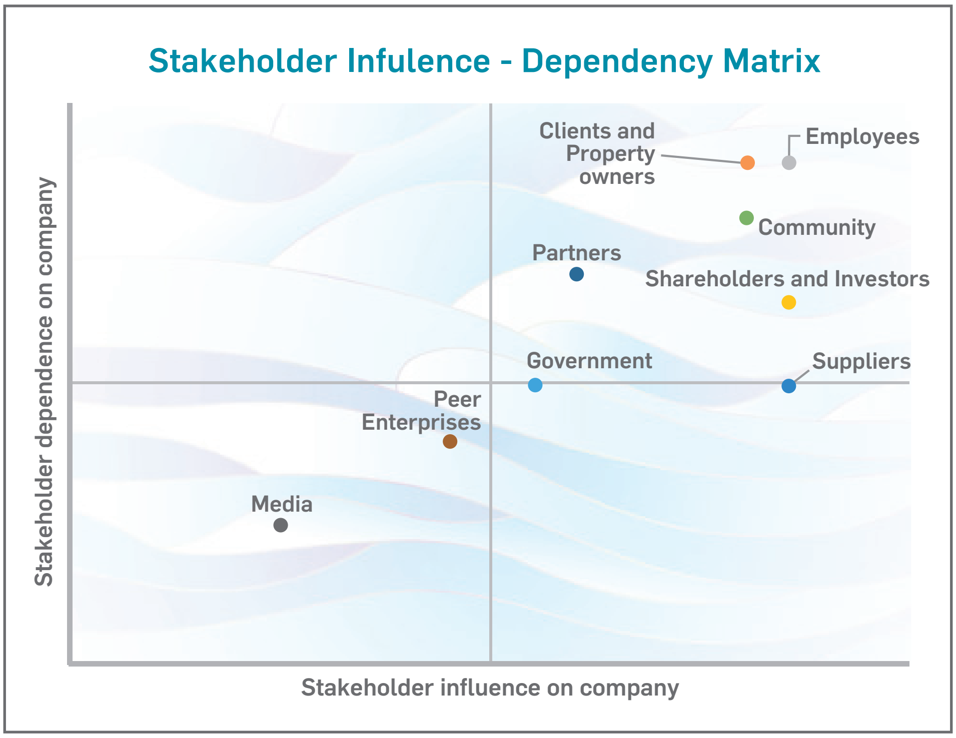
STAKEHOLDER ENGAGEMENT

The Group develops various internal and external communication channels and constantly communicates with key stakeholders to understand their needs. This helps the Group to review its business operation and company governance. The Group will consistently upgrade the communication channels to stay alert on expectations and opinions.

Stakeholder Group	Stakeholder	Communication channel and means of stakeholder engagement
Internal stakeholder	Employees Board of Directors	• Publishes "Far East People" internal magazine • Provides trainings and workshops • Organises employee activities
External stakeholder	Clients and Property owners Suppliers Shareholders and Investors Government Community Partners Peer Enterprises Media	• Hiring standards and practices • Customer satisfaction survey • Provides diverse services and customised products • Provide professional after-sales service • Shareholders' meeting • Announcements/circulars, annual reports and financial statements • Implement state policies • Actively participate in community affairs • Factory inspection • Joins industry chambers and standard-setting organizations

MAJOR SUSTAINABILITY ISSUES

Through management meetings and the assistance of consultants, the Group discussed and identified the major issues of concern to stakeholders and derived a Stakeholder Influence — Dependency Matrix. The stakeholders at the top right of the matrix are most valued by the Group, and the Group will prioritise their interests when formulating policies.



SUSTAINABILITY GOVERNANCE

The Group understands the importance of environmental management and sustainable development, so it actively introduces a sustainable operation model. The Group established the Sustainability Governance Committee (the "Committee") in 2017 to implement sustainable policy. The Committee not only identifies material sustainability aspects, but also coordinates the communication with stakeholders. In the future, the Group will continue to improve and optimise environmental policies to reduce its environmental impact.

ENVIRONMENTAL POLICIES

In order to protect the environment, the Group takes the initiative to take up the environmental and social responsibility. The Group strictly abides by relevant environmental laws and regulations. In order to reduce environmental impact, utilise resources more efficiently and ensure the integration of the concept of sustainability into operation, the Group has set up different guidelines for various operational stages to enable employees to comply with and implement the guidelines to achieve green office and green production.

— Green office

The Group has already established the "Far East Global Group Green Office Environmental Proposal" and "Far East Global Group Green Office Guidelines" in 2016 and 2017 respectively. They are strictly implemented in all offices and production facilities to support the green office and green production culture. Apart from providing advice on waste disposal and the use of natural resources such as energy, water and paper, the Group also tries to raise the awareness of environmental protection through education and trainings. The Group always strives to create a green and low-carbon working environment. The Group has been awarded the "Green Office" logo from the World Green Organization for three consecutive years. The Group will continue to promote energy conservation and waste reduction in order to practice green culture in the future.

— Green production

The Group integrates the elements of sustainability into production as much as practical. The Group also strengthens the implementation of environmental policies through regulation.

Production stage	Sustainable development measures
Façade product design	Design with low-carbon and energy saving features: — High light transmission glass to allow more natural light into the room — Low heat reflecting glass to prevent ultraviolet light to stabilize room temperature — Mainly made of aluminium alloy, stainless steel and low-carbon metal, with the characteristics of high recyclability
Procurement	— Implement centralized procurement to reduce carbon emissions during transportation
Production	— Produce Façade products at the factory to reduce wastage at the construction site — Reduce aluminium waste from cutting phase by optimising aluminium product design software and improving production processes — Reuse remaining materials such as scraps of aluminium and metal in the production plant

— Energy use and air pollutants

Electricity is the most consumed energy of the Group. Main sources of consumption include production facilities and office lighting. Other energy consumption, such as diesel, gasoline, and petroleum gas, are mainly from raw materials transportation and commercial vehicles. Therefore, the Group is very strict about the selection of vehicles. At present, the Group mainly uses light goods vehicles with less than 2.5 tons to reduce air pollutant emissions during transportation.

— Water consumption and sewage discharge

The Group does not have any difficulties in sourcing water. The sewage discharge of the Group is mainly from domestic sewage of offices and production facilities and is discharged through the municipal drainage system. The Group understands the importance of water resources. Therefore, it advocates water efficiency plans through "Energy Conservation Management System", encouraging employees to save water and reduce wastewater. For example, when any leakage is found and reported, the responsible employee will fix it immediately.

— Waste management

The waste from production facilities will be collected by recycling companies, and a local environmental company will dispose of the non-recyclable waste. In terms of office waste disposal, the Group actively promotes conservation measures, such as reducing paper consumption, implementing paperless office and communication method. In addition, Hong Kong headquarters commissioned a registered waste recycling company to handle e-waste to reduce land pollution caused by landfills. The Group will continue to explore and optimise waste disposal methods in a more sustainable way.

— Greenhouse gas emission

The main source of the Group's carbon emission is purchased electricity and air business travel. To address the main source of carbon emission, the Group will continue implementing energy conservation measures to reduce electricity consumed. The Group will also optimise the business travel policy to reduce the amount of air travel.

— Environment and natural resources

The Group understands that the manufacture of façade products and the provision of related services will cause a certain impact on the environment and natural resources. Therefore, the Group actively adopts different environmental measures to limit the impacts from its operation. For example, the production facility provides regular training workshops on the production process for the employees or provides technical trainings on installing glasses to prevent breaking the glasses. These measures can reduce waste generated from production and installation phases. In addition to reducing waste generated at the source, the Group also puts resources and efforts on waste disposal, and tries to recycle and reuse the waste as much as possible.

EMPLOYMENT AND LABOUR PRACTICES

— Labour standards

The Group always comply with relevant laws and regulations to prevent child and forced labour. The Human Resources Department will check the applicant's identity during recruitment to ensure that the applicant meets the minimum legal employment age. In addition, there is overtime work compensation policy in the third chapter of the Employee Handbook to ensure that the employees are aware of the working guidelines. The Group also regularly reviews employment practices. The Group has already sent reminders to all staff again about attendance and overtime work arrangements in October. During the reporting period, the Group did not discover any non-compliance.

— Employment system

The Group specifies the company policies regarding compensation and dismissal, recruitment and promotion, hours of work, holiday arrangement, equal opportunities, diversity, anti-discrimination and other benefits to all employees through the employment contract and the Employee Handbook. The Group values the relationship and communication with its employees, so the Group has developed various communication channels. The Group strives to provide equal employment opportunities. The Group conducts annual performance appraisal at the end of the year in accordance with fairness and impartiality. The appraisal result will provide reference for salary adjustment and promotion. The Group has also established a "work place harassment prevention policy" to provide more detailed guidelines in terms of the definitions and forms of discrimination and harassment; if any employee encounters such situation, they can immediately report through whistleblowing channels.

— Development and training

The Group cares about employees' personal and career development. Apart from providing internal trainings, it also provides examination leave and subsidy for external training courses. The Group has also established subsidy for professional associations fees and special bonus for professional qualifications since 2017 to encourage employees to obtain professional qualifications. A total of 130 internal trainings were held during the reporting year. The Group also subsidised staff to join external courses to align themselves with latest professional knowledge.

	Training type	**Training**
Internal training	Company policy and culture introduction	Welcoming workshop
	Basic technique course	Basic course about façade
	Professional technique course	Latest law about Safety and Environment, management and implementation
	Quality assurance course	Optimizing communication skills through psychological personality
External training	Professional technique course	Technical Seminar: Code of Practice of Structural Use of Glass 2018
	Professional technique course	Technically Competent Person T1 Training Course

— Health and safety

The Group strives to create a safe and healthy working environment. The Group assigns certain employees as Corporate Safety Officer and Safety Supervisor. Their duties are mainly providing safety trainings and conducting daily inspection at the construction site. The Group also composed "Company Safety Management Manual — Internal Safety Code" and "Safety and Health Policy" and strictly followed them. The Group has also purchased medical insurance for all full-time employees to provide assurance.

In September, the devastating typhoon “Mangkhut” hit Hong Kong. The Group evaluated the site conditions immediately and then informed the staff of the work arrangements to avoid the risk of injury on the way to work and at the construction site.

— Employee activities

Employees are the most important asset for the Group's development. The Group wishes to strengthen relationships among employees. In addition to the regular Staff Recreation Day and “Company Day”, there are also occasional events to achieve a harmonious company culture.

The Group held a traditional Chinese paper-cutting art workshop in April. It invited national first-class craft artist Li Yunxia's beloved student to be the workshop instructor. The workshop enhanced the knowledge of the attendees about Chinese culture and lifestyle.

Staff joined the Chinese paper-cutting art workshop showing their works

Staff enjoyed playing badminton on Staff Recreation Day

Bowling activity on the Staff Recreation Day

“Company Day” in Hong Kong headquarters

OPERATING PRACTICES

— Product responsibility

The Group has been using a smooth façade business process and carefully monitoring every production stage to provide customers with satisfactory and high-quality products.

The Group complies with relevant laws and client's requirements and received ISO9001:2015 quality management system certification. Façade design follows relevant requirements, such as Code of Practice for Structural Use of Glass 2018, Code of Practice for the Structural Use of Steel 2011 and Code of Practice on Wind Effects in Hong Kong 2004. At the same time, the production standards could be changed according to different situation to be matched with Leadership in Energy and Environmental Design (LEED), BEAM Plus New Building (BEAM Plus), and customer's requirements for sound insulation and lighting. In the production process, the Group will carry out quality control on materials and semi-finished products before entering the next process. All products must pass a test before being delivered to the construction site for installation. Therefore, the Group is confident in the product quality.

The Group cares greatly about intellectual property rights, and the design department will check regularly whether any of the Group's design infringes intellectual property rights. Take the waterproof ventilation design as an example. This design has passed the US requirements and was granted a patent. After the design is completed, the design department will also periodically check whether the waterproof ventilation design on the market infringes the intellectual property rights of the Group. During the reporting period, the Shenzhen production facilities and the Shanghai production facilities received a total of 4 invention patents and 37 utility model patents.

— Cares for clients

If the projects department receives any complaint, they will immediately contact the customer and investigate the reported matter. In addition, the projects department and the procurement department will submit reports to the marketing department on a regular basis, and the marketing department will record and propose products that are more in line with customer's needs in the future bidding process. All obtained customer data will be stored on the company's internal server by the project team. To protect the customer's privacy, customer data can only be accessed and used under relevant management's permission. The Group values the maintenance of the property, employees regularly contact the customer to follow up façade condition. In case of any emergency such as the occurrence after any natural disasters, the Group will also check the condition of the façade for customers.

Type	Performance during the reporting year
Customer satisfaction survey	Average score is 86.74
Complaints from customers	Complaints about product quantity and quality is zero; only a few requests on waterproof check and glass replacement

— Supply chain management

The procurement department updates the supplier list every year, based on environmentally friendly production, safety, quality of supply, past performance and goodwill. This helps to ensure the quality and safety of the supply chain and reduce the environmental and social impacts of the Group's operation. Environmental factors are also taken into the Group's consideration, including the distance between the supplier and the production facilities, whether the supplier complies with local environmental regulations, and whether the supplier reuses the remaining materials.

The Group puts its concern on the integrity of the supply chain. The Group will confirm supplier's fair, equitable and safe operating practices when employing the supplier. The Group also prefers suppliers with ISO quality management system certification. The Group currently has 93 Chinese suppliers and one US supplier. When selecting a new supplier, the new supplier is required to complete a "Temporary Supplier Application Form" and the Group will conduct a factory inspection and one more evaluation to determine whether it can be added to the supplier list.

— Anti-corruption

The Group is committed to build an ethical working environment, without tolerance to any corruption or fraud to maintain the Group's corporate image. Beyond compliance with the law, the Group also has "Code of Ethics and Discipline of the Far East Global Group" and "Letter on the Integrity of the Company". In all circumstances, the Group do not allow staff to provide or accept gifts. If an employee encounters any violation of the Code, he or she can report it by phone, email and post.

COMMUNITY INVESTMENT

Apart from business operation, the Group also contributes to the community. The focus areas of contribution this year are education and community harmony. The Group hopes to promote love and harmony in the community as well as education by investing human resources and capital.

— Education

As a world's leading façade supplier, the Group cares about industry development and the cultivation of professions. This year, the Group and Xi'an University of Architecture and Technology utilised "Façade R&D Center" and "Graduate Practice Base" to apply the research results of the façade to the industry development. Also promoted technological innovation within the industry through technological innovation and industrial upgrades. Besides, the Group launched a 1.5-year "School Recruitment Training Scheme", which aims to attract talents through different channels. Then, the Group will appoint senior staff to provide technical training and support to the students.

— Community harmony

The Group collaborated with a registered charity "TREATS" to organise children activities, using the power of the company to bring children of different abilities and backgrounds together. The campaign aims to build a more friendly and inclusive society by raising the public awareness of the socially vulnerable children. In addition, the Group's employees formed a "Far East Caring" volunteer maintenance team to use their professional knowledge back to the community. Team members contact the affected community members and provide window repairing services to them for free.

MAJOR AWARDS AND RECOGNITIONS IN 2018

It is a great honour for the Group to gain recognition from different organizations. The recognition encourages the Group to keep improving and striving for a more sustainable operation.

Category	Time	Award or recognition	Awarding Organization
Environmental protection	November	Green Office 3+ Awards and Eco-Healthy Workplace Labelling Scheme	World Green Organisation
Social responsibility	March	Caring Company Scheme 2017/18	HK Council of Social Service
	May	Talent-Wise Employment Charter and Inclusive Organisations Recognition Scheme	Labour and Welfare Bureau
	June	Happy Company 2018 logo	Promoting Happiness Index Foundation and Hong Kong Productivity Council
	July	Outstanding Corporate Social Responsibility Award	"The Mirror" Monthly Journal
	December	Family-Friendly Employer Award	Home Affairs Bureau and Family Council
	December	Hong Kong Corporate Citizenship Award	Hong Kong Productivity Council and Committee on the Promotion of Civic Education

LAWS AND REGULATIONS

The Group's business complies with all relevant environmental and social laws, regulations and policies, including but not limited to the following laws and regulations.

Environment	Environmental Protection Law of the People's Republic of China, Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste, Hong Kong "Noise Control Ordinance", Hong Kong "Waste Disposal Ordinance", etc.
Employment	Hong Kong "Employment Ordinance", Hong Kong "Sex Discrimination Ordinance", Hong Kong "Occupational Safety and Health Ordinance", Hong Kong "Prevention of Bribery Ordinance", People's Republic of China Safety Production Law, Labour Law of the People's Republic of China, etc.
Clients	Hong Kong "the Trade Descriptions Ordinance", Hong Kong "Personal Data (Privacy) Ordinance", etc.
Supply Chain	Hong Kong "The Sales of Goods Ordinance", etc.

ENVIRONMENTAL PERFORMANCE

Category		Emission this year(tonne)
Exhaust gas	Sulphur oxides	47
	Nitrogen oxides	9,488
	Particulate matter	0.17

Scope	Source of emission	GHG emission this year (tonne CO_2 -e)	
Scope 1: Direct GHG Emissions	Combustion of fossil fuel — gasoline	1855	2,245
	Combustion of fossil fuel — diesel	197	
	Combustion of fossil fuel — liquefied petroleum gas	64	
	Combustion of fossil fuel — towngas	74	
	HFC and PFC emissions	55	
Scope 2: Energy Indirect GHG Emissions	Purchased energy	2,699	2,716
	Purchased towngas	17	
Scope 3: Other Indirect GHG Emissions	Electricity for municipal drinking water treatment	14	318
	Electricity for municipal wastewater treatment	7	
	Waste paper	84	
	Business travel by air	213	
Total GHG emission			5,279
GHG intensity (tonnes CO_2 -e/employee)			2.27

Category	Total amount (tonne)	Intensity (tonne/employee)
Hazardous waste	0.003	0.000001
Non-hazardous waste	801	0.34

Category		Energy consumption of this year (1,000 kWh)		
Energy use	Direct energy	Gasoline	5,506	6,302
		Diesel	664	
		Liquefied petroleum gas	132	
	Indirect energy	Electricity	4,564	4,914
		Towngas	350	
	Total energy consumption		11,216	
	Energy intensity (1,000 kWh/employee)		4.81	
Resource use	Total water consumption (tonne)		32,037	
	Water consumption intensity (tonne/employee)		13.75	
	Total packing material used (tonne)	Packaging strap	4.40	
		Wrap film	3.80	
		Edge board	1.60	
		Bubble film	0.02	
		Tape	0.07	
		PVC film	1.05	
		Paper	522.30	
		Plastic	389.10	
	Packing material used intensity (tonne/employee)		0.40	

ENVIRONMENTAL POLICIES ACHIEVED RESULTS

The Group has been striving to move its operations towards sustainable development. The Group expanded the reporting scope this year. Although the overall figure has increased, compared with the same reporting scope of last year, the Group's various environmental policies have brought certain positive results.

Environmental index	Degree of declining
Scope 2: Energy Indirect GHG Emissions	25%
GHG intensity (tonne CO_2 -e/employee)	37%
Energy intensity (1,000 kWh/employee)	30%
Water consumption intensity (tonne/employee)	31%

SOCIAL PERFORMANCE — EMPLOYMENT AND LABOUR PRACTICES

Ranking	Total workforce	Employee turnover	Ratio to total workforce in the category
By Region			
Hong Kong	345	54	16%
Mainland China	1,911	670	35%
America	247	9	4%
Canada	232	28	12%
By Age			
Below 30	781	350	45%
31–40	866	251	29%
41–50	706	124	18%
Above 51	382	36	9%
By Employment type			
General staff	1,715	597	35%
Entry level	785	141	18%
Middle management	192	22	11%
Senior management	43	1	2%
By Gender			
Male	2,373	655	28%
Female	362	106	29%
Total	2,735	761	28%

	Region	Employment type	Average hours of training of male employee (hour)	Ratio of trained male employee	Average hours of training of female employee (hour)	Ratio of trained female employee
Average hours of training of employee and ratio of trained employee	Hong Kong	General staff	0	0%	0	0%
		Entry level	11.3	56%	9.2	70%
		Middle management	6.4	63%	18	100%
		Senior management	11.2	100%	9	100%
	Mainland China	General staff	54	78%	49	87%
		Entry level	50	95%	50	71%
		Middle management	28	80%	34	81%
		Senior management	24	100%	14	100%
	America	General staff	10	95%	10	90%
		Entry level	3	90%	3	100%
		Middle management	20	100%	20	100%
		Senior management	20	100%	0	0%
	Canada	General staff	1.04	25%	1.04	39%
		Entry level	1	23%	0	0%
		Middle management	1.23	40%	0	0%
		Senior management	2.6	30%	0	0%

REPORT INDEX

Main aspect	Description	Page/Remarks
A1 General Disclosure	Information on: (a) the policies; and (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	43–45
A1.1	The types of emissions and respective emission data (tonne)	49
A1.2	Greenhouse gas emissions in total (tonne) and intensity (tonne CO_2-e/employee)	49
A1.3	Total hazardous waste produced (tonne)	49
	Total hazardous waste intensity (tonne/employee)	49
A1.4	Total non-hazardous waste produced (tonne)	49
	Total non-hazardous waste intensity (tonne/employee)	49
A1.5	Description of measures to mitigate emissions and results achieved	43–45 & 50
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	43–45
A2 General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials	43–45
A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (1,000 kWh)	49
	Direct energy consumption	49
	Indirect energy consumption	49
	Energy intensity (1,000 kWh/employee)	49
A2.2	Water consumption in total (tonne)	49
	Water consumption intensity (tonne/employee)	49
A2.3	Description of energy use efficiency initiatives and results achieved	43–45 & 50
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	44 & 50
A2.5	Total packaging material used for finished products (tonne)	49
A3 General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources	43–45
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	43–45
B1 General Disclosure	Information on: (a) the policies; and (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	45–46
B1.1	Total workforce	50
	Total workforce by gender, employment type, age group and geographical region	50
B1.2	Employee turnover rate	50
	Employee turnover rate by gender, age group and geographical region	50
B2 General Disclosure	Information on: (a) the policies; and (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	45–46
B2.1	Number and rate of work-related fatalities	0%
B2.2	Lost days due to work injury	772 days
B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	45–46
B3 General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities	45
B3.1	The percentage of employees trained	50
	The percentage of employees trained by gender and employee category	50
B3.2	The average training hours completed per employee	50
	The average training hours completed per employee by gender and employee category	50
B4 General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour	45
B4.1	Description of measures to review employment practices to avoid child and forced labour	45
B4.2	Description of steps taken to eliminate such practices when discovered	45
B5 General Disclosure	Policies on managing environmental and social risks of the supply chain	47
B5.1	Number of suppliers by geographical region	47
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	47
B6 General Disclosure	Information on: (a) the policies; and (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	47
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	0%
B6.2	Number of products and service related complaints received and how they are dealt with	47
B6.3	Description of practices relating to observing and protecting intellectual property rights	47
B6.4	Description of quality assurance process and recall procedures	47
B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	47
B7 General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering	48
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	0
B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	48
B8 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	48
B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport)	48
B8.2	Resources contributed (e.g. money or time) to the focus area	48

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 2018.

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 18 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated income statement and consolidated statement of comprehensive income on pages 75 and 76 respectively.

An analysis of the Group's performance for the year by segments is set out in note 6 to the consolidated financial statements.

An interim dividend of HK1.0 cent per share was paid to shareholders on 5 October 2018. The Board recommends the declaration of a final dividend of HK1.2 cents per share payable on 5 July 2019 to shareholders whose names appear on the register of members of the Company on 14 June 2019. Together with the interim dividend of HK1.0 cent per share, this results in total dividends for the year of HK2.2 cents per share and represents a total distribution of HK$47,422,000.

BUSINESS REVIEW

A fair review of the Group's business, including the important events affecting the Group that have occurred since the end of 2018 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 2018, 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 2018.
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.

Risk	Description	Management Measures
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. 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.
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. 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.

Risk	Description	Management Measures
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 2018.

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 15 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 2018 amounted to HK$940,883,000 (2017: HK$939,889,000). 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 79 respectively.

DIRECTORS

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

Chairmen and Non-executive Directors

Mr. Zhou Yong	(resigned with effect from 18 August 2018)
Mr. Zhang Haipeng	(appointed with effect from 18 August 2018)

Executive Directors

Mr. Zhu Yijian *(Vice Chairman and Chief Executive Officer)*	(resigned with effect from 18 August 2018)
Mr. Wu Mingqing *(Vice Chairman and Chief Executive Officer)*	(appointed with effect from 18 August 2018)
Mr. Luo Haichuan	(resigned with effect from 18 August 2018)
Mr. Wang Hai	
Mr. Chan Sim Wang	

Non-executive Director

Mr. Huang Jiang

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, Mr. Chan Sim Wang, Mr. Zhou Jinsong and Ms. Kwong Sum Yee Anna will retire by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

The change in emoluments of the Directors is set out in note 11 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. Zhang Haipeng, Wu Mingqing, 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, infrastructure investments 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 2018, 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)
Zhang Haipeng	Beneficial owner	Personal interest	3,078,000	0.143
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 2018 (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 2018, Mr. Zhang Haipeng had personal interests in 774,000 A-shares, representing approximately 0.002% of the then issued voting shares, in China State Construction Engineering Corporation Limited ("CSCECL") held in his capacity as beneficial owner; Mr. Wu Mingqing had personal interests in 294,000 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 210,000 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 China State Construction International Holdings Limited held in his capacity as beneficial owner; and Mr. Huang Jiang had 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. 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 2018, 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 2018, 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 2018.

As at 1 January 2018, 31 December 2018 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 2018 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 61 to 68 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 2018, 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 (China State Construction Engineering Corporation*) ("CSCEC")[3]	Interest in controlled corporation	1,596,403,279	1,596,403,279	74.06

* The English name is a translated name and is for identification purpose only.

Notes:

1. The percentage is based on the total number of ordinary shares of the Company in issue as at 31 December 2018 (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 64.66% by COHL, which in turn, is a wholly-owned subsidiary of CSCECL. CSCECL is, in turn, a subsidiary of CSCEC. By virtue of the SFO, each of COHL, CSCECL and CSCEC 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 2018, 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 61 to 68.

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$28,320,000. 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 2018, the five largest customers of the Group accounted for approximately 36.4% of the Group's revenue and the revenue from the largest customer included therein accounted for approximately 10.0%. The second and fifth largest customers are subsidiaries of the controlling shareholders 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 2018 have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment at the 2019 annual general meeting.

On behalf of the Board
FAR EAST GLOBAL GROUP LIMITED
Zhang Haipeng
Chairman and Non-executive Director

Hong Kong, 20 March 2019

CONNECTED TRANSACTIONS

During the year ended 31 December 2018, the Group conducted the following transactions which constituted connected transactions for the Company under Chapter 14A of the Listing Rules.

1. Acquisition of 中海監理有限公司 (China Overseas Supervision Limited)

On 14 March 2018, the Company as purchaser entered into an equity transfer agreement (the "Equity Transfer Agreement") with 深圳中建宏達投資有限公司 (Shenzhen CS Grand Wealth Investment Company Limited, a wholly-owned subsidiary of China State Construction International Holdings Limited ("CSCIHL") which, in turn, is an intermediate holding company of the Company) as seller (the "Seller") whereby the Company conditionally agreed to acquire the entire equity interests in 中海監理有限公司 (China Overseas Supervision Limited) ("China Overseas Supervision") from the Seller at a consideration of RMB70,000,000 (the "Acquisition") subject to the Company and the Seller having obtained all necessary authorisations and the Company obtaining independent shareholders' approval. Completion of the Acquisition took place on 26 June 2018. 50% of the consideration shall be paid within five working days after completion of the Acquisition and the remaining 50% shall be paid within three months after the completion of the relevant equity transfer required.

China Overseas Supervision and its subsidiary are engaged in the provision of engineering consultancy and communication engineering consultancy services in the PRC and have obtained licenses including the Comprehensive Qualification of Engineering Supervision License.

Given that the Seller is a connected person of the Company, the Acquisition constitutes a connected transaction for the Company under the Listing Rules. Details of the Acquisition were disclosed in the announcement dated 14 March 2018 and the circular dated 9 April 2018. The Equity Transfer Agreement was duly approved by the independent shareholders of the Company at an extraordinary general meeting held on 29 May 2018.

Prior to the completion of the Acquisition, China Overseas Supervision had entered into certain transactions with (i) China Overseas Land & Investment Limited ("COLI", a subsidiary of China Overseas Holdings Limited ("COHL") which, in turn, is an intermediate holding company of the Company) and its subsidiaries (the "COLI Group"); and (ii) China Overseas Grand Oceans Group Limited ("COGO", a 30% controlled company of COHL) and its subsidiaries (the "COGO Group") to provide the construction supervision services in respect of the prevailing projects which would subsist after the completion of the Acquisition. Given that members of the COLI Group and members of the COGO Group are connected persons of the Company, these subsisting transactions have become connected transactions for the Company after completion of the Acquisition. As of the date of completion of the Acquisition, there were 14 subsisting contracts in respect of the prevailing projects with the COLI Group with an outstanding aggregate amount of not more than HK$65 million to be payable by the COLI Group to China Overseas Supervision whereas there were 17 subsisting contracts in respect of the prevailing projects with the COGO Group with an outstanding aggregate amount of not more than HK$72 million to be payable by the COGO Group to China Overseas Supervision. Details of these subsisting contracts were disclosed in the announcements dated 26 June 2018 in relation to the continuing connected transactions between the Group and the COLI Group and between the Group and the COGO Group.

2. Formation of Joint Venture and Sub-contract of Structural Steel Works

On 19 June 2018, 中建鋼構有限公司 (China Construction Steel Structure Corp. Ltd., "CCSSC"), a subsidiary of China State Construction Engineering Corporation Limited ("CSCECL", an intermediate holding company of the Company) and Treasure Construction Engineering Limited ("TCEL", a wholly-owned subsidiary of the Company) entered into a joint venture agreement (the "JV Agreement") pursuant to which CCSSC and TCEL agreed to establish a joint venture company (the "Hong Kong JV") in the form of an unincorporated joint venture to undertake the structural steel works as a sub-contractor of TCEL for the exhibition centre project in Hong Kong in which TCEL was appointed as main contractor (the "Exhibition Centre Project"). CCSSC and TCEL shall hold 95% and 5% interests in the Hong Kong JV respectively.

CCSSC tendered for and was selected by TCEL in respect of the structural steel works for the Exhibition Centre Project in accordance with the tendering procedure of the Group. Under the JV Agreement, within 30 days upon the successful business registration of the Hong Kong JV, TCEL, as the main contractor, shall enter into a sub-contract with the Hong Kong JV to undertake the structural steel works for the Exhibition Centre Project at a total contract value of approximately HK$40,781,000, which shall be payable by the Group to the Hong Kong JV in monthly progress payment as certified by TCEL, provided that the total contract value shall be settled upon completion of final accounts by TCEL under the head construction contract.

The total contract value awarded by TCEL to CCSSC and/or the Hong Kong JV in respect of the structural steel works was negotiated on an arm's length basis and determined between the Group and CCSSC subject to the standard and systematic tender review procedure maintained by the Group, which applies to tenders obtained from both connected persons and independent third parties, and on terms no more favourable than those awarded to the independent third party sub-contractors.

Given that CCSSC is a connected person of the Company, the entering into of the JV Agreement and the engagement of the Hong Kong JV as sub-contractor of TCEL constitute connected transactions for the Company under the Listing Rules. Details of the transactions were disclosed in the announcement dated 19 June 2018.

CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2018, the Group conducted the following transactions which constituted continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

1. FE-CSCECL Sub-construction Engagement Agreement

On 11 October 2017, the Company entered into a new agreement ("FE-CSCECL Sub-construction Engagement Agreement") with CSCECL to renew the previous agreement entered into between the parties on 28 October 2014 which would expire on 31 December 2017. Under the FE-CSCECL Sub-construction Engagement Agreement, the Group may continue to act as sub-contractor of CSCECL and its subsidiaries (the "CSCECL Group") for provision of contracting and engineering works, project consultancy service and project management service for the CSCECL Group's construction works for a term of three years commencing from 1 January 2018 and ending on 31 December 2020 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$1,000 million.

As for the provision of contracting and engineering works, the Group will normally need to go through a tender or similar process before being selected and appointed as sub-contractor of the CSCECL Group. The Group has a standard and systematic tender submission procedure to determine the prices and terms of a tender which applies to tender 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. In determining the tender price, the Group will review the costs information maintained in its in-house database for material supplies and prices from sub-contractors for the Group's previous projects and peripheral operation. The Group will also review and compare previous tender prices submitted to both connected persons and independent third parties so as to ensure that the tender price to be submitted is no 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 sub-contractor to the CSCECL Group, consideration to the Group will be ascertained by an independent professional quantity surveyor appointed by the ultimate employer.

As for the provision of project management service and project consultancy service, the Group is typically engaged to provide such services through direct appointment by the CSCECL Group. The price and terms of each service provided to the CSCECL 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. The service fees are determined based on a percentage ranging from 2% to 5% of the contract sum of the projects.

Given that members of the CSCECL Group are connected persons of the Company, the transactions contemplated under the FE-CSCECL Sub-construction Engagement Agreement constitute continuing connected transactions for the Company under the Listing Rules. Details of the transactions were disclosed in the announcement dated 11 October 2017 and the circular dated 1 November 2017. The FE-CSCECL Sub-construction Engagement Agreement was duly approved by the independent shareholders of the Company at an extraordinary general meeting held on 18 December 2017.

The total value of the contracts awarded to the Group under the FE-CSCECL Sub-construction Engagement Agreement during the year ended 31 December 2018 was HK$138,143,086.

2. FE-CSC Sub-construction Engagement Agreement

On 11 October 2017, the Company entered into a new agreement ("FE-CSC Sub-construction Engagement Agreement") with CSCIHL to renew the previous agreement entered into between the parties on 28 October 2014 which would expire on 31 December 2017. Under the FE-CSC Sub-construction Engagement Agreement, CSCIHL and its subsidiaries (the "CSCIHL Group") may continue to engage the Group as its sub-contractor for provision of contracting and engineering works, project consultancy service and project management service for the CSCIHL Group's construction works (the "CSC Works Transactions") for a term of three years commencing from 1 January 2018 and ending on 31 December 2020 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$1,600 million.

In respect of the provision of contracting and engineering works, the Group will normally need to go through a tender or similar process before being selected and appointed as sub-contractor of the CSCIHL Group. The Group has a standard and systematic tender submission procedure to determine the prices and terms of a tender which applies to tender 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. In determining the tender price, the Group will review the costs information maintained in its in-house database for material supplies and prices from sub-contractors for the Group's previous projects and peripheral operation. The Group will also review and compare previous tender prices submitted to both connected persons and independent third parties so as to ensure that the tender price to be submitted is no 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 sub-contractor 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 provision of project management service and project consultancy service, the Group is typically engaged to provide such services 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. The service fees are determined based on a percentage of not more than 20% of the value or remaining value of the projects.

Given that members of the CSCIHL Group are connected persons of the Company, the CSC Works Transactions contemplated under the FE-CSC Sub-construction Engagement Agreement constitute continuing connected transactions for the Company under the Listing Rules. Details of the transactions were disclosed in the announcement dated 11 October 2017 and the circular dated 1 November 2017. The FE-CSC Sub-construction Engagement Agreement was duly approved by the independent shareholders of the Company at an extraordinary general meeting held on 18 December 2017.

The total value of the contracts awarded to the Group under the FE-CSC Sub-construction Engagement Agreement during the year ended 31 December 2018 was HK$956,310,684.

3. FE-CSC Operational Services Agreement

On 11 October 2017, the Company entered into a new agreement ("FE-CSC Operational Services Agreement") with CSCIHL to renew the previous agreement entered into between the parties on 28 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 which would expire on 31 December 2017.

3.1 Mechanical and Electrical Engineering Works Transactions

Under FE-CSC Operational Services Agreement, the Group may engage the CSCIHL Group as sub-contractor for provision of mechanical and electrical engineering works for the Group's construction works ("Mechanical and Electrical Engineering Works Transactions") for a term of three years commencing from 1 January 2018 and ending on 31 December 2020 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.

Where the CSCIHL Group is nominated as sub-contractor by the ultimate employer, 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 contractors, consideration to such contractors 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 of the Group to ensure contractors' quality standards).

For projects which involve substantial contract amount, 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 procedure 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 bid invitation,

No contract was awarded to the CSCIHL Group in respect of the Mechanical and Electrical Engineering Works Transactions during the year ended 31 December 2018.

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 2018 and ending on 31 December 2020 provided that the total rent payable in respect of the Machineries Leasing Transactions for each year shall not exceed HK$25 million.

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 2018 was HK$6,998,329.

3.3 Insurance Services Transactions

Under the FE-CSC Operational Services Agreement, the Group may engage the CSCIHL Group to provide insurance services (including but not limited to Public Liability Employees' Compensation insurance and Contractors' All Risks insurance) to the Group ("Insurance Services Transactions") for a term of three years commencing from 1 January 2018 and ending on 31 December 2020 provided that the total fees payable in respect of the Insurance Services Transactions for each year shall not exceed HK$70 million.

The Group will obtain at least three quotations from independent insurers (directly or indirectly through 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 from the CSCIHL Group.

The total fee in respect of the Insurance Services Transactions during the year ended 31 December 2018 was HK$24,791,710.

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 2018 and ending on 31 December 2020 provided that the total sum payable in respect of the Supply of Building Materials Transactions for each year shall not exceed HK$150 million.

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 2018 was HK$5,451,797.

Given that members of the CSCIHL Group are connected persons of the Company, the Mechanical and Electrical Engineering Works Transactions, Machineries Leasing Transactions, Insurance Services Transactions and Supply of Building Materials Transactions contemplated under the FE-CSC Operational Services Agreement constitute continuing connected transactions for the Company under the Listing Rules. Details of the transactions were disclosed in the announcement dated 11 October 2017 and the circular dated 1 November 2017. The FE-CSC Operational Services Agreement was duly approved by the independent shareholders of the Company at an extraordinary general meeting held on 18 December 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.

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.

Given that CSCEC 5th Bureau is a connected person of the Company, the transactions contemplated under the Urban Planning Management and Consultation Service Agreement constitute continuing connected transactions for the Company under the Listing Rules. Details of the transactions were disclosed in the announcement dated 30 December 2016.

No contract was awarded to the Group under the Urban Planning Management and Consultation Service Agreement during the year ended 31 December 2018.

5. COLI Works Framework Agreement

On 26 June 2018, the Company entered into a framework agreement ("COLI Works Framework Agreement") with COLI, pursuant to which the COLI Group may engage the Group for the provision of building construction, contracting and engineering works, project management, supervision and consultancy services for the COLI Group's construction works as a contractor, sub-contractor or service provider (the "COLI Works") for the period commencing from 20 August 2018 and ending on 30 June 2021 provided that the total contract sum that may be awarded by the COLI Group to the Group for the relevant period/year under the COLI Works Framework Agreement in respect of (i) the building construction works; and (ii) project management, supervision and consultancy services shall not exceed the following COLI Works Engagement Cap:

COLI Works Engagement Cap	For the period from 20 August to 31 December 2018 HK$ million	For the year ending 31 December 2019 HK$ million	For the year ending 31 December 2020 HK$ million	For the period from 1 January to 30 June 2021 HK$ million
Building construction works	1,190	1,190	1,190	790
Project management, supervision and consultancy services	10	10	10	10
Total	1,200	1,200	1,200	800

With respect to the COLI Works, the Company expects the transactions with the COLI Group would substantially focus on (i) building construction works which involve the provision of general contracting and engineering works as main contractor, and the provision of contracting and engineering works such as exterior facade contracting works as sub-contractor, for the COLI Group's construction works; and (ii) project management, supervision and consultancy services to be undertaken by China Overseas Supervision for the COLI's property development projects in the PRC.

The Group may participate in competitive tender for the COLI Works as a contractor, subcontractor or service provider in accordance with the tendering procedures of the COLI Group and on the same and normal terms as offered to other independent third party construction contractors, subcontractors or service providers. The Group has a standard and systematic tender submission procedure to determine the prices and terms of a tender which applies for tender 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. In determining the tender price, the Group will review the costs information maintained in its in-house database for material supplies and prices from sub-contractors for the Group's previous projects and peripheral operation. The Group will also review and compare previous tender prices submitted to both connected persons and up to two independent third parties, so as to ensure that the tender price to be submitted is no more favourable than those submitted to independent third parties.

Given that members of the COLI Group are connected persons of the Company, the transactions contemplated under the COLI Works Framework Agreement constitute continuing connected transactions for the Company under the Listing Rules. Details of the transactions were disclosed in the announcement dated 26 June 2018 and the circular dated 18 July 2018. The COLI Works Framework Agreement was duly approved by the independent shareholders of the Company at an extraordinary general meeting held on 17 August 2018.

The total value of the contracts awarded to the Group under the COLI Works Framework Agreement during the year ended 31 December 2018 was HK$92,963,252.

6. COGO Framework Agreement

On 26 June 2018, the Company entered into a framework agreement ("COGO Framework Agreement") with COGO, pursuant to which the COGO Group may engage the Group to provide project management, supervision and consultancy services for the property development projects of the COGO Group in the PRC (the "COGO Management Services") for the period commencing from 1 July 2018 and ending on 30 June 2021 provided that the total contract sum that may be awarded by the COGO Group to the Group under the COGO Framework Agreement for the relevant period/year shall not exceed the following COGO Engagement Cap:

	For the period from 1 July to 31 December 2018 HK$ million	For the year ending 31 December 2019 HK$ million	For the year ending 31 December 2020 HK$ million	For the period from 1 January to 30 June 2021 HK$ million
COGO Engagement Cap	30	60	60	30

The Group may participate in competitive tender for the provision of the COGO Management Services for the property development projects of the COGO Group in the PRC as a service provider in accordance with the tendering procedures of the COGO Group and on the same and normal terms as offered to other independent third party service providers. The Group has a standard and systematic tender submission procedure to determine the prices and terms of a tender which applies for tender 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. In determining the pricing terms, the Group will review the costs information maintained by its in-house database for staff needed for its previous projects and peripheral operation. The Group will also review and compare previous tender prices submitted to both connected persons and independent third parties, so as to ensure that the tender price to be submitted is no more favourable than those submitted to independent third parties.

Given that members of the COGO Group are connected persons of the Company, the engagement of the Group by the COGO Group pursuant to the COGO Framework Agreement constitutes continuing connected transactions for the Company under the Listing Rules. Details of the transactions were disclosed in the announcement dated 26 June 2018.

No contract was awarded to the Group under the COGO Framework Agreement during the year ended 31 December 2018.

A summary of all related party transactions entered into by the Group during the year ended 31 December 2018 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 connected transactions and 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 connected transactions and continuing connected transactions entered into by the Group during the year ended 31 December 2018.

In respect of the financial year ended 31 December 2018, 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.

pwc

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 75 to 139, which comprise:

- the consolidated statement of financial position as at 31 December 2018;
- 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 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of 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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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
- Recoverability of trade receivables and contract assets
- 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 3.24, 5(i) and 6 to the consolidated financial statements. For the year ended 31 December 2018, the Group recognised revenue from construction works of HK$3,369 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 progress of related construction works 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. The measurement of revenue recognition requires management's estimate in respect of revenue, budgeted costs as well as the progress of related construction works. In our testing of the revenue recognition for the reporting period, we selected construction works on a sample basis and: • discussed with management and the respective project teams about the progress of the projects and relevant contract terms; • 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; • tested on a sample basis the actual costs incurred on construction works during the reporting period; • recalculated the revised estimate of the progress of the construction works based on the latest budgeted final costs and the total actual costs incurred; and • recalculated the revenue recognised based on the revised estimate of the progress of the construction works. We consider the management's estimates used to determine the revenue and budgeted costs and the progress of the 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
Recoverability of trade receivables and contract assets	
Refer to notes 3.9(iv), 3.13, 5(v), 20 and 21 to the consolidated financial statements. As at 31 December 2018, the Group recognised net trade receivables of HK$565 million and contract assets of HK$967 million, which were significant assets of the Group as of the year end, representing 46% of total assets. In assessing the recoverability of trade receivables and contract assets, 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, aging analysis and forecast of future events and economic conditions which may impact the recoverability of trade receivables and contract assets. The judgements applied by management have a significant impact on the level of provision required for trade receivables and contract assets.	We performed the following procedures to assess the recoverability of trade receivables and contract assets: • 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; • tested on a sample basis the aging of trade receivables at year end; • tested on a sample basis subsequent settlements and the latest amounts certified by quantity surveyors appointed by customers; • in respect of material trade receivables and contract assets, inspected relevant contracts and correspondence with the customers, and assessed their creditworthiness with reference to publicly available information, where applicable; • in respect of material trade receivables 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 • evaluated the level of provisions made by management for trade receivables and contract assets using forward-looking and historical information. We consider the judgements applied by management in assessing the recoverability of and determining the level of provision for trade receivables and contract assets to be reasonable 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 3.7, 3.8, 3.19(ii), 5(iii), 5(iv), 17 and 27 to the consolidated financial statements As of 31 December 2018, 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$93 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. In view of the significance of the carrying amounts of both deferred tax assets and goodwill as at 31 December 2018, 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. 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. 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. • understood, evaluated and validated on a sample basis the design and operating effectiveness of management control over the review of the financial budgets; • 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; • 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; • 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 • compared the market inputs used by management to available market information. 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 skepticism throughout the audit. We also:

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

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

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

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

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

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

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

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

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

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 20 March 2019

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000 (restated)
Revenue	6	**3,611,770**	3,132,665
Cost of sales	8	**(3,189,952)**	(2,685,740)
Gross profit		**421,818**	446,925
Other income and other gains, net	7	**2,848**	7,479
Administrative, selling and other operating expenses	8	**(191,204)**	(209,154)
Finance costs	9	**(26,717)**	(17,340)
Profit before tax		**206,745**	227,910
Income tax charge	10	**(62,265)**	(114,135)
Profit for the year		**144,480**	113,775
Profit/(loss) for the year attributable to:			
Owners of the Company		**148,571**	123,691
Non-controlling interests		**(4,091)**	(9,916)
		144,480	113,775
Earnings per share (HK cents)			
Basic and diluted	14	**6.89**	5.74

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000 (restated)
Profit for the year	**144,480**	113,775
Other comprehensive (loss)/income		
Items that may be reclassified to profit and loss		
Exchange differences arising on translation of foreign operations	**(29,984)**	36,832
Other comprehensive (loss)/income for the year, net of tax	**(29,984)**	36,832
Total comprehensive income for the year, net of tax	**114,496**	150,607
Total comprehensive income for the year attributable to:		
Owners of the Company	**119,303**	159,588
Non-controlling interests	**(4,807)**	(8,981)
	114,496	150,607

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	2018 HK$'000	2017 HK$'000 (restated)
Non-current Assets			
Property, plant and equipment	15	**476,959**	231,420
Prepaid lease payments	16	**32,491**	34,929
Goodwill	17	**138,149**	138,149
Deferred tax assets	27	**92,647**	94,058
		740,246	498,556
Current Assets			
Inventories	19	**7,014**	9,928
Amounts due from customers for contract works	20	**—**	861,797
Contract assets	20	**967,471**	—
Trade and other receivables	21	**1,173,875**	1,008,703
Deposits and prepayments		**53,842**	56,627
Tax recoverable		**707**	1,097
Amounts due from fellow subsidiaries	22	**37,026**	46,474
Bank and cash balances	23	**386,630**	478,137
		2,626,565	2,462,763
		3,366,811	2,961,319
Current Liabilities			
Bank borrowings	24	**505,178**	401,693
Amounts due to customers for contract works	20	**—**	60,212
Deposits received and advances from customers		**—**	52,235
Contract liabilities	20	**299,857**	—
Trade payables, other payables and accruals	25	**1,049,699**	831,145
Finance lease payables	26	**793**	865
Current tax payables		**88,880**	88,424
Amounts due to fellow subsidiaries	22	**170,240**	344,500
		2,114,647	1,779,074
Total Assets less Current Liabilities		**1,252,164**	1,182,245

As at 31 December 2018

	Note	2018 HK$'000	2017 HK$'000 (restated)
Capital and Reserves			
Share capital	28	**21,555**	21,555
Share premium and reserves	29	**1,075,736**	998,914
Equity attributable to owners of the Company		**1,097,291**	1,020,469
Non-controlling interests		**(59,008)**	(54,201)
		1,038,283	966,268
Non-current liabilities			
Bank borrowings	24	**211,746**	213,185
Finance lease payables	26	**1,842**	2,499
Deferred tax liabilities	27	**293**	293
		213,881	215,977
		1,252,164	1,182,245

On behalf of the Board

Wu Mingqing
Director

Chan Sim Wang
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	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	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 2017										
As previously stated	21,555	898,654	(312,821)	4,636	(48,049)	12	365,498	929,485	(45,258)	884,227
Effect of combination under common control (note 2)	–	–	(25,761)	–	(5,512)	47,391	108,302	124,420	–	124,420
As restated	21,555	898,654	(338,582)	4,636	(53,561)	47,403	473,800	1,053,905	(45,258)	1,008,647
Profit/(loss) for the year, as restated	–	–	–	–	–	–	123,691	123,691	(9,916)	113,775
Exchange differences arising on translation of foreign operations, as restated	–	–	–	–	35,897	–	–	35,897	935	36,832
Total comprehensive income for the year	–	–	–	–	35,897	–	123,691	159,588	(8,981)	150,607
Release of statutory reserves, as restated	–	–	–	–	–	(33,012)	33,012	–	–	–
Capital contribution relating to share-based payment borne by an intermediate holding company (Note 30)	–	–	615	–	–	–	–	615	–	615
Acquisition of additional interests in subsidiaries	–	–	(38)	–	–	–	–	(38)	38	–
2016 final dividend paid	–	–	–	–	–	–	(17,244)	(17,244)	–	(17,244)
2017 interim dividend paid	–	–	–	–	–	–	(21,555)	(21,555)	–	(21,555)
Distribution to a former shareholder (note 2), as restated	–	–	(154,802)	–	–	–	–	(154,802)	–	(154,802)
At 31 December 2017 and 1 January 2018, as restated	21,555	898,654	(492,807)	4,636	(17,664)	14,391	591,704	1,020,469	(54,201)	966,268
At 1 January 2018										
As previously stated	21,555	898,654	(312,243)	4,636	(23,030)	12	427,634	1,017,218	(54,201)	963,017
Effect of combination under common control (note 2)	–	–	(180,564)	–	5,366	14,379	164,070	3,251	–	3,251
As restated	21,555	898,654	(492,807)	4,636	(17,664)	14,391	591,704	1,020,469	(54,201)	966,268
Profit/(loss) for the year	–	–	–	–	–	–	148,571	148,571	(4,091)	144,480
Exchange differences arising on translation of foreign operations	–	–	–	–	(29,268)	–	–	(29,268)	(716)	(29,984)
Total comprehensive income for the year	–	–	–	–	(29,268)	–	148,571	119,303	(4,807)	114,496
Capital contribution relating to share-based payment borne by an intermediate holding company (Note 30)	–	–	643	–	–	–	–	643	–	643
Disposal of interest in a subsidiary	–	–	(14)	–	–	–	–	(14)	–	(14)
2017 final dividend paid	–	–	–	–	–	–	(21,555)	(21,555)	–	(21,555)
2018 interim dividend paid	–	–	–	–	–	–	(21,555)	(21,555)	–	(21,555)
At 31 December 2018	**21,555**	**898,654**	**(492,178)**	**4,636**	**(46,932)**	**14,391**	**697,165**	**1,097,291**	**(59,008)**	**1,038,283**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000 (restated)
Profit before tax	**206,745**	227,910
Adjustments for:		
Finance costs	**26,717**	17,340
Bank interest income	**(1,623)**	(2,425)
Loss/(gain) on disposal of property, plant and equipment	**39**	(67)
Warranty provisions, net	**18,798**	17,381
Depreciation	**5,919**	7,149
Amortisation of prepaid lease payments	**—**	690
Provision of trade and other receivables, net	**—**	442
Share-based payment borne by an intermediate holding company	**643**	615
Operating cash flows before working capital changes	**257,238**	269,035
Decrease in inventories	**2,914**	413
Increase in amount due from/to customers for contract works, net	**—**	(363,553)
Increase in contract assets/liabilities, net	**94,833**	—
Decrease in deposits received and advances from customers	**—**	(14,712)
Increase in trade and other receivables	**(165,172)**	(35,277)
Decrease/(increase) in deposits and prepayments	**2,786**	(15,141)
(Increase)/decrease in amounts due from/to fellow subsidiaries, net	**(83,069)**	252,404
Increase in trade payables, other payables and accruals	**201,339**	197,718
Net cash generated from operations	**310,869**	290,887
Income tax paid, net	**(59,315)**	(82,780)
Net cash generated from operating activities	**251,554**	208,107

	2018 HK$'000	2017 HK$'000 (restated)
Cash flows from investing activities		
Purchase of property, plant and equipment	(272,115)	(108,371)
Payment for prepaid lease	—	25
Proceeds from disposals of property, plant and equipment	651	8,467
Interest received	1,623	2,425
Net cash used in investing activities	(269,841)	(97,454)
Cash flows from financing activities		
Finance costs paid	(26,618)	(17,211)
Drawdown of bank loans, net	104,238	91,024
(Repayment) of/increase in finance lease payables	(827)	321
Distribution to a former shareholder	—	(154,802)
Payment to a fellow subsidiary pursuant to common control combination (note 2)	(81,757)	—
Dividends paid	(43,110)	(38,799)
Net cash used in financing activities	(48,074)	(119,467)
Net decrease in cash and cash equivalents	(66,361)	(8,814)
Effect of foreign exchange rate changes	(25,146)	32,439
Cash and cash equivalents at the beginning of year	478,137	454,512
Cash and cash equivalents at the end of year	386,630	478,137
Analysis of cash and cash equivalents		
Bank and cash balances	386,630	478,137

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 (including the design, engineering, manufacture and installation of curtain wall systems) and operating management business.

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 (China State Construction Engineering Corporation*, "CSCEC"), 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 20 March 2019.

2 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 3.

Common control combinations

On 26 June 2018, 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"), which is an intermediate holding company of the Company, at a cash consideration of RMB70,000,000 (approximately HK$81,757,000).

* The English name is a translated name and is for identification purpose only.

2 BASIS OF PREPARATION *(Continued)*

Common control combinations *(Continued)*

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 year ended 31 December 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.

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

	For the Year ended 31 December 2017 HK$'000 (previously stated)	Combination of The acquired Company HK$'000	Combination Adjustment HK$'000	For the Year ended 31 December 2017 HK$'000 (restated)
Revenue	2,910,942	221,723	—	3,132,665
Cost of sales	(2,520,146)	(165,594)	—	(2,685,740)
Gross profit	390,796	56,129	—	446,925
Other income and other gains, net	6,396	1,083	—	7,479
Administrative, selling and other expenses	(181,510)	(27,644)	—	(209,154)
Finance costs	(17,340)	—	—	(17,340)
Profit before tax	198,342	29,568	—	227,910
Income tax charge	(107,323)	(6,812)	—	(114,135)
Profit for the year	91,019	22,756	—	113,775
Profit/(loss) for the year attributable to:				
Owners of the Company	100,935	22,756	—	123,691
Non-controlling interests	(9,916)	—	—	(9,916)
	91,019	22,756	—	113,775

2 BASIS OF PREPARATION *(Continued)*

Common control combinations *(Continued)*

	31 December 2017 (Note 1) HK$'000 (previously stated)	Combination of The acquired Company HK$'000	Combination Adjustment (Note 2) HK$'000	31 December 2017 HK$'000 (restated)
Non-current Assets				
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	94,058	—	—	94,058
	496,136	2,420	—	498,556
Current Assets				
Inventories	9,928	—	—	9,928
Amounts due from customers for contract works	688,810	172,987	—	861,797
Trade and other receivables	943,563	65,140	—	1,008,703
Deposits and prepayments	54,520	2,107	—	56,627
Tax recoverable	1,097	—	—	1,097
Amounts due from fellow subsidiaries	34,924	11,550	—	46,474
Bank and cash balances	386,949	91,188	—	478,137
	2,119,791	342,972	—	2,462,763
Current Liabilities				
Bank borrowings	401,693	—	—	401,693
Amounts due to customers for contract works	60,212	—	—	60,212
Deposits received and advances from customers	52,235	—	—	52,235
Trade payables, other 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 subsidiaries	93,514	169,229	81,757	344,500
	1,436,933	260,384	81,757	1,779,074
Total Assets less Current Liabilities	1,178,994	85,008	(81,757)	1,182,245
Capital and reserve	1,017,218	85,008	(81,757)	1,020,469
Non-controlling interests	(54,201)	—	—	(54,201)
Non-current liabilities	215,977	—	—	215,977
	1,178,994	85,008	(81,757)	1,182,245

Note1: The financial position of the Group as at 31 December 2017 is presented after the effects of adoption of HKFRS15. Please refer to Note 2 of the announcement for the details of impact on the adoption of HKFRS 15.

Note2: The combination adjustment represents the consideration payable to acquire the Acquired Company.

2 BASIS OF PREPARATION *(Continued)*

(a) Application of new and revised standards, amendments and improvements to existing standards and interpretations

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

Amendments to HKAS 40	Transfers of Investment Property
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
Amendments to HKFRS 15	Clarifications to HKFRS 15, Revenue from Contracts with Customers
Annual Improvements 2014–2016 Cycle	Amendments to HKFRS 1 and HKAS 28
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HK (IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration

Except for the adoption of HKFRS 9 "Financial Instruments" and HKFRS 15 "Revenue from Contracts with Customers", the application of the above new and revised standards, amendments and improvements has had no material impact on the Group's result and financial position.

The impact of adoption is disclosed below. It 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 from those applied in prior years.

HKFRS 9 "Financial Instruments"

HKFRS 9 replaces the provisions of HKAS 39 "Financial Instruments: Recognition and Remeasurement" 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.

The Group adopted HKFRS 9 with effective from 1 January 2018, which resulted in changes in accounting policies. The new accounting policies are set out in note 3.9. In accordance with the transitional provisions in HKFRS 9, comparative figures have not been restated.

(1) Classification and measurement

The application of HKFRS 9 did 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 did not have any such liabilities. The derecognition rules have been transferred from HKAS 39 and have not been changed.

At the date of initial application of HKFRS 9 (1 January 2018), the Group'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.

2 BASIS OF PREPARATION *(Continued)*

(a) Application of new and revised standards, amendments and improvements to existing standards and interpretations *(Continued)*

HKFRS 9 "Financial Instruments" *(Continued)*

(1) Classification and measurement (Continued)

On the date of initial application, 1 January 2018, the financial instruments of the Group were as follows, without any reclassifications noted:

	Measurement category		
	Original (HKAS 39)	New (HKFRS 9)	Carrying amount HK$'000
Current financial assets			
Trade and other receivables	Amortised cost	Amortised cost	1,008,703
Deposits and prepayments	Amortised cost	Amortised cost	56,627
Bank and cash balances	Amortised cost	Amortised cost	478,137
Amounts due from fellow subsidiaries	Amortised cost	Amortised cost	46,474
Non-current financial liabilities			
Finance lease payables	Amortised cost	Amortised cost	2,499
Bank borrowings	Amortised cost	Amortised cost	213,185
Current financial liabilities			
Finance lease payables	Amortised cost	Amortised cost	865
Bank borrowings	Amortised cost	Amortised cost	401,693
Trade payables, other payables and accruals	Amortised cost	Amortised cost	831,145
Deposits received and advances from customers	Amortised cost	Amortised cost	52,235
Amounts due to fellow subsidiaries	Amortised cost	Amortised cost	344,500

(2) Impairment of financial assets

The new impairment model requires the recognition of impairment provisions based on expected credit losses 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, loan commitments and certain financial guarantee contracts.

The Group assesses on a forward looking basis the expected credit losses associated with its debt securities 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 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.

2 BASIS OF PREPARATION *(Continued)*

(a) Application of new and revised standards, amendments and improvements to existing standards and interpretations *(Continued)*

HKFRS 9 "Financial Instruments" *(Continued)*

(2) Impairment of financial assets (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. 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.

At 1 January 2018 and 31 December 2018, the Group assessed the impact of loss allowance under the application of HKFRS 9 was immaterial. Except for the above, the application of HKFRS 9 did not have material impact on the classification, recognition and measurement of the other financial assets held by the Group at 1 January 2018 and 31 December 2018.

HKFRS 15 "Revenue from Contracts with Customers"

During the current year, the Group adopted HKFRS 15 as issued by the HKICPA. The adoption of HKFRS 15 resulted in changes in accounting policies and adjustments to the amounts of revenue recognised in the consolidated financial statements. The new accounting policies are set out in note 3.24. HKFRS 15 replaces the provisions of HKAS 18, "Revenue" and HKAS 11, "Construction Contracts" that relate to the recognition, classification and measurement of revenues and costs.

The Group elected to use a modified retrospective approach for transition in the consolidated financial statements for the year ended 31 December 2018, which allows the Group to recognise the cumulative effects of initially applying HKFRS 15 as an adjustment to the opening balance of equity at 1 January 2018, while prior year comparative figures were not restated. The Group chose to apply HKFRS 15 for its contracts at 1 January 2018.

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

(1) 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 i) the Group creates or enhances an asset that the customer controls as the asset is created or enhanced, or ii) 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.

2 BASIS OF PREPARATION *(Continued)*

(a) Application of new and revised standards, amendments and improvements to existing standards and interpretations *(Continued)*

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

(2) Accounting for revenue from project consultancy contracts

Revenue from rendering of these services is recognised over time for the period of the transaction. The Group has determined that there is no material impact on the Group's financial statements when HKFRS 15 is adopted in accounting for the Group's revenue from rendering of these services. The current accounting treatment of such contracts are aligned with the requirements of HKFRS 15.

(3) Presentation of contract assets and liabilities

Previously, contract balances relating to construction contracts in progress were presented in the consolidated statement of financial position under "amounts due from/(to) customers for contract work" and "deposits received and advances from customers".

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue (Note 3.24) before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue.

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

The effects of the adoption of HKFRS 15 on the consolidated statement of financial position at 1 January 2018 are as follows:

	At 1 January 2018		
	As previously presented HK$'000	Reclassification of HKFRS 15 HK$'000	Restated HK$'000
Consolidated statement of financial position (extract)			
Amounts due from customers for contract work	861,797	(861,797)	—
Contract assets	—	861,797	861,797
Amounts due to customers for contract work	60,212	(60,212)	—
Deposits received and advances from customers	52,235	(52,235)	—
Contract liabilities	—	112,447	112,447

2 BASIS OF PREPARATION *(Continued)*

(a) Application of new and revised standards, amendments and improvements to existing standards and interpretations *(Continued)*

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

The amount by each financial statements line items affected in the current year and year to date by the application of HKFRS 15 as compared to HKAS 18 and HKAS 11 that were previously in effect before the adoption of HKFRS 15 is as follows:

	At 31 December 2018		
	Amounts before the adoption of HKFRS 15 HK$'000	**Effects of adoption of HKFRS 15 HK$'000**	**Amounts as reported HK$'000**
Consolidated statement of financial position (extract)			
Amounts due from customers for contract work	967,471	(967,471)	—
Contract assets	—	967,471	967,471
Amounts due to customers for contract work	119,914	(119,914)	—
Deposits received and advances from customers	179,943	(179,943)	—
Contract liabilities	—	299,857	299,857

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

(b) New and revised standards, amendments and improvements to existing standards and interpretations not yet effective

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

Amendments to HKAS 1 and HKAS 8	Definition of Material[2]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRS 3	Definition of Business[2]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Annual Improvement Project	Annual Improvements 2015- 2017 Cycle[1]
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting[2]
HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HK (IFRIC) — Int 23	Uncertainty over Income Tax Treatments[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 The mandatory effective date will be determined

2 BASIS OF PREPARATION *(Continued)*

(b) New and revised standards, amendments and improvements to existing standards and interpretations not yet effective *(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"

(1) Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right-to-use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

(2) Impact

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of HK$85,925,000. Short-term leases of less than twelve months and leases of low-value assets are exempt from the reporting obligation. For other leases, the Group expects i) the effect of other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options, ii) the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and iii) the impact to the Group's profit or loss and classification of cash flows going forward will not be material.

The Group's activities as a lessor are not material and hence the Group does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year.

(3) Date of adoption by the Group

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for leases will be measured on transition as if the new rules had always been applied.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

3 PRINCIPAL ACCOUNTING POLICIES

3.1 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.

3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.1 Consolidation *(Continued)*

(i) Subsidiaries *(Continued)*

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. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

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.

3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.1 Consolidation *(Continued)*

(i) Subsidiaries *(Continued)*

Business combinations — acquisition method (Continued)

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 recognised 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 recognised 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.

3.2 Separate financial statements

In the Company's statement of financial position, 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 received 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.

3.3 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.

3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.4 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.

(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.

3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.4 Foreign currency translation *(Continued)*

(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.

3.5 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.

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. It will be reclassified to the relevant property, plant and equipment category upon completion and 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.

3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.6 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.

3.7 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 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 is monitored at the operating segment level.

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.

3.8 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.

3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.9 Financial assets

(i) Classification

The Group classifies its financial assets in the following measurement category — those to be measured at amortised cost. The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. Management determines the classification of its financial assets at initial recognition.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset.

(iv) Impairment

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see note 21 for further details.

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 impairment of receivables 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.

(v) Accounting policies applied until 31 December 2017

The Group has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Until 31 December 2017 the Group classifies its financial assets in the following categories: 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.

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.

3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.9 Financial assets *(Continued)*

(v) Accounting policies applied until 31 December 2017 *(Continued)*

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.

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 recognised in the consolidated income statement.

3.10 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.

3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.11 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.

3.12 Construction contracts

Until 31 December 2017, the Group recognises construction contracts as below.

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 recognised 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.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised 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.

3.13 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 3.9 for further information about the Group's accounting for trade receivables and description of the Group's impairment policies.

3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.14 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, pledged bank deposits, 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.

3.15 Trade payables, other payables and accruals

Trade payables are obligations to pay for materials 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.

3.16 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.

3.17 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.

3.18 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.

3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.19 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 Company'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.

(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 utilized.

(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.

3.20 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.

3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.20 Provisions *(Continued)*

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.

3.21 Leases, the Group as a lessee

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

(i) Operating lease

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

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

(ii) Finance 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 consolidated 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.

3.22 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.

3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.22 Employee benefits *(Continued)*

(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.

3.23 Share-based payments

(a) Equity-settled share-based payments 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 payments 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.

3.24 Revenue recognition

Revenue is recognised when or as the control of the good or service is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the good or service may be transferred over time or at a point in time. Control of the good or service is transferred over time if the Group's performance:

(a) Provides all of the benefits received and consumed simultaneously by the customer;

(b) Creates or enhances an asset that the customer control as the Group performs; or

(c) Does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.24 Revenue recognition *(Continued)*

If control of the good or service transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the good or service.

The progress towards complete satisfaction of the performance obligation is measured based on one of the following methods that best depict the Group's performance in satisfying the performance obligation:

(a) Direct measurements of the value transferred by the Group to the customer; or

(b) The Group's efforts or inputs to the satisfaction of the performance obligation relative to the total expected efforts or inputs ("input method").

Incremental costs incurred to obtain a contract, if recoverable, are capitalised as contract related assets and subsequently amortised when the related revenue is recognised.

Revenue from contracts with customers

(i) Construction contracts

Revenue from individual contracts is recognised according to progress of the project. The Group recognises revenue based on progress towards complete satisfaction of performance obligation, which is measured based on direct measurements of the value of units delivered or surveys of work performed. The customers will provide final statement when the whole project is completed and may have adjustments on accumulated confirmation according to the actual engineering quantity till the day of completion. In addition, when determining the transaction price, the Group consider factors such as whether there is any financing component. The Group considers whether the payment schedule is commensurate with the Group's performance and whether the delayed payment is for finance purpose. The Group has, therefore, recognised revenue on progress confirmation over the period during which the services are rendered and transferred to customers.

(ii) Consultancy service income/service income

Service income is recognised over time when the services are rendered.

Revenue from other sources

(i) 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.

(ii) Rental income

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

3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.25 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 consolidated 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.

3.26 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.

3.27 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.

3.28 Contract related assets and contract liabilities

Upon entering into a contract with a customer, the Group obtains rights to receive consideration from the customer and assumes performance obligations to transfer goods or provide services to the customer.

The combination of those rights and performance obligations gives rise to a net contract asset or a net contract liability depending on the relationship between the remaining rights and the performance obligations. The contract is an asset and recognised as contract assets if the cumulative revenue recognised in profit or loss exceeds cumulative payments made by customers. Conversely, the contract is a liability and recognised as contract liabilities if the cumulative payments made by customers exceeds the revenue recognised in profit or loss.

Contract assets are assessed for impairment under the same approach adopted for impairment assessment of financial assets carried at amortized cost. Contract liabilities are recognised as revenue when the Group transfers the goods or services to the customers and therefore satisfied its performance obligation.

3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.28 Contract related assets and contract liabilities *(Continued)*

The incremental costs of obtaining a contract with a customer are capitalized and presented as contract related assets, if the Group expects to recover those costs, and are subsequently amortized on a systematic basis that is consistent with the transfer to the customers of the goods or services to which the assets relate. The Group recognizes an impairment loss in the consolidated income statement to the extent that the carrying amount of the contract related assets recognised exceeds the remaining amounts of consideration that the Group expects to receive less the costs that relate directly to providing those goods or services that have not been recognised as expenses.

4 FINANCIAL RISK MANAGEMENT

4.1 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 2018, 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$9,000 higher/lower (2017: HK$300,000 higher/lower) and HK$564,000 lower/higher (2017: HK$663,000 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.

4 FINANCIAL RISK MANAGEMENT *(Continued)*

4.1 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 2018 and 2017, 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 (2017: 50) basis points increase or decrease representing management's assessment of the reasonably possible change in interest rates is used.

At 31 December 2018, 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$2,479,000 lower/higher (2017 (restated): HK$2,082,000 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, contract assets 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 trade receivables and contract assets is limited because the history of default is low.

The Group assessed the credit losses against contract assets and trade receivables and the lifetime expected credit loss rate is below 1%.

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.

4 FINANCIAL RISK MANAGEMENT *(Continued)*

4.1 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 2018					
Trade payables, other payables and accruals, excluding warranty provision	**921,188**	**93,124**	**—**	**—**	**1,014,312**
Amounts due to fellow subsidiaries	**170,240**	**—**	**—**	**—**	**170,240**
Bank borrowings	**512,174**	**7,432**	**209,313**	**10,110**	**739,029**
Finance lease payables	**819**	**819**	**1,294**	**—**	**2,932**
	1,604,421	**101,375**	**210,607**	**10,110**	**1,926,513**
At 31 December 2017 (restated)					
Trade payables, other payables and accruals, excluding warranty provision	705,477	91,673	—	—	797,150
Amounts due to fellow subsidiaries	344,500	—	—	—	344,500
Bank borrowings	408,158	206,918	3,053	11,959	630,088
Finance lease payables	892	819	2,132	—	3,843
	1,459,027	299,410	5,185	11,959	1,775,581

4.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a 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.

4 FINANCIAL RISK MANAGEMENT *(Continued)*

4.2 Capital management *(Continued)*

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:

	2018 **HK$'000**	2017 HK$'000 (restated)
Bank borrowings	**716,924**	614,878
Add: finance lease payables	**2,635**	3,364
Less: bank and cash balances	**(386,630)**	(478,137)
Net debt	**332,929**	140,105
Net assets	**1,038,283**	966,268
Gearing ratio	**32.1%**	14.5%

The gearing ratio increased from restated 14.5% to 32.1% was resulted by an increase in bank borrowings and decrease in bank and cash balances.

4.3 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
- Trade payables, other payables and accruals
- Bank borrowings

5 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

Progress of construction works

The Group recognises revenue according to the progress towards complete satisfaction of performance obligation of the individual contract of construction works. The progress is determined by the aggregated cost for the individual contract incurred at the end of the reporting period compared with the estimated budgeted cost. Management's estimation of the cost incurred to date and the budgeted cost is primarily based on construction budget and actual cost report prepared by internal quantity surveyors, where applicable. Corresponding revenue from contract work is also estimated by management based on the progress and budgeted revenue. Because of the nature of the activities undertaken in construction contracts, the date at which the contract activity is entered into and the date when the activity is completed usually fall into different accounting periods. The Group regularly reviews and revises the estimation of both contract revenue and contract cost in the budget prepared for each construction contract as the contract progresses.

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

Management estimates the amount of foreseeable losses of construction works based on the 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. A foreseeable losses is resulted from a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. In order to keep the budget accurate and up-to-date, management conducts periodic review on the 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 3.7. The recoverable amount of goodwill is the higher of the fair values less costs to sell and value in use.

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

5 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 recognises an impairment loss if the carrying amount of an asset is lower than its recoverable amount. The recoverable amounts have been determined based on the higher of the fair value less costs to sell and value in use calculations.

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 and deferred 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 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 financial budgets prepared and approved by management, gross profit margin, overhead and capital expenditure applied to the profit forecasts.

(v) Impairment of receivables, contract assets and amounts due from related parties

The Group assesses on a forward looking basis the expected credit losses associated with its receivables and amounts due from related parties carried at amortised cost and contract assets. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To make that assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition. Significant estimates and judgements are required in determining the probability-weighted amount that is not recoverable and the forecast of future economic conditions.

(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.

6 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 classified 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 2018 and 2017 are as follows:

	Revenue		Gross profit		Segment result	
	2018 HK$'000	2017 HK$'000 (restated)	**2018 HK$'000**	2017 HK$'000 (restated)	**2018 HK$'000**	2017 HK$'000 (restated)
Façade Contracting Works	**2,518,261**	2,209,728	**252,352**	324,592	**143,608**	201,033
General Contracting Works	**850,553**	660,276	**69,423**	43,634	**63,531**	40,073
Operating Management	**242,956**	262,661	**100,043**	78,699	**75,570**	52,166
Total	**3,611,770**	3,132,665	**421,818**	446,925	**282,709**	293,272
Unallocated corporate expenses					**(50,057)**	(49,617)
Other income and other gains, net					**810**	1,595
Finance costs					**(26,717)**	(17,340)
Profit before tax					**206,745**	227,910

Segment revenue of facade contracting works comprises revenue from Greater China, Asia and other regions amounting to HK$1,981,504,000 (2017: HK$1,669,006,000) and the revenue from North America region amounting to HK$536,757,000 (2017: HK$540,722,000). Segment revenue of general contracting works and operating management represent revenue from Greater China region.

The revenue recognised for the years ended 31 December 2018 and 2017 are recognised over time.

6 REVENUE AND SEGMENT INFORMATION *(Continued)*

Amounts included in the measurement of segment result:

	Depreciation of property, plant and equipment		Loss/(gain) on disposal of property, plant and equipment	
	2018	2017	**2018**	2017
	HK$'000	HK$'000 (restated)	**HK$'000**	HK$'000 (restated)
Façade Contracting Works	**5,529**	6,820	**(28)**	(164)
General Contracting Works	**96**	78	**—**	—
Operating Management	**294**	251	**67**	97
	5,919	7,149	**39**	(67)

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

	Non-current assets*		Addition to property, plant and equipment	
	2018	2017	**2018**	2017
	HK$'000	HK$'000 (restated)	**HK$'000**	HK$'000 (restated)
North America	**310,997**	202,536	**116,196**	2,665
Greater China, Asia and Others	**336,602**	201,962	**155,919**	105,706
	647,599	404,498	**272,115**	108,371

* 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

No customer (2017: two customers, one in both Façade Contracting Works and General Contracting Works and one in General Contracting Works, revenue amounted to approximately HK$469,919,000 and approximately HK$438,301,000 respectively) represents more than 10 per cent (2017: 10 per cent) of the Group's total revenue.

7 OTHER INCOME AND OTHER GAINS, NET

	2018 HK$'000	2017 HK$'000 (restated)
Bank interest income	1,623	2,425
Insurance claim received	—	1,460
Rental income	842	586
Service income	—	1,189
Sundry income	422	2,194
Provision of trade and other receivables, net	—	(442)
(Loss)/gain on disposal of property, plant and equipment	(39)	67
	2,848	7,479

8 EXPENSES BY NATURE

	2018 HK$'000	2017 HK$'000 (restated)
Cost of sales		
Cost of contracting works performed	3,171,154	2,668,359
Warranty provisions, net	18,798	17,381
	3,189,952	2,685,740
Administrative, selling and other operating expenses		
Staff costs, including directors' emoluments:		
Salaries, bonuses and allowances	665,957	590,867
Retirement benefits scheme contributions	28,320	26,674
Less: amounts included in cost of contracting works performed	(573,392)	(501,709)
	120,885	115,832
Depreciation of property, plant and equipment	18,338	17,089
Less: amounts included in cost of contracting works performed	(12,419)	(9,940)
	5,919	7,149
Operating lease charges — land and buildings	49,592	45,735
Less: amounts included in cost of contracting works performed	(37,456)	(30,080)
	12,136	15,655
Auditor's remuneration		
Audit services	2,847	2,563
Non-audit services	456	464
	3,303	3,027
Amortisation of prepaid land lease payments	679	690
Less: amounts included in cost of contracting works performed	(679)	—
	—	690
Exchange loss, net	2,148	6,890
Others	46,813	59,911
	191,204	209,154

9 FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Interest on bank loans and overdrafts	**26,537**	17,166
Finance lease charges	**180**	174
	26,717	17,340

10 INCOME TAX CHARGE

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

	2018 HK$'000	2017 HK$'000 (restated)
Current tax — Hong Kong profits tax		
Provision for the year	**57,662**	42,397
Overprovision in prior years	**(89)**	(917)
	57,573	41,480
Current tax — overseas		
Provision for the year	**10,526**	18,321
Overprovision in prior years	**(5,834)**	(266)
	4,692	18,055
Deferred tax, net (note 27)	**—**	54,600
Income tax charge for the year	**62,265**	114,135

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 2018.

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 led to a reduction of the deferred tax assets of HK$54,600,000 as of 31 December 2017.

10 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:

	2018 HK$'000	2017 HK$'000 (restated)
Profit before tax	206,745	227,910
Taxation at Hong Kong profits tax rate at 16.5%	34,113	37,605
Effect of different taxation rates in other countries	(11,020)	(22,586)
Income not subject to taxation	(131)	(210)
Expenses not deductible for taxation purposes	13,164	11,638
Temporary differences not recognised	(684)	(1,487)
Tax losses not recognised	32,746	35,758
Remeasurement of deferred tax — change in tax rate	—	54,600
Overprovision in prior years	(5,923)	(1,183)
Income tax charge	62,265	114,135

11 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 2018

	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 (i) & (v)	—	—	—	—	—
Zhang Haipeng (ii)	—	—	—	—	—
Wu Mingqing (ii)	—	952	1,668	6	2,626
Zhu Yijian (i)	—	807	1,131	12	1,950
Luo Haichuan (i)	—	862	988	12	1,862
Wang Hai	—	1,840	2,197	—	4,037
Chan Sim Wang	—	1,182	391	18	1,591
Huang Jiang (v)	25	—	—	—	25
Zhou Jinsong	180	—	—	—	180
Hong Winn	150	—	—	—	150
Kwong Sum Yee Anna	150	—	—	—	150
	505	5,643	6,375	48	12,571

11 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

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

For the year ended 31 December 2017

Name	Fees	Salary and allowances	Discretionary bonuses	Employer's contribution to benefit scheme	Total
	Emoluments paid or receivable in respect of a person's services as a director whether of the company or its subsidiary undertaking				
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Zhou Yong (v)	—	—	—	—	—
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 (iii)&(v)	95	—	—	—	95
Qin Jidong (iv)	—	286	—	—	286
Zhou Jinsong	180	—	—	—	180
Hong Winn	150	—	—	—	150
Kwong Sum Yee Anna	150	—	—	—	150
	575	6,949	6,199	54	13,777

Notes:

(i) Resigned from the Board with effect from 18 August 2018.

(ii) Appointed as Executive Director on 18 August 2018.

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

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

(v) Mr. Zhou Yong has decided to waive his director fee of HK$800,000 per annum between 1 January 2017 and 1 March 2018 and he will not receive any director's fee under his new term of appointment commencing 2 March 2018 and Mr. Huang Jiang has decided to waive his director's fee of HK$120,000 per annum with effect from 16 March 2018. Save as aforesaid, there was no arrangement under which a director waived or agreed to waive any emoluments during the year.

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.

11 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

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

Five highest paid individuals

The five highest paid individuals in the Group during the year included 2 (2017: 3) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining 3 (2017: 2) individuals is set out below:

	2018 HK$'000	2017 HK$'000
Basic salaries and allowances	**5,050**	2,661
Discretionary bonuses	**1,075**	1,812
Retirement benefit scheme contributions	**238**	125
	6,363	4,598

(b) The emoluments fell within the following bands:

	2018 No. of Employees	2017 No. of employees
HK$1,500,001 to HK$2,000,000	**—**	1
HK$2,000,001 to HK$2,500,000	**3**	—
HK$2,500,001 to HK$3,000,000	**—**	1
	3	2

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.

12 SENIOR MANAGEMENT EMOLUMENTS

The emoluments of the senior management for the year ended 31 December 2018 and 2017 were as follows:

	2018 HK$'000	2017 HK$'000
Salaries and other benefits	**11,945**	16,807
Contributions to retirement benefit schemes	**292**	530
	12,237	17,337

12 SENIOR MANAGEMENT EMOLUMENTS *(Continued)*

The emoluments of the senior management for 2018 and 2017 were within the following bands:

	2018 No. of employees	2017 No. of Employees
HK$1,000,000 or less	**1**	—
HK$1,000,001 to HK$1,500,000	**1**	3
HK$1,500,001 to HK$2,000,000	**1**	6
HK$2,000,001 to HK$2,500,000	**4**	—
More than HK$2,500,001	**—**	1
	7	10

13 DIVIDENDS

	2018 HK$'000	2017 HK$'000
Interim dividend paid of HK1.0 cent (2017: HK1.0 cent) per ordinary share	**21,555**	21,555
Final proposed dividend of HK1.2 cents (2017: HK1.0 cent) per ordinary share	**25,867**	21,555
	47,422	43,110

The final dividend proposed after 31 December 2018 was not recognised as a liability at 31 December 2018 and is subject to approval by shareholders in the forthcoming annual general meeting. The final dividend for 2017 was recognised and paid during the year.

14 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:

	2018 HK$'000	2017 HK$'000 (restated)
Earnings		
Profit attributable to owners of the Company, used in the basic and diluted earnings per share calculation	**148,571**	123,691
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)	**6.89**	5.74

No diluted earnings per share are presented as the Company did not have any dilutive potential ordinary shares during the year ended 31 December 2018 (2017: Nil).

15 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HKD'000	Leasehold improvements HKD'000	Plant and machinery HKD'000	Furniture, fixtures and equipment HKD'000	Motor vehicles HKD'000	Construction in progress HKD'000	Total HKD'000
Cost							
At 1 January 2017, as previously presented	133,989	3,025	47,970	44,128	4,657	4,859	238,628
Effect of combination under common control (note 2)	—	—	—	5,106	5,223	—	10,329
At 1 January 2017, as restated	133,989	3,025	47,970	49,234	9,880	4,859	248,957
Exchange difference	2,024	98	2,231	2,223	636	7	7,219
Additions	554	1,517	3,335	4,767	1,701	96,497	108,371
Disposals	(19,896)	—	—	(3,685)	(284)	(4,770)	(28,635)
At 31 December 2017, as restated	116,671	4,640	53,536	52,539	11,933	96,593	335,912
At 1 January 2018, as previously presented	116,671	4,640	53,536	47,656	5,891	96,593	324,987
Effect of combination under common control (note 2)	—	—	—	4,883	6,042	—	10,925
At 1 January 2018, as restated	116,671	4,640	53,536	52,539	11,933	96,593	335,912
Exchange difference	(2,020)	(201)	(2,153)	(1,797)	(595)	(4,863)	(11,629)
Additions	127,170	2,242	29,192	10,305	1,369	101,837	272,115
Disposals	—	—	(700)	(1,627)	(720)	—	(3,047)
Transfers	193,567	—	—	—	—	(193,567)	—
At 31 December 2018	**435,388**	**6,681**	**79,875**	**59,420**	**11,987**	**—**	**593,351**
Accumulated depreciation and impairment							
At 1 January 2017, as previously presented	26,969	2,163	26,668	30,839	3,719	4,770	95,128
Effect of combination under common control (note 2)	—	—	—	3,262	4,915	—	8,177
At 1 January 2017, as restated	26,969	2,163	26,668	34,101	8,634	4,770	103,305
Exchange	504	95	1,394	1,489	589	—	4,071
Charge for the year	2,880	580	5,921	7,073	635	—	17,089
Disposals	(11,722)	—	—	(3,210)	(271)	(4,770)	(19,973)
At 31 December 2017, as restated	18,631	2,838	33,983	39,453	9,587	—	104,492
At 1 January 2018, as previously presented	18,631	2,838	33,983	36,125	4,410	—	95,987
Effect of combination under common control (note 2)	—	—	—	3,328	5,177	—	8,505
At 1 January 2018, as restated	18,631	2,838	33,983	39,453	9,587	—	104,492
Exchange difference	(605)	(114)	(1,492)	(1,373)	(497)	—	(4,081)
Charge for the year	3,325	765	6,739	6,830	679	—	18,338
Disposals	—	—	(651)	(1,022)	(684)	—	(2,357)
As at 31 December 2018	**21,351**	**3,489**	**38,579**	**43,888**	**9,085**	**—**	**116,392**
Net book value as at							
At 31 December 2018	**414,037**	**3,192**	**41,296**	**15,532**	**2,902**	**—**	**476,959**
At 31 December 2017, as restated	98,040	1,802	19,553	13,086	2,346	96,593	231,420

15 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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

	2018 **HK$'000**	2017 HK$'000 (restated)
Located in:		
Hong Kong, under medium-term leases	**50,645**	50,645
Mainland China, under medium-term leases	**214,300**	7,306
Canada, freehold	**133,912**	22,189
The United States of America, freehold	**36,531**	36,531
	435,388	116,671

At 31 December 2018, the carrying amount of the Group's land and buildings pledged as security for the Group's banking facilities amounted to HK$16,980,000 (2017: HK$19,103,000) (Note 24).

At 31 December 2018, the carrying amount of property and motor vehicles held under finance lease is HK$33,491,000 (2017: HK$34,414,000) (Note 26).

16 PREPAID LEASE PAYMENTS

As at 31 December 2018, the Group's prepaid lease payments comprise leasehold land located in Mainland China under medium-term lease.

17 GOODWILL

	HK$'000
Cost, at 31 December 2018 and 31 December 2017	159,707
Accumulated impairment, at 31 December 2018 and 31 December 2017	(21,558)
Carrying values, at 31 December 2018 and 31 December 2017	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, revenue 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.

17 GOODWILL *(Continued)*

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors for the next five years with the revenue average growth rate ranging from 13%–27% and extrapolating the average revenue growth rate ranging from 2%–4% from sixth to fifteenth years and then applied the residual period using the growth rate of 3%. These rates do not exceed the average long-term revenue growth rate for the relevant markets. A financial budget of fifteenth 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 19.73% to 20.98%. With all other variables held constant, if the revenue growth rates used in the value-in-use calculation was decreased by 0.5% or the pre-tax discount rate used in the value-in-use calculation had been increased by 0.2% than the management estimates as at 31 December 2018, the headroom would drop to Nil.

18 SUBSIDIARIES

The following is a list of the principal subsidiaries at 31 December 2018:

Name	Place of incorporation/ registration and operation	Issued and paid up capital	Percentage of ownership interest 2018	2017	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 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
China State Development Holdings 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	The People's Republic of China	Registered capital of RMB200,000,000	100%	100%	Investment holding
湖南遠東力進建築工程有限公司	The People's Republic of China	Registered capital of RMB50,000,000	100%	100%	Consultancy and construction service
中海監理有限公司[(2)]	The People's Republic of China	Registered capital of RMB50,000,000	*100%	–	Provision of project consultancy 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[(1)]	British Virgin Islands	100 ordinary shares of US$1 each	–	100%	Investment holding
FEA Investments Limited	British Virgin Islands	1 ordinary share of US$1	100%	100%	Investment holding

18 SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration and operation	Issued and paid up capital	Percentage of ownership interest 2018	2017	Principal activities
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 SGD700,000	**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 RMB37,958,749	**100%**	100%	Design, manufacture and installation of curtain walls, aluminium windows and other related products
Netfortune Engineering (FEA) Macau Limited	Macau	Registered capital of MOP25,000	**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	Hong Kong	1,000,000 ordinary shares of HK$1,000,000	**100%**	100%	Consultancy Service
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$25,000,000	**100%**	100%	Manufacture of curtain walls, aluminium windows and other related products
深圳中海通信工程監理有限公司(2)	The People's Republic of China	Registered capital of RMB8,000,000	***100%**	–	Provision of project consultancy services
Gamma Buffalo, Inc.	United States of America	1 share of US$1	**100%**	100%	Property holding
Gamma North America, Inc.	United States of America	7,060 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

18 SUBSIDIARIES *(Continued)*

Note:

(1) Dissolved in 2018, where applicable.

(2) Newly acquired in 2018, where applicable.

* Newly acquired in 2018, for details, please refer to Note 2.

(a) Material non-controlling interests

The non-controlling interest as at 31 December 2018 of HK$59,008,000 (2017: HK$54,201,000) 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	
	2018	2017
	HK$'000	HK$'000
Current		
Assets	**408,863**	515,489
Liabilities	**(1,433,671)**	(1,468,750)
Total current net liabilities	**(1,024,808)**	(953,261)
Non-current		
Assets	**110,009**	115,580
Liabilities	**(12,339)**	(13,994)
Total non-current net assets	**97,670**	101,586
Net liabilities	**(927,138)**	(851,675)

Summarised income statement

	Gamma Group	
	2018	2017
	HK$'000	HK$'000
Revenue	**661,393**	540,722
Loss before tax	**(64,225)**	(100,800)
Income tax charge	**(4)**	(54,777)
Other comprehensive (loss)/income	**(11,233)**	14,699
Total comprehensive loss	**(75,462)**	(140,878)
Other comprehensive (loss)/income allocated to non-controlling interests	**(715)**	936

18 SUBSIDIARIES *(Continued)*

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

Summarised cash flow

	Gamma Group	
	2018	2017
	HK$'000	HK$'000
Operating cash flows		
Cash used in operations	**(43,986)**	(101,867)
Interest paid	**18,685**	12,767
Net cash used in operating activities	**(25,301)**	(89,100)
Net cash used in investing activities	**(2,331)**	(2,653)
Net cash from financing activities	**23,469**	92,665
Net (decrease)/increase in cash and cash equivalents	**(4,163)**	912
Cash and cash equivalents at beginning of year	**7,523**	6,611
Cash and cash equivalents at end of year	**3,360**	7,523

The information above is before inter-company eliminations.

19 INVENTORIES

	2018	2017
	HK$'000	HK$'000
Raw materials	**7,014**	9,928

The cost of inventories recognised as expense and included in 'cost of sales' amounted to approximately HK$318,730,000 (2017: HK$306,566,000).

20 CONTRACT ASSETS (AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORKS)/LIABILITIES (AMOUNTS DUE TO CUSTOMERS FOR CONTRACT WORKS

	2017
	HK$'000
	(restated)
Contract costs incurred plus recognised profits less foreseeable losses	10,909,363
Less: progress billings	(10,160,013)
	749,350

20 CONTRACT ASSETS (AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORKS)/LIABILITIES (AMOUNTS DUE TO CUSTOMERS FOR CONTRACT WORKS *(Continued)*

	2018 **HK$'000**	2017 HK$'000 (restated)
Contract assets (amounts due from customers for contract works)	**967,471**	861,797
Contract liabilities (amounts due to customers for contract works)	**(299,857)**	(112,447)
	667,614	749,350

The Group has recognised the following revenue-related contract assets/(liabilities):

	2018 **HK$'000**
Contract assets related to construction services (note (i))	**967,471**
Contract liabilities related to construction services (note (ii))	**(299,857)**

Notes:

(i) Contract assets related to construction services consist of unbilled amount resulting from construction when the cost-to-cost method of revenue recognised exceeds the amount billed to the customer.

(ii) The Group receives payments from customers based on billing schedule as established in contracts. Payments are usually received in advance of the performance under the contracts which are mainly from construction services.

The following table shows the amount of the revenue recognised in the current reporting period relating to contract liability balance at the beginning of the year and the amount relating to performance obligations that were satisfied in previous years:

	2018 **HK$'000**
Revenue recognised that was included in the contract liability balance at the beginning of the year:	
— Construction services	**109,338**
Revenue recognised from performance obligations satisfied/partially satisfied in previous periods:	
— Construction services	**126,150**

20 CONTRACT ASSETS (AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORKS)/LIABILITIES (AMOUNTS DUE TO CUSTOMERS FOR CONTRACT WORKS *(Continued)*

The following table shows the amount of unsatisfied performance obligations:

	2018 HK$'000
Expected to be recognised within one year	3,178,032
Expected to be recognised after one year	2,893,806
	6,071,838

For all other contracts with an original expected duration of one year or less or are billed based on time incurred, as permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

21 TRADE AND OTHER RECEIVABLES

	2018 HK$'000	2017 HK$'000 (restated)
Trade receivables	572,282	513,004
Retention receivables	558,207	464,748
	1,130,489	977,752
Less: Provision for impairment	(16,270)	(16,270)
	1,114,219	961,482
Other receivables	59,656	47,221
Trade and other receivables	1,173,875	1,008,703

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.

21 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:

	2018 HK$'000	2017 HK$'000 (restated)
Trade receivables:		
0 to 30 days	**450,025**	348,991
31 to 60 days	**25,859**	68,409
61 to 90 days	**2,944**	3,640
More than 90 days	**85,685**	84,195
	564,513	505,235
Retention receivables	**549,706**	456,247
	1,114,219	961,482
Other receivables	**59,656**	47,221
Trade and other receivables	**1,173,875**	1,008,703

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 (2017: 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.

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The Group determines the provision for expected credit losses by grouping together trade and other receivables with similar credit risk characteristics and collectively assessing them for likelihood of recovery, taking into account prevailing economic conditions. For trade and other receivables relating to accounts which are long overdue with significant amounts or known insolvencies or non-response to collection activities, they are assessed individually for impairment allowance.

As of 31 December 2017, trade receivables of HK$84,195,000 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 HK$'000 (restated)
90 to 365 days	29,839
Over 365 days	54,356
	84,195

21 TRADE AND OTHER RECEIVABLES *(Continued)*

As at 31 December 2018, trade and retention receivables of approximately HK$16,270,000 (2017: HK$16,270,000) 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.

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

	2018 HK$'000	2017 HK$'000
At 1 January	16,270	15,828
Addition of provisions	—	442
At 31 December	16,270	16,270

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

	2018 HK$'000	2017 HK$'000 (restated)
United States dollar	148,032	126,848
Hong Kong dollar	585,399	394,689
Macau Pataca	99,128	126,097
Canadian dollar	109,301	199,868
Renminbi	216,370	145,008
Great British Pound	2,343	2,455
United Arab Emirates Dirham	9,547	9,524
Others	3,755	4,214
	1,173,875	1,008,703

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.

22 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.

23 BANK AND CASH BALANCES

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

	2018 HK$'000	2017 HK$'000 (restated)
Hong Kong dollar	77,278	128,715
Renminbi	137,864	220,292
Great British Pound	117,737	1,600
Macau Pataca	21,285	45,128
Australian dollar	13,515	15,878
United States dollar	11,301	17,513
Canadian dollar	2,983	15,960
United Arab Emirates Dirham	4,583	32,957
Others	84	94
	386,630	478,137

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.

24 BANK BORROWINGS

	2018 HK$'000	2017 HK$'000
Bank loans, secured	12,183	13,638
Bank loans, unsecured	704,741	601,240
	716,924	614,878
The borrowings are repayable as follows:		
On demand or within one year	505,178	401,693
In the second year	455	200,472
In the third to fifth years, inclusive	201,485	1,542
More than five years	9,806	11,171
	716,924	614,878
Less: amounts due for settlement within twelve months	(505,178)	(401,693)
Amounts due for settlement after twelve months	211,746	213,185

24 BANK BORROWINGS *(Continued)*

At 31 December 2018, bank loans of HK$12,183,000 (2017: HK$13,638,000) are secured by the Group's land and buildings of HK$16,980,000 (2017: HK$19,103,000) (Note 15).

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 2018				
Bank loans	**280,000**	**13,071**	**423,853**	**716,924**
31 December 2017				
Bank loans	200,000	28,852	386,026	614,878

The average bank loans interest rates at 31 December 2018 was 3.82% (2017: 3.15%).

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.

The secured bank loans include the bank loans with assets pledged as security to the banks. The unsecured bank loans include the bank loans with financial undertaking required to be fulfilled by the Group.

25 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:

	2018 HK$'000	2017 HK$'000 (restated)
Trade payables:		
0 to 30 days	**510,174**	436,771
31 to 60 days	**27,294**	41,656
More than 60 days	**175,444**	51,585
	712,912	530,012
Retention payables	**189,179**	131,994
	902,091	662,006
Other payables and accruals	**147,608**	169,139
Trade payables, other payables and accruals	**1,049,699**	831,145

As at 31 December 2018, the amount of retention payables expected to be due after more than twelve months was approximately HK$93,124,000 (2017: HK$91,673,000).

25 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:

	2018 HK$'000	2017 HK$'000 (restated)
Hong Kong dollar	**538,761**	377,355
Renminbi	**322,608**	239,152
Macau Pataca	**45,657**	59,300
United States dollar	**54,021**	59,930
Canadian dollar	**78,183**	93,567
Great British Pound	**9,407**	765
Others	**1,062**	1,076
	1,049,699	831,145

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:

	2018 HK$'000	2017 HK$'000
At 1 January	**33,995**	26,955
Addition	**18,798**	17,381
Exchange differences	**1,582**	508
Utilisation	**(18,988)**	(10,849)
At 31 December	**35,387**	33,995

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.

26 FINANCE LEASE PAYABLES

	Minimum lease payments		Present value of minimum lease payments	
	2018	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**819**	892	**793**	865
In the second to fifth years, inclusive	**2,113**	2,951	**1,842**	2,499
	2,932	3,843	**2,635**	3,364
Less: Future finance charges	**(297)**	(479)		
Present value of lease obligations	**2,635**	3,364		
Less: Amount due for settlement within twelve months			**(793)**	(865)
Amount due for settlement after twelve months			**1,842**	2,499

The average lease term is 5 years. At 31 December 2018, the average effective borrowing rate was 5.95% (2017: 5.97%). 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:

	2018	2017
	HK$'000	HK$'000
United States dollar	**2,635**	3,350
Canadian dollar	**—**	14
	2,635	3,364

The Group's finance lease payables are secured by the lessor's title to the leased assets (Note 15).

27 DEFERRED TAXATION

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

	2018 HK$'000	2017 HK$'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	**(87,690)**	(79,553)
Deferred tax assets to be recovered within twelve months	**(7,700)**	(17,248)
	(95,390)	(96,801)

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 2017	2,283	753	(149,756)	(146,720)
Exchange difference	—	—	(1,645)	(1,645)
Credited to consolidated income statement (note 10)	—	—	54,600	54,600
At 31 December 2017	2,283	753	(96,801)	(93,765)
Exchange difference	—	—	1,411	1,411
At 31 December 2018	**2,283**	**753**	**(95,390)**	**(92,354)**

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

	2018 HK$'000	2017 HK$'000
Deferred tax liabilities	**293**	293
Deferred tax assets	**(92,647)**	(94,058)
	(92,354)	(93,765)

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$1,188,408,000 (2017: HK$1,020,635,000) 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.

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 2017, 1 January 2018 and 31 December 2018	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$940,883,000 (2017: HK$939,889,000).

(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 3 to the financial statements.

(iii) Share-based payments reserve

The share-based payments 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 3 to the financial statements.

(iv) 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.

(v) 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.

29 SHARE PREMIUM AND RESERVES *(Continued)*

(b) Nature and purpose of reserves *(Continued)*

(v) Special reserve *(Continued)*

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.

On 26 June 2018, 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"), which is the intermediate holding company of the Company, at a cash consideration of RMB70,000,000.

(vi) Included in retained profits as at 31 December 2018 is the proposed 2018 final dividend of approximately HK$25,867,000.

30 SHARE-BASED PAYMENTS

Pursuant to the A-shares Restricted Stock Incentive Plan (Phase II) (the "Incentive Plan (Phase II)") of CSCECL, an intermediate holding company of the Company, 1,215,000 incentive shares were granted to certain directors and employees of the Company on 29 December 2016 (the "Grant Date (Phase II)") with an exercise price of RMB4.866 per share, subject to a lock-up period of two years' service from the Grant Date (Phase II) (the "Lock-Up Period (Phase II)"). During the Lock-Up Period (Phase II), 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 (Phase II). Subject to CSCECL's achievement of performance conditions and 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 Grant Date (Phase II) 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 (Phase II), exercise price of RMB4.866 per share, share-based payments cap at 40% of the respective employees' 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.

Pursuant to the A-shares Restricted Stock Incentive Plan (Phase III) (the "Incentive Plan (Phase III)") of CSCECL, 2,430,000 incentive shares were granted to certain employees of the Company (including one director and certain senior management) on 26 December 2018 (the "Grant Date (Phase III)") with an exercise price of RMB3.468 per share, subject to a lock-up period of two years' service from the Grant Date (Phase III) (the "Lock-Up Period (Phase III)"). During the Lock-Up Period (Phase III), 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 (Phase III). Subject to CSCECL's achievement of performance conditions and 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.

30 SHARE-BASED PAYMENTS *(Continued)*

The fair value of incentive shares on the Grant Date (Phase III) determined using a comparable generally accepted methodology was RMB2.112 per share. The significant inputs into the methodology include closing price of RMB5.58 per share on the Grant Date (Phase III), exercise price of RMB3.468 per share and share-based payments cap at 30% of respective two years' employees' remuneration.

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 2018	865	2,499	401,693	213,185	618,242
Cash flows	(93)	(734)	104,657	(419)	103,411
Foreign exchange adjustments	—	—	(1,172)	(1,020)	(2,192)
Other non-cash movements	21	77	—	—	98
At 31 December 2018	**793**	**1,842**	**505,178**	**211,746**	**719,559**

32 LEASE COMMITMENTS

At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018 HK$'000	2017 HK$'000
Within one year	**30,764**	31,665
In the second to fifth years inclusive	**50,454**	62,272
After fifth year	**4,707**	6,530
	85,925	100,467

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 2018, the Group had the following commitments contracted but not provided for in the consolidated financial statements:

	2018 HK$'000	2017 HK$'000
Contracted but not provided for		
— Construction in progress for property, plant and equipment	18,265	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

	2018 HK$'000	2017 HK$'000
Construction fee received from fellow subsidiaries	933,194	1,087,265
Service income received from fellow subsidiaries	37,209	12,405
Service fees paid to fellow subsidiaries	37,242	33,367

(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 CSCEC.

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:

	2018 HK$'000	2017 HK$'000
Short term employee benefits	24,468	30,530
Post-employment benefits	340	584
	24,808	31,114

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	2018 HK$'000	2017 HK$'000
Non-current Asset			
Interests in subsidiaries		**996,049**	917,024
Current Assets			
Deposits, prepayments and other receivables		**1,729**	374
Amounts due from subsidiaries		**50,000**	50,000
Tax recoverable		**—**	248
Bank and cash balances		**1,210**	801
		52,939	51,423
Current Liabilities			
Bank borrowings		**80,000**	—
Other payables and accruals		**487**	1,752
Current tax payables		**167**	—
		80,654	1,752
Total Assets less Current Liabilities		**968,334**	966,695
Capital and Reserves			
Share capital		**21,555**	21,555
Share premium and reserves	(Note (a))	**946,779**	945,140
		968,334	966,695

On behalf of the Board

Wu Mingqing
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$'000	Share-based payments reserve HK$'000	Special reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 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 payments 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 and 1 January 2018	898,654	4,636	615	41,235	945,140
Profit for the year	—	—	—	44,104	44,104
Capital contribution relating to share-based payment borne by an intermediate holding company	—	—	645	—	645
2017 final dividend paid	—	—	—	(21,555)	(21,555)
2018 interim dividend paid	—	—	—	(21,555)	(21,555)
At 31 December 2018	**898,654**	**4,636**	**1,260**	**42,229**	**946,779**

36 SUBSEQUENT EVENT

On 7 January 2019, the Group proposed to acquire Value Idea Investments Limited and Fuller Sky Enterprises Limited, from its immediate shareholder — China State Construction International Holdings Limited ("CSCIHL") which CSCIHL holds 74.06% of the shareholdings of the Company. The Group has conditionally agreed to acquire (i) the Value Idea Sale Share, representing the entire issued share capital of Value Idea, and the Value Idea Sale Loan; and (ii) the Fuller Sky Sale Share, representing the entire issued share capital of Fuller Sky, and the Fuller Sky Sale Loan, at a total consideration of HK$295,000,000.

On 20 March 2019, the name of the Company has been changed from "Far East Global Group Limited" to "China State Construction Development Holdings Limited". The change of the Company's name will better reflect the strong branding effect of "China State Construction" and is more compatible to the direction of the Group's future business development.

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

	For the year ended 31 December				
	2014	2015	2016	2017	**2018**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
	(restated)	(restated)	(restated)	(restated)	
Revenue	1,930,702	2,431,140	2,841,966	3,132,665	**3,611,770**
Gross profit	247,827	279,879	255,794	446,925	**421,818**
Profit before tax	22,886	81,380	59,585	227,910	**206,745**
Income tax expense/(credit), net	(8,501)	37,382	68,134	114,135	**62,265**
Profit/(Loss) for the year	31,387	43,.998	(8,549)	113,775	**144,480**
Profit for the year attributable to:					
Owners of the Company	99,319	111,233	119,168	123,691	**148,571**
Non-controlling interests	(67,932)	(67,235)	(127,717)	(9,916)	**(4,091)**
Basic earnings per share (HK cents)	4.61	5.16	5.53	5.74	**6.89**
Diluted earnings per share (HK cents)	4.61	5.16	5.53	5.74	**6.89**

CONSOLIDATED NET ASSETS

	For the year ended 31 December				
	2014	2015	2016	2017	**2018**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
	(restated)	(restated)	(restated)	(restated)	
Non-current assets	481,886	441,195	463,944	498,556	**740,246**
Current assets	1,739,733	1,969,275	2,114,103	2,462,763	**2,626,565**
Current liabilities	806,665	1,099,557	1,366,968	1,779,074	**2,114,647**
Non-current liabilities	219,551	215,732	202,431	215,977	**213,881**
Net assets	1,195,403	1,095,181	1,008,648	966,268	**1,038,283**

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