



# CHTC FONG'S INTERNATIONAL COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 641)



## GREEN INNOVATION GLOBALISATION

ANNUAL REPORT 2023

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# CORPORATE INFORMATION

## CHAIRMAN EMERITUS

Mr. Fong Sou Lam

## BOARD OF DIRECTORS

### Executive Directors

Mr. Guan Youping (*Chairman*)  
Mr. Chen Peng (*General Manager*)

### Non-executive Director

Mr. Fong Kwok Leung, Kevin

### Independent Non-executive Directors

Mr. Tong Wing Chi  
Dr. Jiang Gaoming  
Dr. Chen Ying

## COMPANY SECRETARY

Mr. Lee Che Keung

## AUTHORISED REPRESENTATIVES

Mr. Chen Peng  
Mr. Lee Che Keung

## AUDIT COMMITTEE

Mr. Tong Wing Chi (*Committee Chairman*)  
Dr. Jiang Gaoming  
Dr. Chen Ying

## REMUNERATION COMMITTEE

Dr. Chen Ying (*Committee Chairman*)  
Mr. Guan Youping  
Mr. Chen Peng  
Mr. Tong Wing Chi  
Dr. Jiang Gaoming

## NOMINATION COMMITTEE

Mr. Guan Youping (*Committee Chairman*)  
Mr. Chen Peng  
Mr. Tong Wing Chi  
Dr. Jiang Gaoming  
Dr. Chen Ying

## LEGAL ADVISER

Reed Smith Richards Butler LLP

## AUDITOR

PKF Hong Kong Limited

## PRINCIPAL BANKERS IN HONG KONG

Chong Hing Bank Limited  
The Hongkong and Shanghai Banking  
Corporation Limited  
United Overseas Bank Limited

## PRINCIPAL BANKERS IN THE PEOPLE'S REPUBLIC OF CHINA

Industrial Bank Co., Ltd.  
Bank of China Limited  
China Resources Bank of Zhuhai Co., Ltd.

## BERMUDA PRINCIPAL REGISTRAR AND TRANSFER OFFICE

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

## HONG KONG BRANCH REGISTRAR AND TRANSFER OFFICE

Tricor Secretaries Limited  
17/F., Far East Finance Centre  
16 Harcourt Road, Hong Kong  
Tel: (852) 2980 1333  
Fax: (852) 2810 8185

## REGISTERED OFFICE

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

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Units 2201 & 2203  
Orient International Tower  
1018 Tai Nan West Street, Cheung Sha Wan  
Kowloon, Hong Kong  
Tel: (852) 2497 3300  
Fax: (852) 2943 8451

## WEBSITE ADDRESS

<https://www.fongs.com>

## CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of CHTC Fong's International Company Limited (the "Company" or "CHTC Fong's", together with its subsidiaries, the "Group"), I am pleased to present to the shareholders the annual report of the Group for the year ended 31 December 2023.



This is the first annual report after my appointment as Chairman of the Board of CHTC Fong's. I would like to take this opportunity to thank the former Chairman, Mr. Ye Maoxin, for his contribution in leading the Group forward during his tenure.

In 2023, the global economy gradually stabilised and showed signs of improvement, but the recovery was not as strong as expected. At the same time, inflation remained high and operating costs rose as a result of soaring raw material prices, while competition became more intense due to weak market conditions. In the face of these challenges, the Group operated in an uncertain environment, but at the same time, it also maintained its profitability in the face of adversity and proactively reduced costs and increased efficiency in order to safeguard the Group's healthy cash flows and sustainable development of its business segments. In the financial year of 2023, the Group's consolidated revenue decreased by 30% to approximately HK\$1,740,000,000, of which sales of dyeing and finishing machines accounted for 74%, stainless steel castings accounted for 23%, and stainless steel products accounted for the remaining 3%.

The year 2023 marks the Diamond Jubilee year of the Group's 60th anniversary. Looking back at the Group's achievements in the past six decades, the achievements are remarkable. CHTC Fong's has become a world-leading dyeing and finishing equipment manufacturing enterprise, of which we are proud. In the next sixty years, CHTC Fong's will continue to pursue the objective of "providing best-in-class products and services to worldwide customers", commit to R&D and innovation, and provide one-stop advanced dyeing and finishing equipment for the textile industry.

## CHAIRMAN'S STATEMENT

Looking forward to 2024, the macro-economy is still uncertain, the manufacturing industry is facing challenges due to sluggish demand growth, and the market is still waiting for a turn of tides. Therefore, it can be expected that the Group's future business will still be subject to the overall environment. Even so, we will not stop. We will remain cautiously optimistic and continue to invest in R&D of new products and technologies. We will keep abreast of market developments and introduce cost-effective products that meet market needs, and strengthen our sales force and technical services to capture business opportunities that will arise when the market recovers in the future.

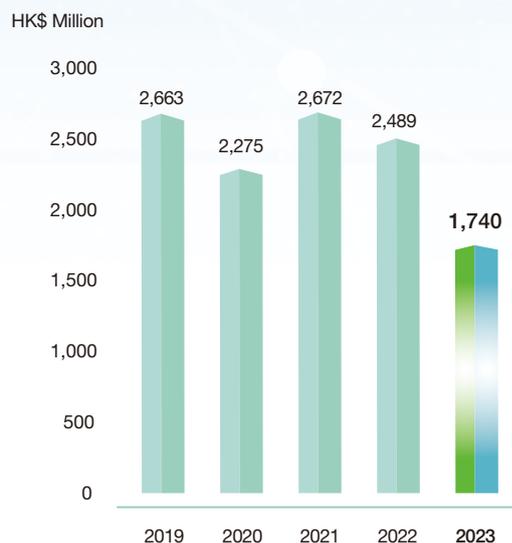
On behalf of all members of the Board, I would like to express my sincere gratitude to the management team and all employees, customers, suppliers, business partners, bankers, and shareholders who have always supported the Group for their efforts and contributions to CHTC Fong's. I believe that as a corporate with 60 years of glorified history, CHTC Fong's will overcome one hurdle after another in its sustainable development and reach another peak, providing more delicate products for the customers and creating long-term value for our shareholders, employees and society!

**Guan Youping**  
*Chairman*

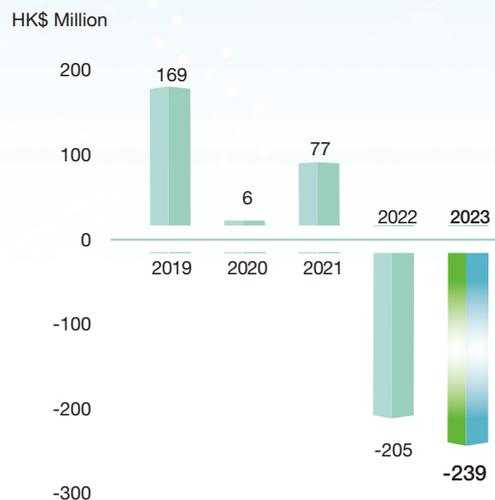
Hong Kong, 28 March 2024

# FINANCIAL HIGHLIGHTS

## REVENUE

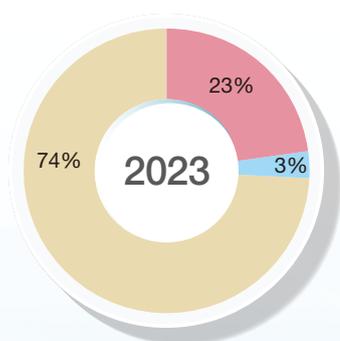


## PROFIT/LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY



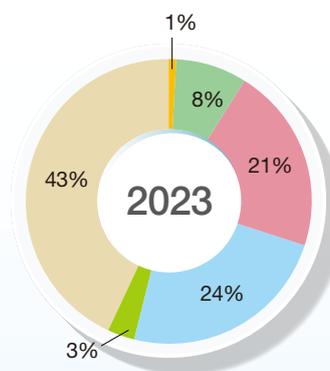
## ANALYSIS OF REVENUE FOR THE YEAR

By principal activity



- Manufacture and sale of dyeing and finishing machines
- Manufacture and sale of stainless steel casting products
- Trading of stainless steel supplies

By geographical region



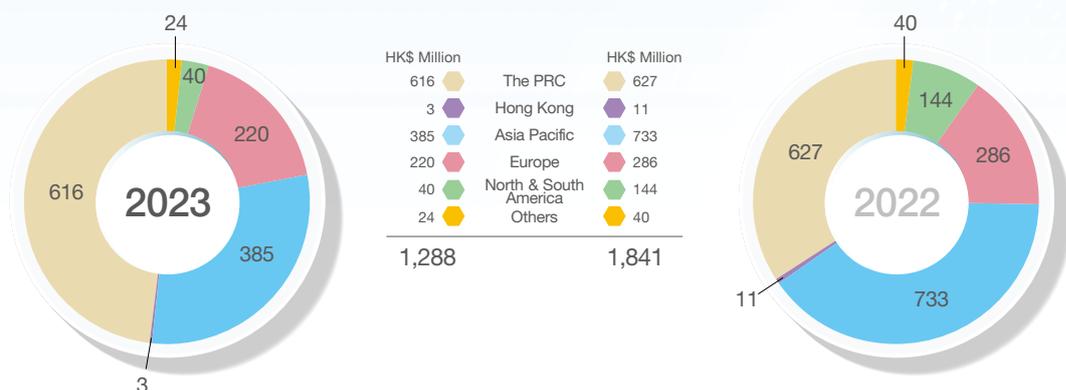
- The PRC
- Hong Kong
- Asia Pacific (other than the PRC & Hong Kong)
- Europe
- North & South America
- Others

# FINANCIAL HIGHLIGHTS

## ANALYSIS OF REVENUE FOR THE YEAR *(Continued)*

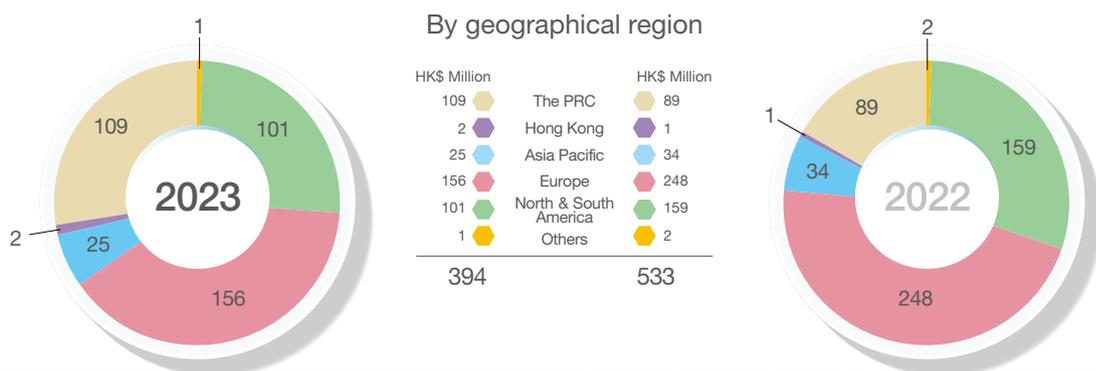
### Manufacture and Sale of Dyeing and Finishing Machines

By geographical region



### Manufacture and Sale of Stainless Steel Casting Products

By geographical region



### Trading of Stainless Steel Supplies

By geographical region



# DIRECTORS AND SENIOR MANAGEMENT PROFILE

## Chairman Emeritus

**Mr. Fong Sou Lam**, aged 89, is the founder of the Group and the Chairman Emeritus of the Company. Mr. Fong established the dyeing and finishing machine manufacturing business in 1963 and has extensive of business experience in the industry.

## MEMBERS OF THE BOARD OF DIRECTORS

### Chairman and Executive Director

**Mr. Guan Youping**, aged 56, joined the Group on 18 October 2019 and is currently an Executive Director and the Chairman of the Board. Mr. Guan is also the Chairman of the Nomination Committee and a member of the Remuneration Committee of the Company. Mr. Guan holds a Bachelor's degree in Machinery Manufacturing Technology and Equipment from Tianjin Institute of Textile Science and Technology (currently known as Tianjin Polytechnic University) and a Master's degree in Management Science and Engineering from the University of Science and Technology Beijing, and he is a senior engineer. Mr. Guan has over 30 years' working experience in the textile industry and in-depth knowledge in products, markets and operations of the textile machinery industry. Mr. Guan also has extensive practical experience in corporate lean production, technology research and development, marketing and operation management.

### Executive Directors

**Mr. Chen Peng**, aged 51, joined the Group as a Deputy General Manager of the Company on 4 March 2022. Mr. Chen has been appointed as an Executive Director of the Company with effect from 16 June 2022 and has been re-designated as the General Manager of the Company with effect from 26 May 2023. Mr. Chen is also a member of the Nomination Committee and Remuneration Committee of the Company. Mr. Chen is primarily responsible for overseeing the overall operations of the Group. Before joining the Group, Mr. Chen had served various positions at Changde Textile Machinery Company Limited (常德紡織機械有限公司), a corporation affiliated with China Hi-Tech Group Corporation (中國恒天集團有限公司) since 1992, with general manager as his last position.

### Non-executive Director

**Mr. Fong Kwok Leung, Kevin**, aged 62, is the eldest son of Mr. Fong Sou Lam who is the founder of the Group as well as the Chairman Emeritus and a substantial shareholder of the Company. Mr. Fong holds a Bachelor's degree in Business Administration from Simon Fraser University, Canada. Mr. Fong joined the Group in 1986 and was appointed as an Executive Director of the Company on 25 July 1990. Mr. Fong had been responsible for overseeing the stainless steel trading and stainless steel casting businesses of the Group for a long period. With effect from 1 October 2016, Mr. Fong has been re-designated from an Executive Director to a Non-executive Director of the Company due to his desire to devote more time to his own family business.

## DIRECTORS AND SENIOR MANAGEMENT PROFILE

### Independent Non-executive Directors

**Mr. Tong Wing Chi**, aged 42, has been appointed as an Independent Non-executive Director of the Company since 1 March 2022. Mr. Tong is also the Chairman of the Audit Committee and a member of the Remuneration Committee and Nomination Committee of the Company. Mr. Tong obtained a degree of Bachelor of Arts (Honors) in Accountancy from The Hong Kong Polytechnic University in November 2004 and has been a member of the Hong Kong Institute of Certified Public Accountants since September 2008. Mr. Tong has over 15 years of experience in auditing, accounting and financial reporting. Mr. Tong has been a managing director of Victory Success Consulting Limited since July 2018 and a managing partner of Edward and Stan Global Advisory Limited since November 2019. Mr. Tong had been an independent non-executive director of Trendzon Holdings Group Limited (a company listed on the Main Board of The Stock Exchange of Hong Kong Limited, stock code: 1865) during the period from 21 September 2020 to 31 March 2022 and an independent non-executive of Greater Bay Area Dynamic Growth Holding Limited (a company listed on the Main Board of The Stock Exchange of Hong Kong Limited, stock code: 1189) during the period from 19 September 2022 to 24 August 2023. Mr. Tong has been an independent non-executive director of Gaoyu Finance Group Limited (a company listed on GEM of The Stock Exchange of Hong Kong Limited, stock code: 8221) since 6 October 2021.

**Dr. Jiang Gaoming**, aged 61, has been appointed as an Independent Non-executive Director of the Company since 1 March 2022. He is also a member of the Audit Committee, Nomination Committee and Remuneration Committee of the Company. Dr. Jiang obtained a Bachelor's degree in Textiles from Wuxi Institute of Light Industry (無錫輕工業學院) in 1983, a Master's degree in Textiles from the School of Textiles and Clothing at Wuxi University of Light Industry (無錫輕工大學) in 1998 and a Doctorate of Philosophy degree in Textiles from the School of Textiles at Donghua University (東華大學) in 2007. He is currently a professor in the School of Textile Science and Engineering at Jiangnan University (江南大學), the director of the Engineering Research Center of the Department of Education for Knitting Technology at Jiangnan University, and the director of the Institute of Knitting Technology at Jiangnan University, and has long been engaged in the research on textile equipment intelligence and new textile structural materials. From May 2015 to May 2021, Dr. Jiang had served as an independent director of Zhejiang Huafon Spandex Co., Ltd. (a company listed on Shenzhen Stock Exchange, stock code: 002064).

**Dr. Chen Ying**, aged 60, has been appointed as an Independent Non-executive Director of the Company since 1 March 2024. Dr. Chen is also the Chairman of the Remuneration Committee and a member of the Audit Committee and Nomination Committee of the Company. Dr. Chen obtained a Bachelor's degree in Dyeing and Finishing Engineering from Donghua University (東華大學) (formerly known as Huadong Textile Institute (華東紡織工學院) in the People's Republic of China in 1985, a Master's degree in Textile Chemistry and Dyeing & Finishing Engineering from Donghua University in 1991 and a Doctoral degree in Textile Chemistry and Dyeing & Finishing Engineering from Donghua University in 2007. From 2013 until her retirement in February 2024, Dr. Chen served as a researcher and professor in the College of Chemistry, Chemical Engineering and Biotechnology of Donghua University, engaged in the teaching and scientific research of textile chemistry and dyeing and finishing engineering for a long time, focusing on the combination of theory and practice, undertaking and completing more than 50 scientific research projects, with long-term cooperation experience with enterprises, and published more than 100 scientific research papers; published 7 textbooks or professional reference textbooks, of which the "Dyeing and Finishing Process Experiment Course" (national textbook) won the third prize of China Textile Industry Federation for scientific and technological progress, the textbook "Dyeing Principle and Program Control" won the third prize of China Textile Industry Federation for excellent publications in 2018; the responsible course "Dyeing and Finishing Process Experiment" was awarded the Shanghai Excellent Course; She guided students to participate in the "First National College Students Green Dyeing and Finishing Science and Technology Innovation Competition" and won the first prize.

# DIRECTORS AND SENIOR MANAGEMENT PROFILE

## SENIOR MANAGEMENT

**Mr. Lei Haohui**, aged 45, is a Deputy General Manager of the Company and is primarily responsible for supervising the Human Resources and Administration Department of the Group. Mr. Lei graduated with a Bachelor's degree from Zhongyuan University of Technology majoring in Machinery Manufacturing Technology and Equipment and is an engineer. Mr. Lei had held position as deputy head of Assembly Workshop and deputy general manager of Tianjin Hongda Textile Machinery Co. Ltd. (天津宏大紡織機械有限公司), assistant to general manager, deputy general manager, general manager and chairman of Tianjin Textile Machinery Co. Ltd. (天津紡織機械有限責任公司) as well as deputy general manager and director of Tianjin Hongda Textile Technology Co. Ltd. (天津宏大紡織科技有限公司). Mr. Lei has many years of experience in the textile machinery industry and has in-depth knowledge in its product characteristics, he has also extensive practical experience in production and operation, sales and marketing and management enhancement. Mr. Lei joined the Group in November 2019.

**Mr. Wang Zihao**, aged 56, is a Deputy General Manager of the Company and is primarily responsible for supervising the operations of Fong's National Engineering (Guangdong) Co., Ltd., a wholly-owned subsidiary of the Group. Mr. Wang graduated from National University of Defense Technology (國防科技大學) majoring in precision mechanics and apparatus manufacturing and obtained a Bachelor's degree in Engineering in 1991, he also obtained his EMBA from Tsinghua University (清華大學) in 2006. Mr. Wang had been working for Hi-Tech Heavy Industry Company, Limited (恒天重工股份有限公司) where he had served different positions, including but not limited to technician of the research institute, engineer, sales director, deputy general manager and chief economist, with extensive experience in business operation, production safety and lean management. Mr. Wang joined the Group on 1 June 2021.

**Mr. Du Qianyi**, aged 58, has been employed as a Deputy General Manager of the Company as from 1 March 2022, and is currently responsible for supervising the Legal and Audit Department of the Group. Mr. Du first joined the Group on 15 March 2012 and served as an Executive Director of the Company and the Chief Financial Officer from 15 March 2012 to 31 December 2012 and from 18 April 2016 to 31 December 2019, respectively. From January 2020 to February 2022, Mr. Du worked at Hengtian Assets Management Limited (恒天資產管理有限公司) with general manager as his last position. Mr. Du has been working in the textile machinery industry for a prolonged period, knowing the traits in the markets and operations of the textile machinery industry, having extensive experience in corporate management as well as solid theoretical foundation and rich practical experience in the areas of capital operations, operational management and financial management.

**Mr. Liu Jie**, aged 34, joined the Company on 10 October 2022 and has been appointed as the Financial Controller of the Company with effect from 1 November 2022. Mr. Liu is also responsible for supervising the operations of the stainless steel casting and stainless steel trading business of the Group. Mr. Liu graduated from International College of Qingdao University (青島大學國際學院), majoring in accounting, and obtained a Bachelor's degree in Management in July 2011. Mr. Liu has also obtained the professional qualification as a member of the Chinese Institute of Certified Public Accountants (中國註冊會計師協會). From July 2011 to September 2022, Mr. Liu had been working for Qingdao Hongda Textile Machinery Co., Ltd. (青島宏大紡織機械有限責任公司) and involved in financial management affairs during the last eight years with the last position as the Head of Finance Department.

## DIRECTORS AND SENIOR MANAGEMENT PROFILE

**Mr. Gunnar Meyer**, aged 62, has been appointed as the Managing Director of A. Monforts Textilmaschinen GmbH & Co. KG (“German Monforts”), a wholly-owned subsidiary of the Company, as from 1 January 2023. Mr. Meyer is mainly responsible for supervising the operations of German Monforts including administration, sales and technical services. Mr. Meyer graduated as industrial clerk and successfully took part in the Malik General Management Education. From 1985 to 2010, he had already worked for German Monforts in various roles relating to sales and commercial issues, e.g. General Sales Director. During the period of 2011 to 2018, he had held the position as Area Sales Director for Asian Markets for other well-known German textile machine manufacturers in the field of non-wovens and extended his experience in the field of technical textiles.

**Mr. Lee Che Keung**, aged 62, is the company secretary of the Company. Mr. Lee graduated from the Hong Kong Polytechnic (which was subsequently renamed the Hong Kong Polytechnic University) with a Professional Diploma in Company Secretaryship and Administration and is an associate member of The Hong Kong Chartered Governance Institute (formerly known as The Hong Kong Institute of Chartered Secretaries) and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) in England. Mr. Lee is responsible for the investor relations of the Company and the overall corporate secretarial matters of the Group. Mr. Lee joined the Group in February 1990.

## MANAGEMENT DISCUSSION AND ANALYSIS



(Left to right: Wang Zihao, Chen Peng, Lei Haohui, Du Qianyi, Liu Jie)

### BUSINESS PERFORMANCE

In 2023, the global economy gradually stabilised and showed signs of improvement, but the recovery was not as strong as expected. At the same time, inflation remained high and operating costs rose as a result of soaring raw material prices, while competition became more intense due to weak market conditions. Under this environment, the Group's performance was inevitably affected.

For the year ended 31 December 2023 (the "Year"), the Group's consolidated revenue decreased by 30% to approximately HK\$1,740,000,000 (2022: HK\$2,489,000,000) as compared to last year. Loss for the year attributable to owners of the Company was approximately HK\$239,000,000 (2022: HK\$205,000,000). The basic and diluted loss per share were 21.69 HK cents for the Year (2022: 18.6 HK cents).

### MANUFACTURE AND SALE OF DYEING AND FINISHING MACHINES

In 2023, the global economic environment continued to face challenges and uncertainties. Although the overall economy has gradually stabilised and shown signs of improvement, the rebound has been relatively weak. In addition, soaring raw material prices, coupled with the impact of high interest rates, have led to rising operating costs. Therefore, customers have adopted a cautious approach towards investing in new dyeing and finishing machines production facilities. They are hesitate to proceed with expansion projects, resulting a slow recovery in customer demand for investment in new production equipment.

## MANAGEMENT DISCUSSION AND ANALYSIS

During the Year, this business segment recorded revenue of approximately HK\$1,288,000,000, accounting for 74% of the Group's revenue and representing a decrease of 30% from approximately HK\$1,841,000,000 for last year. In particular, sales from Hong Kong and the PRC markets were approximately HK\$619,000,000, representing a decrease of 3% from approximately HK\$638,000,000 for last year; and sales from overseas markets were approximately HK\$669,000,000, representing a decrease of 44% from approximately HK\$1,203,000,000 for last year. During the Year, this business segment recorded an operating loss of approximately HK\$198,000,000 (2022: HK\$121,000,000). Due to the challenging market environment, an impairment loss of carrying value of goodwill of approximately HK\$69,000,000 was recognised in the consolidated statement of profit and loss and other comprehensive income for the year ended 31 December 2023.

Cost control remains a significant concern for manufacturers. The Group will continue to implement stringent measures and cost control initiatives throughout the entire operating structure, which are not restricted to production operations, but also applicable to sales, administration and other functions and departments. While the Group has already made moderate reductions in its workforce, primarily involving non-production staff, it has also invested resources in further trainings for skilled workers. This investment has resulted in cost savings as well as improvement in output quality. Moreover, the Group will consider increasing the proportion of subcontracting to replenish our existing labour force, so that we can control our fixed labour costs and have the flexibility to meet urgent orders. Through the optimisation of labour force and the utilisation of subcontracting, the Group can effectively satisfy the needs of its customers while maintaining cost control.

As a leading manufacturer of dyeing and finishing machines, we regard product development and innovation as the top priority in our operations. The Group will continue to carry out thorough and in-depth reform of its manufacturing process, with an aim to further enhance efficiency, further improve and perfect production, and enhance the overall performance and output quality of production. These efforts have begun to yield results. In response to changes in the market environment and keen customer demand, the Group launched SOFTWIN, a new model of its flagship product fabric dyeing machines, which won unanimous praise in the market. By upholding its operation philosophy of "Integrity-based, Technology-focused and Customer-oriented", the Group will devote more resources into research and development of new products and unveil more high quality and market-oriented products to satisfy the needs of different customers.

The Group's management team works tirelessly and proactively to formulate contingency plans to address short-term market fluctuations. The team has also implemented long-term capacity upgrading and expansion plans, while constantly improving efficiency and adhering to quality to build a solid, core competency that enables the Group to maintain its leading position. We believe that with the presence of a robust manufacturing platform, the Group will be able to achieve sustainable growth in the long run and continue to create values for our customers and shareholders.

In response to the current extremely challenging business environment, our management team has taken a series of operating cost and capital expenditure control measures and efforts to promote business recovery, so as to lower the breakeven point of operations. We will prioritise prudent auditing of our financial conditions, and conduct inventory control, control trade receivables strictly, reset assets more reasonably, so as to sustain sufficient cash flow. On the market side, we will strive to strengthen market promotion, focus on key projects, improve the added value of products, comprehensively strengthen our distribution channels in various countries, accelerate the development of potential customers, and realise the strategic expansion of emerging markets. In terms of internal management, we will plan production capacity based on actual needs, refine and strengthen supply chain management capabilities, reduce various fees and expenditure, strengthen manufacturing process, optimise process structure and improve production bottlenecks in order to quickly respond to market changes.

## MANAGEMENT DISCUSSION AND ANALYSIS

As a leading manufacturer of dyeing and finishing equipment in the world, CHTC Fong's has been focusing on the research and development of dyeing and finishing machinery, and will continue to increase investment in technical research to provide customers with more cost-effective products. The Group firmly believes that only by constantly innovating and addressing the practical pain points of our customers, providing them with substantial benefits and enhancing the returns on their assets, will we be able to motivate them to upgrade their equipment. In addition to meeting the individual needs of our customers, we look to standardise the production of components. At the same time, we should speed up the building of the Group's management team to meet and adapt to the current reform and development needs. The Company will remain focused on efficiency and place greater importance to smart manufacturing process, productivity improvement and transformation of digital plants.

The Group's wholly-owned subsidiary, PT Harvest Holdings Limited ("PT Harvest"), holds an office property and certain car parking spaces in Hong Kong. In order to improve the financial position of the Group, the Directors are committed to a disposal plan to sell the entire share capital of PT Harvest. Therefore, on 31 December 2023, PT Harvest was classified as held for sale, and the assets and liabilities of PT Harvest are presented separately in the current assets and current liabilities in the consolidated statement of financial position and classified as held for sale.

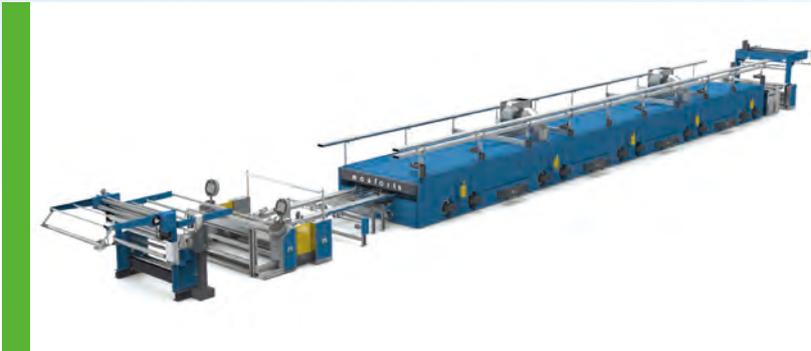


Panoramic view  
of the Zhongshan  
plant

The Zhongshan plant



# MANAGEMENT DISCUSSION AND ANALYSIS



Latest product  
928 Shaping Machine



A corner of the plant



# MANAGEMENT DISCUSSION AND ANALYSIS

## MANUFACTURE AND SALE OF STAINLESS STEEL CASTING PRODUCTS

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

For the year 2023, this business segment recorded revenue of approximately HK\$394,000,000, accounting for 23% of the Group's revenue and representing a decrease of 26% as compared to approximately HK\$533,000,000 for last year. As a result of the decrease in revenue, operating profit decreased to approximately HK\$8,000,000 from approximately HK\$28,000,000 for last year.

Casting orders fell from its peak, mainly attributable to a substantial increase in customer inventory amid the pandemic. Given the uncertain economic environment, customers have adopted a cautious ordering strategy and tend to reduce inventory level, especially when the shipping logistic services and the production material supply chains have gradually restored, resulting in a slowdown in the order volume.

The management team has been working hard over the last few years to broaden customer base and explore potential collaboration opportunities, and laid down a solid foundation for the future, long-term development of this business by focusing on the development of unique and high-end casting products. Given the uncertainties surrounding the prevailing macroeconomic environment, we will adopt a prudent approach in capacity expansion planning, and continue to upgrade facilities and replace old machines, with the aim of supporting the development of a casting product mix that delivers higher output value. At the same time, automation has been duly enhanced to improve overall efficiency.

The Group remains optimistic about this business segment. The Board believes that market demand for high-quality stainless steel casting products will continue to grow in the mid to long term. This business segment will maintain moderate revenue growth and make sustainable contribution to the Group's profit.



# MANAGEMENT DISCUSSION AND ANALYSIS

## TRADING OF STAINLESS STEEL SUPPLIES

During the Year, most countries have already lifted various anti-pandemic control measures and returned to normal. However, market conditions are still awaiting improvement as the anticipated strong economic rebound has yet to materialise. Owing to the unstable external environment, customers have become more cautious in their purchases, thus slowing down the pace of sales.

For the year ended 31 December 2023, this business segment recorded revenue of approximately HK\$58,000,000, accounting for approximately 3% of the Group's revenue and representing a decrease of 49% as compared to approximately HK\$115,000,000 in the same period last year. Operating profit for the year amounted to approximately HK\$6,000,000 (2022: HK\$5,000,000). The increase in profit was mainly attributable to the effective management of the Group, which continued to optimise organisation structure and strengthened efforts in implementing cost reduction and efficiency enhancement, enabling the gross profit margin to rebound to its previous normal level.

In respect of trading of stainless steel supplies, the Group has established strong relationship with some global leading steel manufacturing companies since commencing the business in 1988. As such, it is able to provide a diverse range of reliable and high-quality steel supplies to end-users, while procuring stainless steel raw materials for the Group's dyeing and finishing machines business in a more cost-effective way. During the Year, the intergroup sales of this business segment was approximately HK\$88,000,000 (2022: HK\$94,000,000).

Looking ahead to 2024, the price of stainless steel supplies is expected to fluctuate within a narrow range around the current level. The Group will continue to adopt a prudent approach in running this business. It will take appropriate actions to mitigate market risks, adjust selling prices and inventory level appropriately and in a timely manner based on market analysis and its judgment, in order to improve the inventory turnover ratio while minimising the risk on price fluctuations. At the same time, the Group will strengthen the credit management of sales and trade receivables in order to lower the risk of bad debts and improve its cash flow position.

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

# MANAGEMENT DISCUSSION AND ANALYSIS

Laser Fused Stainless Steel  
Special Profiles



Stainless Steel  
Coils



Stainless Steel  
Long Products

# MANAGEMENT DISCUSSION AND ANALYSIS

## FUTURE DEVELOPMENT

In the foreseeable future, the Group envisages that its business will continue to be affected by global uncertainties.

The business condition for the rest of the year is expected to remain challenging. Overseas markets are expected to slow down as a result of the negative market outlook amid high inflation. However, demand from the emerging markets that the Group is focusing on, namely Mainland China and Southeast Asia, is still enormous. Considering the challenges ahead, the Group will closely monitor the market trend and provide products that cater to our customers and the markets.

The Group will continue to adopt a prudent approach in strictly controlling operating costs and striving to enhance operational efficiency. The Group will also continue to focus on developing its core businesses, improve product design and strengthen development capabilities, with a view to maximising long-term return for the shareholders of the Company.

The Group is well-positioned with the presence of its strong management team, facilities and technologies. Under the stewardship of the new senior management, we are confident in overcoming future challenges and emerging as an even stronger business, and our business vision of maximising returns for our shareholders year after year is achievable.



# MANAGEMENT DISCUSSION AND ANALYSIS

## HUMAN RESOURCES

As at 31 December 2023, the Group had a total of approximately 2,200 employees (31 December 2022: approximately 2,800 employees) across mainland China, Hong Kong, Germany, Switzerland, Austria, India and the United States. In 2023, total staff costs (including Directors' emoluments, employees' remuneration and contribution to retirement benefits schemes) amounted to approximately HK\$551,000,000 (2022: HK\$704,000,000), accounting for 32% (2022: 28%) of its revenue. The Group will continue to monitor the market situation and consolidate its human resources and labour structure in order to utilise manpower more efficiently and enhance operational productivity.

The Group has always placed great importance on enhancing and optimising our human resources and considers that offering competitive remuneration is essential to recruit and retain talents, incentivising them to dedicate to work and commit to establishing a worldclass enterprise that provides customers with high-quality products and services, thereby helping customers to thrive and share their achievements with the Group. The Group's employees are remunerated according to industry benchmarks, prevailing market conditions, their experiences and performance. The Group's remuneration policies and packages are regularly reviewed by the Remuneration Committee of the Company. Discretionary bonus and share options may be awarded to eligible employees who contributed to the success of the Group. The Group also provides employees with other benefits including annual leave, medical insurance, education subsidies and contributions to retirement benefit schemes or Mandatory Provident Fund Schemes. The Group recognises the importance of having high calibre employees. Therefore, the Group will continue to offer appropriate training programmes for employees across all levels and positions on an ongoing basis, in order to improve staff's quality to better cope with the Group's future development. Our highly capable management team is committed to navigating us through the unprecedented challenges. With team leadership and crisis management in place, the Group has successfully dealt with the difficulties in the business environment over the last few years.



Employee Trainings



After-work Activities



Praising Excellent Employees

# MANAGEMENT DISCUSSION AND ANALYSIS

## LIQUIDITY AND CAPITAL SOURCES

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

During the year ended 31 December 2023, the Group's net cash outflow used in operating activities was approximately HK\$16,000,000. As at 31 December 2023, the Group's inventory level decreased to approximately HK\$415,000,000 as compared to approximately HK\$497,000,000 as at 31 December 2022.

As at 31 December 2023, bank and other borrowings of the Group amounted to approximately HK\$1,189,000,000. The bank and other borrowings were sourced from Mainland China and Hong Kong, with 54% denominated in Renminbi and 46% in Hong Kong dollars. The Group's bank and other borrowings are predominantly subject to floating interest rates and fixed interest rates.

As at 31 December 2023, the Group's bank balances and cash amounted to approximately HK\$204,000,000, of which 57% was denominated in Renminbi, 16% in Euros, 16% in United States dollars, 10% in Hong Kong dollars and the remaining 1% in other currencies.

The Group continued to maintain prudent financial management policies during the Year. As at 31 December 2023, the Group's gearing ratio, defined as net bank borrowings (other than payables in ordinary course of business) over total equity, increased to 89% (31 December 2022: 58%) and its current ratio was 0.56 (31 December 2022: 0.50).

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

# CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report for the year ended 31 December 2023.

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

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

Throughout the year ended 31 December 2023, the Company has complied with all the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

## **CODES FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES**

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. All the Directors have confirmed, following a specific enquiry by the Company, that they have complied with the required standard as set out in the code of conduct regarding securities transactions by the Directors adopted by the Company throughout the year ended 31 December 2023.

The Company has also adopted a code of conduct regarding securities transactions by relevant employees of the Group on terms no less exacting than the required standard set out in the Model Code to regulate dealings in the securities of the Company by certain employees of the Company or directors or employees of the Company's subsidiaries who are considered to be likely in possession of unpublished price sensitive information in relation to the Company or its subsidiaries. No incident of non-compliance was noted by the Company for the year ended 31 December 2023.

## **BOARD OF DIRECTORS**

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

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

# CORPORATE GOVERNANCE REPORT

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

## **Executive Directors**

Mr. Guan Youping (*re-designated as Chairman on 26 May 2023*)

Mr. Chen Peng (*re-designated as General Manager on 26 May 2023*)

Mr. Ye Maoxin (*Chairman*) (resigned on 26 May 2023)

## **Non-executive Director**

Mr. Fong Kwok Leung, Kevin

## **Independent Non-executive Directors**

Mr. Tong Wing Chi

Dr. Jiang Gaoming

Dr. Chen Ying (appointed on 1 March 2024)

Mr. Li Jianxin (resigned on 1 March 2024)

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

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

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

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

# CORPORATE GOVERNANCE REPORT

## CHAIRMAN AND GENERAL MANAGER

The roles of the Chairman and the General Manager are defined clearly to ensure their accountability and responsibilities with respect to the management of the Company.

On 26 May 2023, Mr. Ye Maoxin resigned as the Chairman of the Board and Executive Director of the Company because of reaching the retirement age. Mr. Guan Youping has been appointed as the Chairman of the Board in place of Mr. Ye Maoxin with effect from 26 May 2023.

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

With effect from 26 May 2023, Mr. Chen Peng has been re-designated from Deputy General Manager to General Manager of the Company in place of Mr. Guan Youping. The General Manager is responsible for managing the business of the Group, policy making and corporate management and the implementation of strategies and initiatives adopted by the Board with the support from the management.

## NON-EXECUTIVE DIRECTOR AND INDEPENDENT NON-EXECUTIVE DIRECTORS

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

Mr. Fong Kwok Leung, Kevin has been re-designated from an Executive Director to a Non-executive Director of the Company with effect from 1 October 2016 due to his desire to devote more time to his own family business. The Company entered into a service contract with Mr. Fong for a term of two years commencing on 1 October 2022 and expiring on 30 September 2024, but such service contract is determinable by either party giving to the other party at least one month's prior written notice.

The Company has three Independent Non-executive Directors, representing more than one-third of the members of the Board, of which at least one possesses the appropriate professional qualifications on accounting or related financial management expertise. In compliance with Rule 3.10(2) of the Listing Rules, Mr. Tong Wing Chi, one of the Independent Non-executive Directors, is a member of the Hong Kong Institute of Certified Public Accountants having appropriate qualifications on accounting and related financial management expertise.

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

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

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

# CORPORATE GOVERNANCE REPORT

## BOARD MEETINGS

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

The Board is scheduled to meet regularly at least four times a year at approximately quarterly intervals to discuss the overall strategies as well as the operational and financial performance of the Group. Other board meetings will be held when necessary. The Bye-laws of the Company allows board meetings to be conducted by way of telephone or video conference and any resolutions to be passed by way of written resolutions circulated to and signed by all Directors from time to time when necessary unless any matters in which a substantial shareholder or a Director or their respective associates has a conflict of interest. As some of the Directors are on occasional, and sometimes unexpected, business trips and/or are stationed in different regions of the PRC, it may, in practice, be inconvenient to convene a full board meeting on a frequent basis. Hence, the Board may approve certain issues in the form of a written resolution. With a view to facilitating Directors' attendance at board meetings and committee meetings as well as corporate events, the Company Secretary will seek advice from the Board and prepare an annual plan for the Board. The Board held a total of seven board meetings (including one meeting by way of circulation of written resolutions) during the year ended 31 December 2023. The attendance record of each Director at the board meetings is disclosed below in this report.

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

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

## CORPORATE GOVERNANCE FUNCTIONS

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

# CORPORATE GOVERNANCE REPORT

## BOARD COMMITTEES

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

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

## NOMINATION COMMITTEE

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

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

Mr. Guan Youping (*re-designated as Committee Chairman on 26 May 2023*)

Mr. Chen Peng (appointed on 26 May 2023)

Mr. Tong Wing Chi

Dr. Jiang Gaoming

Dr. Chen Wing (appointed on 1 March 2024)

Mr. Ye Maoxin (*Committee Chairman*) (resigned on 26 May 2023)

Mr. Li Jianxin (resigned on 1 March 2024)

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

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

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

# CORPORATE GOVERNANCE REPORT

During the year, the Nomination Committee reviewed the structure, size and composition of the Board. It also assessed and confirmed the independence of the Independent Non-executive Directors, and recommended to the Board regarding the re-appointment of certain existing Directors, the change of the Chairman of the Board and the General Manager of the Company.

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

## APPOINTMENT AND RE-ELECTION OF DIRECTORS

Pursuant to bye-law 99 of the Bye-laws, at every annual general meeting of the Company, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that the Chairman and Managing Director (if any) of the Company shall not be subject to retirement by rotation or be taken into account in determining the number of Directors to retire. A retiring Director shall be eligible for re-election.

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

Accordingly, Mr. Fong Kwok Leung, Kevin and Dr. Chen Ying will retire from the Board at the forthcoming annual general meeting of the Company and, being eligible, will offer themselves for re-election.

# CORPORATE GOVERNANCE REPORT

## INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

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

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

All Directors are also encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. According to the records maintained by the Company, the trainings undertaken by each of the Directors during the year ended 31 December 2023 are summarised as follows:

Name of Director	Trainings undertaken by Director	
	A	B
<b>Executive Directors</b>		
Mr. Guan Youping	✓	✓
Mr. Chen Peng	✓	✓
Mr. Ye Maoxin (resigned on 26 May 2023)	✓	✓
<b>Non-executive Director</b>		
Mr. Fong Kwok Leung, Kevin	✓	✓
<b>Independent Non-executive Directors</b>		
Mr. Tong Wing Chi	✓	✓
Dr. Jiang Gaoming	✓	✓
Mr. Li Jianxin (resigned on 1 March 2024)	✓	✓

A – Attending courses/seminars on business management, risk management and/or tax compliance

B – Reading materials relating to corporate governance, directors' duties and responsibilities

# CORPORATE GOVERNANCE REPORT

## REMUNERATION COMMITTEE

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

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

Dr. Chen Ying (*Committee Chairman*) (appointed on 1 March 2024)  
Mr. Guan Youping  
Mr. Chen Peng (appointed on 26 May 2023)  
Mr. Tong Wing Chi  
Dr. Jiang Gaoming  
Mr. Ye Maoxin (resigned on 26 May 2023)  
Mr. Li Jianxin (*Committee Chairman*) (resigned on 1 March 2024)

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

The Remuneration Committee shall meet as and when required to consider remuneration-related matters. During the year, the Remuneration Committee did not hold any meeting.

# CORPORATE GOVERNANCE REPORT

## AUDIT COMMITTEE

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

The main duties of the Audit Committee are to:

- (i) review the financial statements and reports and consider any significant or unusual items raised by the financial officers of the Group or external auditors before submission to the Board;
- (ii) review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process;
- (iii) make recommendation to the Board on the appointment, re-appointment and removal of external auditors; and
- (iv) review the adequacy and effectiveness of the Group's financial reporting system, internal control system, risk management system and associated procedures and arrangements to enable employees of the Group to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Group.

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

Mr. Tong Wing Chi (*Committee Chairman*)  
Dr. Jiang Gaoming  
Dr. Chen Ying (appointed on 1 March 2024)  
Mr. Li Jianxin (resigned on 1 March 2024)

# CORPORATE GOVERNANCE REPORT

The external auditor was invited to attend meetings of the Audit Committee held during the year to discuss with the members of the Audit Committee on issues arising from the audit and financial reporting matters. The Chairman of the Audit Committee provided the Board with a briefing on the significant issues after each meeting of the Audit Committee. There was no disagreement between the Board and the Audit Committee on the selection and re-appointment of the external auditor during the year ended 31 December 2023.

The Audit Committee held three meetings in 2023 and the attendance record of individual member is set out in this Corporate Governance Report. In discharging its responsibilities, the Audit Committee has performed the following works during the year ended 31 December 2023.

- (i) reviewed the annual report of the Group for the year ended 31 December 2022 and the interim report of the Group for the six months ended 30 June 2023 as well as the reports prepared by the external auditor covering major findings in the course of its audit;
- (ii) reviewed the changes in accounting standards and their impacts on the Group's financial statements;
- (iii) reviewed the Company's relationship with the external auditor with reference to the work they performed, their fees and terms of engagement, and make recommendation to the Board on the re-appointment of the external auditor;
- (iv) reviewed the continuing connected transactions entered into by the Group;
- (v) considered the Group's internal control review findings and discussed the relevant issues including financial, operational and compliance controls and risk management functions; and
- (vi) considered the re-appointment of PKF Hong Kong Limited as auditor of the Company.

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

# CORPORATE GOVERNANCE REPORT

## ATTENDANCE RECORD OF INDIVIDUAL DIRECTOR AT MEETINGS IN 2023

	Number of Attendance/Number of Possible Attendance				Annual General Meeting
	Board Meeting	Audit Committee Meeting	Nomination Committee Meeting	Remuneration Committee Meeting	
<b>Executive Directors</b>					
Mr. Guan Youping	7/7	3/3	1/1		1/1
Mr. Chen Peng	7/7	3/3			1/1
Mr. Ye Maoxin (resigned on 26 May 2023)	3/3	1/1	1/1		1/1
<b>Non-executive Director</b>					
Mr. Fong Kwok Leung, Kevin	7/7	3/3			1/1
<b>Independent Non-executive Directors</b>					
Mr. Tong Wing Chi	7/7	3/3	1/1		1/1
Dr. Jiang Gaoming	7/7	3/3	1/1		1/1
Mr. Li Jianxin (resigned on 1 March 2024)	7/7	3/3	1/1		1/1

## AUDITOR'S REMUNERATION

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

- (i) Audit services; and
- (ii) Non-audit services – agreed-upon procedures for continuing connected transactions, a notifiable transaction and results announcement under the requirements of the Listing Rules.

Total remuneration paid for the above audit services and non-audit services was approximately HK\$3,217,000.

# CORPORATE GOVERNANCE REPORT

## RESPONSIBILITIES FOR PREPARATION AND REPORTING

The consolidated financial statements of the Company for the year ended 31 December 2023 have been reviewed by the Audit Committee and audited by the external auditor, PKF Hong Kong Limited. The Directors acknowledged their responsibility for preparing the financial statements of the Group which were prepared in accordance with statutory requirements and applicable accounting standards. A statement by the external auditor about their reporting responsibilities is set out in the Independent Auditor's Report of this Annual Report.

## RISK MANAGEMENT AND INTERNAL CONTROLS

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

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

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

During 2023, members of the internal audit department carried out an internal audit project to identify the key risk areas which covered all aspects of corporate strategies, operations and finance of the Group. The Board has reviewed the risk assessment documents and considered that the resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget are adequate during the year under review. The Board has also reviewed the effectiveness of the Group's internal controls and considered that key areas of the Group's system of internal controls are reasonably implemented, which provide prevention of material misstatement or loss, safeguard the Group's assets, maintain appropriate accounting records and financial reporting, efficiency of operations and ensure compliance with the Listing Rules and all other applicable laws and regulations.

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

# CORPORATE GOVERNANCE REPORT

## COMPANY SECRETARY

The Company Secretary, Mr. Lee Che Keung, is a full time employee of the Group and reports to the Chairman of the Board. He is responsible to the Board for ensuring that procedures are followed and that all applicable laws, rules and regulations are complied with. The Company Secretary supports the Board by ensuring good information flow within the Board and is also a source of advice to the Chairman and to the Board on corporate governance and the implementation of the CG Code. The biography of Mr. Lee is set out on page 10 of this Annual Report.

According to Rule 3.29 of the Listing Rules, Mr. Lee took not less than 15 hours of relevant professional training for the year ended 31 December 2023.

## COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

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

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

The Company has set up a corporate website at <https://www.fongs.com> at which relevant information including the latest development of the Group will be announced. The website offers the latest information regarding various aspects of the Group to investors and the public. Shareholders and investors may also write directly to the Company's principal place of business in Hong Kong at Units 2201 & 2203, Orient International Tower, 1018 Tai Nan West Street, Cheung Sha Wan, Kowloon, Hong Kong.

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

During the year ended 31 December 2023, the Company held an annual general meeting on 25 May 2023. The Company's notice to shareholders for the annual general meeting was sent to shareholders at least 20 clear business days before such meeting. The Chairman of the Board and the external auditor had attended the annual general meeting to answer questions from the shareholders. The chairperson of the annual general meeting had explained the procedures for conducting a poll during the meeting.

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

# CORPORATE GOVERNANCE REPORT

## SHAREHOLDERS' RIGHTS

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

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

Address: Units 2201 & 2203, Orient International Tower, 1018 Tai Nan West Street, Cheung Sha Wan,  
Kowloon, Hong Kong  
(For the attention of the Board of Directors)

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

# CORPORATE GOVERNANCE REPORT

## DIVIDEND POLICY

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

- (i) the Group's actual and expected financial performance;
- (ii) the Group's expected working capital requirements, capital expenditure requirements and future expansion plans;
- (iii) retained earnings and distributable reserves of the Company and each of the members of the Group;
- (iv) the Group's liquidity position;
- (v) the general economic conditions and other internal or external factors that may have an impact on the business or financial performance and position of the Group; and
- (vi) any other factors that the Board deems relevant.

## CONSTITUTIONAL DOCUMENTS

During the year under review, the Company did not made any changes to its Bye-Laws.

An up-to-date consolidated version of the Company's Memorandum of Association and Bye-Laws has been posted on the Company's website at <https://www.fongs.com> and the Stock Exchange's website at <https://www.hkexnews.hk>. Shareholders may refer to the Bye-laws for further details on their rights.

On behalf of the Board

**Guan Youping**  
*Chairman*

Hong Kong, 28 March 2024

# DIRECTORS' REPORT

The Board presents its report and the audited consolidated financial statements for the year ended 31 December 2023.

## PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company acts as an investment holding company.

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

Further review and analysis of these business activities, including the risks and uncertainties facing the Group and likely future development in the Group's businesses, are set out in the Chairman's Statement and Management Discussion and Analysis sections on pages 3 to 4 and pages 11 to 20 of this Annual Report respectively. These review and analysis form part of this report.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2023 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 51 to 52.

The Board has resolved not to recommend the payment of any final dividend for the year ended 31 December 2023. As no interim dividend was paid during the year, there will be no dividend distribution for the whole year of 2023. Details of the dividends for the year ended 31 December 2023 are set forth in Note 11 to the consolidated financial statements.

## CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the annual general meeting of the Company to be held on Thursday, 23 May 2024 ("2024 AGM"), the register of members of the Company will be closed from Monday, 20 May 2024 to Thursday, 23 May 2024, both days inclusive, during which period no transfer of shares of the Company will be effected. In order to be eligible to attend and vote at the 2024 AGM, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Registrar, Tricor Secretaries Limited, at 17/F., Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Friday, 17 May 2024.

# DIRECTORS' REPORT

## DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2023 were as follows:

	HK\$'000
Contributed surplus	23,033
(Accumulated losses)	(11,276)
	11,757

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

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in Note 13 to the consolidated financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2023, the aggregate amount of revenue attributable to the Group's five largest customers represented less than 10% of the Group's total revenue.

The aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 16% of the Group's total purchases and the amount of purchases attributable to the Group's largest supplier was approximately 4% of the total purchases.

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

# DIRECTORS' REPORT

## DIRECTORS AND SERVICE CONTRACTS

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

### Executive Directors:

Mr. Guan Youping (*re-designated as Chairman on 26 May 2023*)

Mr. Chen Peng (*re-designated as General Manager on 26 May 2023*)

Mr. Ye Maoxin (*Chairman*) (resigned on 26 May 2023)

### Non-executive Director:

Mr. Fong Kwok Leung, Kevin

### Independent Non-executive Directors:

Mr. Tong Wing Chi

Dr. Jiang Gaoming

Dr. Chen Ying (appointed on 1 March 2024)

Mr. Li Jianxin (resigned on 1 March 2024)

Mr. Fong Kwok Leung, Kevin has been re-designated from an Executive Director to a Non-executive Director of the Company with effect from 1 October 2016 due to his desire to devote more time to his own family business. The Company entered into a service contract with Mr. Fong for a term of two years commencing on 1 October 2022 and expiring on 30 September 2024, but such service contract is determinable by either party giving to the other party at least one month's prior written notice.

Mr. Tong Wing Chi was appointed under a contract for a term of 2 years commencing on 1 March 2022 and expiring on 29 February 2024. Upon expiry, his term of office has been extended to 28 February 2026.

Dr. Jiang Gaoming was appointed under a contract for a term of 2 years commencing on 1 March 2022 and expiring on 29 February 2024. Upon expiry, his term of office has been extended to 28 February 2026.

Dr. Chen Ying was appointed under a contract for a term of 2 years commencing on 1 March 2024 and expiring on 28 February 2026.

Mr. Li Jianxin was appointed under a contract for a term of 2 years commencing on 1 July 2022 and expiring on 30 June 2024. Mr. Li had resigned as an Independent Non-Executive Director of the Company with effect from 1 March 2024.

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

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

In accordance with the Company's Bye-laws, Mr. Fong Kwok Leung, Kevin and Dr. Chen Ying will retire from the Board by rotation at the forthcoming 2024 AGM. The retiring Directors are eligible for re-election and have agreed to offer themselves for re-election at the forthcoming 2024 AGM.

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

# DIRECTORS' REPORT

## DIRECTORS' INTERESTS IN THE SHARES OF THE COMPANY

As at 31 December 2023, the interests of the Directors and their associates in the shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (“SFO”), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

### Long position in shares of the Company

Name of Director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. Fong Kwok Leung, Kevin	Beneficial owner	3,100,000	0.28%
	Held by spouse	200,000	0.02%
	Beneficiary of a discretionary trust (Note)	194,904,220	17.72%
		<hr/> 198,204,220	<hr/> 18.02%

Note: Mr. Fong Kwok Leung, Kevin is a beneficiary of a discretionary trust which owns the entire issued share capital of Black Jambhala Company Limited which in turn beneficially owns an aggregate of 194,904,220 shares.

By virtue of the SFO, Mr. Fong Kwok Leung, Kevin is deemed to be interested in 194,904,220 shares which the discretionary trust owns.

Save as disclosed above, none of the Directors, chief executive nor their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2023.

## SHARE OPTIONS

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

Particulars of the Scheme and a summary of the movements of the share options granted under the Scheme during the year ended 31 December 2023 are set out in Note 35 to the consolidated financial statements.

# DIRECTORS' REPORT

## EQUITY-LINKED AGREEMENTS

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

## ARRANGEMENTS TO PURCHASE SHARES OR DEBT SECURITIES

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

## CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2023, the Group had entered into the following continuing connected transactions which are exempted from independent shareholders' approval requirements, but are subject to the reporting and announcement requirements set out in Chapter 14A of the Listing Rules.

### (i) Procurement Agreement

On 29 December 2021, the Group, through its indirect wholly-owned subsidiaries namely Fong's National Engineering (Guangdong) Co., Ltd. (立信染整機械(廣東)有限公司) and Monforts Fong's Textile Machinery (Zhongshan) Co., Ltd. (立信門富士紡織機械(中山)有限公司) as purchasers, entered into a procurement agreement with Keyvalve (Shenzhen) Co., Ltd. (奇偉閥門(深圳)有限公司) ("Keyvalve") as seller whereby the purchasers have agreed to purchase from Keyvalve certain categories of valves and heat exchangers for their production of dyeing and finishing machines by issuing purchase orders from time to time to Keyvalve under the terms and conditions as stipulated therein during the period from 1 January 2022 to 31 December 2024 (both days inclusive). The annual caps for the contract price of the valves and heat exchangers to be purchased by the purchasers from Keyvalve for each of the years ending 31 December 2022, 31 December 2023 and 31 December 2024 are RMB18 million. Details of the transaction were set out in the announcement of the Company dated 30 December 2021. The amount of valves and heat exchangers purchased by the purchasers from Keyvalve during the year ended 31 December 2023 was RMB2,959,490 (equivalent to approximately HK\$3,327,000).

To the best of the Directors' knowledge, information and belief after having made all reasonable enquires, Keyvalve is a wholly-foreign owned enterprise beneficially owned as to 40% equity interest by Mr. Fong Kwok Leung, Kevin (a Non-executive Director and substantial shareholder of the Company).

## (ii) Licences and Cooperation Agreement

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

On 25 August 2023, Monforts Fong's entered into the deed of termination with AUTEFA whereby Monforts Fong's agrees to pay AUTEFA a sum of EUR37,500 in respect of final engineering fee and agrees to terminate the licenses and cooperation agreement as at the date of the deed.

The amount of engineering fee paid by the Group to AUTEFA during the year ended 31 December 2023 was HK\$328,226.

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

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

The Board has received a letter of confirmation from the auditor stating that the above continuing connected transactions (i) have been approved by the Board; (ii) have been conducted in accordance with the relevant agreements governing the relevant transactions; and (iii) the aggregate amounts incurred in 2021 have not exceeded the annual cap disclosed in the previous announcements. The auditor issued its unqualified letter containing its findings and conclusions in respect of the transactions disclosed above in accordance with Rule 14A.56 of the Listing Rules. The Company has provided a copy of the said letter to the Stock Exchange.

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

# DIRECTORS' REPORT

## MATERIAL RELATED PARTY TRANSACTIONS

During the year ended 31 December 2023, the Group entered into certain transactions with “related parties” as defined under the applicable accounting standards. Details of the material related party transactions are disclosed in Note 38 to the consolidated financial statements.

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

Other than the continuing connected transactions as disclosed above, no other transactions, arrangements and contracts of significance in relation to which the Company, its ultimate holding company, or any of its subsidiaries or fellow subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year ended 31 December 2023 or at any time during that year.

## PERMITTED INDEMNITY PROVISIONS

A permitted indemnity provision for the benefit of the Directors of the Company is currently in force and was in force throughout the year ended 31 December 2023. The Company has maintained liability insurance to provide appropriate cover for the Directors of the Company and its subsidiaries.

## MANAGEMENT CONTRACTS

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

## DISCLOSURE PURSUANT TO RULE 13.21 OF THE LISTING RULES

In accordance with the requirements under Rule 13.21 of the Listing Rules, the Board reported below details of loan facilities which exist at any time during the year ended 31 December 2023 and up to the date of this Annual Report and include covenants requiring specific performance obligations of the controlling shareholder of the Company.

On 19 December 2022, certain wholly-owned subsidiaries of the Company accepted the banking facilities offered by a bank up to an aggregate amount of HK\$650 million. On 18 December 2023, the banking facilities were revised. The revised banking facilities comprise a one-year term loan facility of up to HK\$550 million and trade facilities of up to HK\$20 million. The purposes of the banking facilities are for refinancing partial outstanding banking facilities of the Group, financing the repayment of the principal and interests of the shareholder's loans of the Group and trade financing. The terms and conditions of the banking facilities include, inter alia, a condition that it will be an event of default if China Hi-Tech Group Corporation (中國恆天集團有限公司) ceases to maintain not less than 30% of shareholding (whether directly or indirectly) of the Company throughout the life of the banking facilities.

Save as disclosed above, the Directors are not aware of any circumstances which would give rise to a disclosure obligation pursuant to the requirements under Rule 13.18 of the Listing Rules as at 31 December 2023 and as at the date of this Annual Report.

# DIRECTORS' REPORT

## DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

As at 31 December 2023, the register maintained by the Company pursuant to Section 336 of the SFO shows that, other than the interests disclosed above in respect of certain Directors, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company as follows:

### Long position in shares of the Company

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
China National Machinery Industry Corporation	Corporate interests (Note A)	615,408,140	55.94%
Mr. Fong Sou Lam	Founder of a discretionary trust (Note B)	194,904,220	17.72%

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

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

Note B: Mr. Fong Sou Lam is the founder of a discretionary trust which owns the entire issued share capital of Black Jambhala Company Limited which in turn beneficially owns an aggregate of 194,904,220 shares.

By virtue of the SFO, Mr. Fong Sou Lam is deemed to be interested in 194,904,220 shares which the discretionary trust owns.

Save as disclosed above, as at 31 December 2023, the Company had not been notified of any person who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

## DONATIONS

During the year, the Group made charitable and other donations amounting to HK\$57,070.

## EMOLUMENT POLICY

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

# DIRECTORS' REPORT

## PRE-EMPTIVE RIGHTS

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

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2023.

## PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, throughout the year ended 31 December 2023 and as at the date of this Annual Report, the Company has maintained a sufficient public float of not less than 25% of the Company's issued shares being held by the public as required under the Listing Rules.

## AUDITOR

The consolidated financial statements for the year ended 31 December 2023 were audited by PKF Hong Kong Limited which would retire at the conclusion of the 2024 AGM and, being eligible, offer themselves for re-appointment. An ordinary resolution will be proposed to re-appoint PKF Hong Kong Limited as the independent auditor of the Company and to authorise the Board to fix their remuneration at the 2024 AGM.

There is no change in the auditor of the Company in the preceding three years.

On behalf of the Board

**Chen Peng**

*Director*

Hong Kong, 28 March 2024

# INDEPENDENT AUDITOR'S REPORT

大信梁學濂(香港)會計師事務所有限公司



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

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHTC FONG'S INTERNATIONAL COMPANY LIMITED

*(Incorporated in Bermuda with limited liability)*

### OPINION

We have audited the consolidated financial statements of CHTC Fong's International Company Limited and its subsidiaries (together the "Group") set out on pages 51 to 147, which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information and other explanatory information.

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 2023 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 ("HKSAAs") issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### KEY AUDIT MATTERS

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

# INDEPENDENT AUDITOR'S REPORT

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

Refer to Notes 4, 17 and 18 to the consolidated financial statements.

Key Audit Matter	How the matter was addressed in our audit procedures
<p>As at 31 December 2023, the Group had goodwill and intangible assets of approximately HK\$464,797,000 and HK\$90,727,000 respectively relating to the manufacture and sale of dyeing and finishing machines business segment.</p>	<p>Our procedures performed in relation to management's impairment assessment of goodwill and intangible assets included:</p>
<p>Management performed its annual impairment review and concluded that an impairment loss of goodwill of HK\$68,718,000 was recognised in current year. A significant risk of material misstatement may exist as a result of the application of management judgement and estimation in performing the impairment review, in particular, in relation to the forecasting of future cash flows, the growth rates used by management to extrapolate the cash flows after the first 5-year period and the selection of an appropriate discount rate.</p>	<ul style="list-style-type: none"><li data-bbox="794 707 1410 864">– Obtaining an understanding of the Group's procedures and method of valuation, including significant assumptions made and management's assessment of estimation uncertainty;</li><li data-bbox="794 901 1410 1021">– Evaluating the competence, independence and works performed by the independent external valuer engaged by the management to assess their valuation;</li><li data-bbox="794 1058 1410 1116">– Evaluating whether the method of valuation and assumptions made are appropriate;</li><li data-bbox="794 1153 1410 1211">– Reviewing outcome of valuation made in prior period;</li><li data-bbox="794 1248 1410 1280">– Testing the data used in the valuation;</li><li data-bbox="794 1317 1410 1375">– Checking arithmetical accuracy of the calculation;</li><li data-bbox="794 1412 1410 1470">– Determining whether indication of possible management bias exist; and</li><li data-bbox="794 1507 1410 1597">– Evaluating the recognition and measurement criteria used and disclosure made by management.</li></ul>

# INDEPENDENT AUDITOR'S REPORT

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

Refer to Notes 4, 19 and 34(c) to the consolidated financial statements.

Key Audit Matter	How the matter was addressed in our audit procedures
<p>As at 31 December 2023, the Group had financial assets at fair value through other comprehensive income of approximately HK\$22,900,000.</p>	<p>Our procedures performed in relation to management's valuation of financial assets at fair value through other comprehensive income included:</p>
<p>The Group engaged an independent external valuer to apply valuation method to determine the fair value of these financial instruments. This valuation method included significant unobservable inputs, involved subjective judgements and assumptions. The sensitivity of the assumptions used may have material impact on the valuation of these financial instruments.</p>	<ul style="list-style-type: none"><li>– Obtaining an understanding of the Group's procedures and method of valuation, including significant assumptions made and management's assessment of estimation uncertainty;</li></ul>
<p>We have identified the valuation of financial assets at fair value through other comprehensive income as a key audit matter because of the significant estimation uncertainty resulted from the use of unobservable inputs and the significant judgement made in selecting the valuation method.</p>	<ul style="list-style-type: none"><li>– Evaluating the competence, independence and works performed by the independent external valuer engaged by management to assist their valuation;</li><li>– Evaluating whether the method of valuation and assumptions made are appropriate;</li><li>– Testing the data used in the valuation;</li><li>– Checking arithmetical accuracy of the calculation;</li><li>– Determining whether indication of possible management bias exist; and</li><li>– Evaluating the recognition and measurement criteria used and disclosure made by management.</li></ul>

# INDEPENDENT AUDITOR'S REPORT

## OTHER INFORMATION IN THE ANNUAL REPORT

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

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

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

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

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

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

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

# INDEPENDENT AUDITOR'S REPORT

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's 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 HKSA's, 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.

## INDEPENDENT AUDITOR'S REPORT

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

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

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

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

**PKF Hong Kong Limited**  
*Certified Public Accountants*

Hong Kong, 28 March 2024

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023

	Notes	2023 HK\$'000	2022 HK\$'000
<b>Continuing operations</b>			
Revenue	5	1,740,330	2,488,688
Cost of sales		(1,250,758)	(1,845,243)
Gross profit		489,572	643,445
Interest income		1,276	1,256
Other income	8	67,252	43,879
Other gains	8	7,472	18,159
Impairment loss on goodwill	17	(68,718)	–
Selling and distribution costs		(137,144)	(248,478)
Administrative and other expenses		(542,697)	(545,820)
Finance costs	6	(74,517)	(63,051)
Share of results of an associate	20	9,020	(7,756)
Loss before tax		(248,484)	(158,366)
Income tax credit (expense)	7	9,693	(8,542)
Loss for the year from continuing operations	8	(238,791)	(166,908)
<b>Discontinued operation</b>			
Loss for the year from a discontinued operation	10	–	(80,823)
Loss for the year		(238,791)	(247,731)
<b>Other comprehensive expense, net of tax</b>			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange difference arising on translation		(12,551)	(124,629)
Share of translation reserve of an associate		(175)	(2,133)
		(12,726)	(126,762)
<i>Items that will not be reclassified to profit or loss:</i>			
Remeasurement (loss) gain on defined benefit plan		(661)	3,328
Fair value loss on financial assets at fair value through other comprehensive income		(22,302)	(58,754)
		(22,963)	(55,426)
Other comprehensive expense for the year		(35,689)	(182,188)
Total comprehensive expense for the year		(274,480)	(429,919)

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023

	Notes	2023 HK\$'000	2022 HK\$'000
<b>Loss for the year attributable to owners of the Company</b>			
– from continuing operations		(238,623)	(166,103)
– from a discontinued operation	10	–	(38,518)
		<b>(238,623)</b>	<b>(204,621)</b>
<b>Loss for the year attributable to non-controlling interests</b>			
– from continuing operations		(168)	(805)
– from a discontinued operation	10	–	(42,305)
		<b>(168)</b>	<b>(43,110)</b>
<b>Total comprehensive income (expense) for the year attributable to:</b>			
Owners of the Company		(275,345)	(388,519)
Non-controlling interests		865	(41,400)
		<b>(274,480)</b>	<b>(429,919)</b>
<b>Loss per share</b>			
<b>From continuing and discontinued operations</b>			
Basic	12(a)	(21.69) HK cents	(18.60) HK cents
Diluted	12(a)	(21.69) HK cents	(18.60) HK cents
<b>From continuing operations</b>			
Basic	12(b)	(21.69) HK cents	(15.10) HK cents
Diluted	12(b)	(21.69) HK cents	(15.10) HK cents

The accompanying notes form part of the consolidated financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2023

	Notes	2023 HK\$'000	2022 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	13	1,367,534	1,573,170
Investment properties	14	–	138,355
Right-of-use assets	15	17,613	19,927
Prepaid lease payments	16	181,294	188,539
Goodwill	17	464,797	533,515
Intangible assets	18	92,459	92,481
Financial assets at fair value through other comprehensive income	19	22,900	45,660
Investment in an associate	20	27,428	18,583
Deposits for acquisition of property, plant and equipment		4,247	2,898
Deposits for acquisition of leasehold land		–	52,364
Other assets	21	40,760	41,347
Deferred tax assets	22	9,796	10,896
		<b>2,228,828</b>	<b>2,717,735</b>
<b>Current assets</b>			
Inventories	23	414,613	497,228
Trade and other receivables	24	324,651	346,842
Tax recoverable		4,719	1,123
Cash and bank balances	25	203,602	401,334
		<b>947,585</b>	<b>1,246,527</b>
Assets classified as held for sale	10	272,608	136
		<b>1,220,193</b>	<b>1,246,663</b>
<b>Current liabilities</b>			
Trade and other payables	26	783,191	911,820
Contract liabilities	27	155,220	199,030
Warranty provision	28	9,490	8,576
Lease liabilities	29	6,745	7,831
Tax liabilities		90,794	113,469
Bank and other borrowings	30	1,114,479	1,198,428
		<b>2,159,919</b>	<b>2,439,154</b>
Liabilities classified as held for sale	10	2,444	35,760
		<b>2,162,363</b>	<b>2,474,914</b>
<b>Net current liabilities</b>		<b>(942,170)</b>	<b>(1,228,251)</b>
<b>Total assets less current liabilities</b>		<b>1,286,658</b>	<b>1,489,484</b>

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2023

	Notes	2023 HK\$'000	2022 HK\$'000
<b>Non-current liabilities</b>			
Bank and other borrowings	30	74,378	–
Deferred revenue	31	53,365	58,950
Deferred tax liabilities	22	36,743	32,243
Lease liabilities	29	11,600	13,239
		<b>176,086</b>	104,432
<b>Net assets</b>			
		<b>1,110,572</b>	1,385,052
<b>Capital and reserves</b>			
<b>Total equity attributable to owners of the Company</b>			
Share capital	32(b)	55,011	55,011
Share premium and reserves		1,129,162	1,404,507
		<b>1,184,173</b>	1,459,518
<b>Non-controlling interests</b>			
		<b>(73,601)</b>	(74,466)
<b>Total equity</b>			
		<b>1,110,572</b>	1,385,052

The consolidated financial statements on pages 51 to 147 were approved and authorised for issue by the Board of Directors on 28 March 2024 and are signed on its behalf by:

**Guan Youping**  
*Director*

**Chen Peng**  
*Director*

The accompanying notes form part of the consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

	Attributable to owners of the Company									
	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Fair value reserve (non-recycling) HK\$'000	Translation reserve HK\$'000	Retained profits HK\$'000	Contributed surplus HK\$'000 (Note)	Subtotal HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1 January 2022	55,011	152,122	2,504	(77,315)	129,242	1,571,893	25,582	1,859,039	(33,066)	1,825,973
Loss for the year	-	-	-	-	-	(204,621)	-	(204,621)	(43,110)	(247,731)
Exchange difference arising on translation	-	-	-	-	(126,339)	-	-	(126,339)	1,710	(124,629)
Share of translation reserve of an associate	-	-	-	-	(2,133)	-	-	(2,133)	-	(2,133)
Remeasurement loss on defined benefit plan	-	-	-	-	-	3,328	-	3,328	-	3,328
Fair value loss on financial assets at fair value through other comprehensive income	-	-	-	(58,754)	-	-	-	(58,754)	-	(58,754)
Other comprehensive (expense) income for the year, net of tax	-	-	-	(58,754)	(128,472)	3,328	-	(183,898)	1,710	(182,188)
Total comprehensive (expense) income for the year	-	-	-	(58,754)	(128,472)	(201,293)	-	(388,519)	(41,400)	(429,919)
Final dividend for 2021 paid	-	-	-	-	-	(11,002)	-	(11,002)	-	(11,002)
At 31 December 2022	55,011	152,122	2,504	(136,069)	770	1,359,598	25,582	1,459,518	(74,466)	1,385,052

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

	Attributable to owners of the Company									
	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Fair value reserve (non-recycling) HK\$'000	Translation reserve HK\$'000	Retained profits HK\$'000	Contributed surplus HK\$'000 (Note)	Subtotal HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1 January 2023	55,011	152,122	2,504	(136,069)	770	1,359,598	25,582	1,459,518	(74,466)	1,385,052
Loss for the year	-	-	-	-	-	(238,623)	-	(238,623)	(168)	(238,791)
Exchange difference arising on translation	-	-	-	-	(13,584)	-	-	(13,584)	1,033	(12,551)
Share of translation reserve of an associate	-	-	-	-	(175)	-	-	(175)	-	(175)
Remeasurement loss on defined benefit plan	-	-	-	-	-	(661)	-	(661)	-	(661)
Fair value loss on financial assets at fair value through other comprehensive income	-	-	-	(22,302)	-	-	-	(22,302)	-	(22,302)
Other comprehensive (expense) income for the year, net of tax	-	-	-	(22,302)	(13,759)	(661)	-	(36,722)	1,033	(35,689)
Total comprehensive expense for the year	-	-	-	(22,302)	(13,759)	(239,284)	-	(275,345)	865	(274,480)
At 31 December 2023	55,011	152,122	2,504	(158,371)	(12,989)	1,120,314	25,582	1,184,173	(73,601)	1,110,572

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

The accompanying notes form part of the consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

Note	2023 HK\$'000	2022 HK\$'000
<b>OPERATING ACTIVITIES</b>		
Loss before tax from continuing operations	<b>(248,484)</b>	(158,366)
Loss before tax from a discontinued operation	–	(80,823)
Loss before tax	<b>(248,484)</b>	(239,189)
Adjustments for:		
Interest expense on borrowings	<b>68,248</b>	55,059
Interest expense on lease liabilities	<b>437</b>	604
Interest income	<b>(1,258)</b>	(1,256)
Depreciation and amortisation	<b>104,851</b>	139,951
Gain on lease modification	<b>(129)</b>	–
(Reversal of allowance) allowance for doubtful debts, net	<b>(1,483)</b>	77,933
(Reversal of allowance) allowance for inventories, net	<b>(6,274)</b>	18,228
Share of results of an associate	<b>(9,020)</b>	7,756
(Gain) loss on disposal of property, plant and equipment	<b>(1,892)</b>	2,294
Recognition of government grants	<b>(4,413)</b>	(4,599)
Provision for warranty expense	<b>3,313</b>	1,398
Impairment loss on goodwill	<b>68,718</b>	–
Exchange differences	<b>1,654</b>	126,341
Operating cash flows before movements in working capital	<b>(25,732)</b>	184,520
Decrease in inventories	<b>88,115</b>	64,401
Decrease in trade and other receivables	<b>19,902</b>	14,673
Decrease in trade and other payables	<b>(44,304)</b>	(305,320)
Decrease in contract liabilities	<b>(41,804)</b>	(116,790)
Utilisation of warranty provision	<b>(2,774)</b>	(2,783)
Cash used in operations	<b>(6,597)</b>	(161,299)
Hong Kong Profits Tax paid	<b>(6,280)</b>	(4,445)
Hong Kong Profits Tax refunded	–	999
Overseas income tax and the PRC Corporate Income Tax paid	<b>(3,170)</b>	(6,630)
Overseas income tax and the PRC Corporate Income Tax refunded	<b>91</b>	1
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(15,956)</b>	(171,374)

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

	Note	2023 HK\$'000	2022 HK\$'000
<b>INVESTING ACTIVITIES</b>			
Deposits paid for acquisition of property, plant and equipment		–	(2,203)
Deposit refunded		52,991	–
Proceeds from disposal of property, plant and equipment		3,857	2,796
Interest received		1,258	1,256
Purchases of property, plant and equipment		(47,700)	(86,008)
Proceeds from disposal of the disposal group		–	27,235
<b>NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES</b>		<b>10,406</b>	<b>(56,924)</b>
<b>FINANCING ACTIVITIES</b>			
Repayment of bank borrowings	25(b)	(1,395,330)	(1,203,778)
Dividends paid		–	(11,002)
Interest paid	25(b)	(60,086)	(38,314)
Loan from immediate holding company	25(b)	–	135,000
Loan from intermediate holding company	25(b)	–	240,440
Repayment of loan from intermediate holding company	25(b)	(111,940)	(112,990)
New bank and other borrowings raised	25(b)	1,386,537	1,350,301
Capital element of lease rentals paid	25(b)	(7,242)	(7,822)
Interest element of lease rentals paid	25(b)	(437)	(604)
<b>NET CASH (USED IN) GENERATED FROM FINANCING ACTIVITIES</b>		<b>(188,498)</b>	<b>351,231</b>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(194,048)</b>	<b>122,933</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>		<b>401,354</b>	<b>288,541</b>
Exchange loss on cash and cash equivalents		(3)	(10,120)
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>		<b>207,303</b>	<b>401,354</b>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
<b>CONTINUING OPERATIONS</b>			
Cash and bank balances		203,602	401,334
<b>ASSETS CLASSIFIED AS HELD FOR SALE</b>			
Cash and bank balances		3,701	–
<b>DISCONTINUED OPERATION</b>			
Cash and bank balances		–	20
		<b>207,303</b>	<b>401,354</b>

The accompanying notes form part of the consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1 GENERAL

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

The Directors of the Company (the “Directors”) consider that the Company’s parent company is China Hi-Tech Holding Company Limited, a company incorporated in Hong Kong and its ultimate holding company is China National Machinery Industry Corporation (中國機械工業集團有限公司), a state-owned enterprise established in the People’s Republic of China (the “PRC”) under the direct supervision and administration of, and is beneficially owned by the State-owned Assets Supervision and Administration Commission of the State Council of the PRC.

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

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

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

## 2 BASIS OF PREPARATION

### (a) Initial application of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) and possible impact of new and amendments to HKFRSs issued but not yet effective for the year ended 31 December 2023

In the current year, the Group has applied the following new and amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2023 for the preparation of the consolidated financial statements:

HKFRS 17 and amendments to HKFRS 17	Insurance Contracts and the Related Amendments
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred tax related to assets and liabilities arising from a single transaction
Amendments to HKAS 12	International Tax Reform – Pillar Two Model Rules

The application of the new and amendments to HKFRSs in the current year had no material impact on the Group’s financial positions and performance for the current and prior years and on the disclosures set out in these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 BASIS OF PREPARATION *(Continued)*

### (a) Initial application of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) and possible impact of new and amendments to HKFRSs issued but not yet effective for the year ended 31 December 2023 *(Continued)*

#### **Change in accounting policy as a result of application of the HKICPA guidance on the accounting implications of the abolition of the Mandatory Provident Fund (“MPF”) – Long Service Payment (“LSP”) offsetting mechanism in Hong Kong**

The Group has several subsidiaries operating in Hong Kong which are obliged to pay LSP to employees under certain circumstances. Meanwhile, the Group makes mandatory MPF contributions to the trustee who administers the assets held in a trust solely for the retirement benefits of each individual employee. Offsetting of LSP against an employee’s accrued retirement benefits derived from employers’ MPF contributions was allowed under the Employment Ordinance (Cap.57). In June 2022, the Government of the HKSAR gazetted the Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 (the “Amendment Ordinance”) which abolishes the use of the accrued benefits derived from employers’ mandatory MPF contributions to offset severance payment and LSP (the “Abolition”). The Abolition will officially take effect on 1 May 2025 (the “Transition Date”). In addition, under the Amendment Ordinance, the last month’s salary immediately preceding the Transition Date (instead of the date of termination of employment) is used to calculate the portion of LSP in respect of the employment period before the Transition Date. In July 2023, the HKICPA published “Accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong” which provides guidance for the accounting for the offsetting mechanism and the impact arising from abolition of the MPF-LSP offsetting mechanism in Hong Kong. In light of this, the Group has implemented the guidance published by the HKICPA in connection with the LSP obligation retrospectively so as to provide more reliable and more relevant information about the effects of the offsetting mechanism and the Abolition.

The Group considered the accrued benefits arising from employers’ MPF contributions that have been vested with the employee and which could be used to offset the employee’s LSP benefits as a deemed contribution by the employee towards the LSP. Historically, the Group has been applying the practical expedient in paragraph 93(b) of HKAS 19 to account for the deemed employee contributions as a reduction of the service cost in the period in which the related service is rendered.

Based on the HKICPA’s guidance, as a result of the Abolition, these contributions are no longer considered “linked solely to the employee’s service in that period” since the mandatory employers’ MPF contributions after the Transition Date can still be used to offset the pre-transition LSP obligation. Therefore, it would not be appropriate to view the contributions as “independent of the number of years of service” and the practical expedient in paragraph 93(b) of HKAS 19 is no longer applicable. Instead, these deemed contributions should be attributed to periods of service in the same manner as the gross LSP benefit applying paragraph 93(a) of HKAS 19. Accordingly, the Group has assessed a cumulative catch-up adjustment in profit or loss for the service cost, interest expense and remeasurement effect from changes in actuarial assumptions for the year ended 31 December 2023, with corresponding adjustment to the LSP obligation. The cumulative catch-up adjustment is calculated as the difference at the enactment date (16 June 2022) between the carrying amount of the LSP liability calculated under paragraph 93(b) of HKAS 19 before the Abolition and the carrying amount of the LSP liability calculated under paragraph 93(a) of HKAS 19 after the Abolition.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 BASIS OF PREPARATION *(Continued)*

### (a) Initial application of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) and possible impact of new and amendments to HKFRSs issued but not yet effective for the year ended 31 December 2023 *(Continued)*

#### Change in accounting policy as a result of application of the HKICPA guidance on the accounting implications of the abolition of the Mandatory Provident Fund (“MPF”) – Long Service Payment (“LSP”) offsetting mechanism in Hong Kong *(Continued)*

Management performed an assessment and concluded that the change in accounting policy had no material impact on the Group and the catch-up profit or loss adjustment was immaterial.

### (b) Possible impact of new and amendments to HKFRSs issued but not yet effective for the year ended 31 December 2023

The following HKFRSs in issue at 31 December 2023 have not been applied in the preparation of the Group’s consolidated financial statements for the year ended since they were not yet effective for the annual period beginning on 1 January 2023:

Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback <sup>1</sup>
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and Related Amendments to Hong Kong Interpretation 5 (2020) <sup>1</sup>
Amendments to HKAS 1	Non-current Liabilities with Covenants <sup>1</sup>
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements <sup>1</sup>
Amendments to HKAS 21	Lack of Exchangeability <sup>2</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2024.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2025.

<sup>3</sup> Effective for annual periods beginning on or after a date to be determined.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 BASIS OF PREPARATION *(Continued)*

### (c) Adoption of the going concern basis

When preparing the consolidated financial statements, the Group's ability to continue as a going concern has been assessed. These consolidated financial statements have been prepared by the Directors on a going concern basis notwithstanding that the Group incurred a net loss of approximately HK\$238,791,000 for the year ended 31 December 2023 and at that date, the Group had net current liabilities of approximately HK\$942,170,000. The Directors are of the opinion that the Group will have sufficient funds to meet its financial obligations when they fall due in the foreseeable future taking into account the followings:

- (i) At 31 December 2023, the Group had unutilised banking facilities of approximately HK\$1,742,200,000;
- (ii) Subsequent to the end of the reporting period, the Group obtained a new facility of approximately HK\$1,103,500,000 from a fellow subsidiary of the Group. The purpose of this is to ensure that the Group has sufficient funds to meet its future working capital and financial obligations;
- (iii) Subsequent to the end of the reporting period, the Group has successfully rolled over bank and other borrowings with an aggregate principal amount of approximately HK\$121,385,000 maturing on or before the date when the consolidated financial statements are authorised for issuance; and
- (iv) For the other bank and other borrowings which will be maturing before 31 December 2024, the Group will actively negotiate with the banks before they fall due to secure their renewals so as to ensure the Group will have necessary funds to meet the Group's working capital and financial requirements in the future. The Directors do not expect to experience significant difficulties in renewing these borrowings upon their maturities and there is no indication that its bankers will not renew the existing facilities upon the Group's request. The Directors have evaluated the relevant facts available to them and are of the opinion that the Group would be able to renew such borrowings upon maturities.

After taking into consideration of the above factors and funds expected to be generated internally from operations based on the Directors' estimation on the future cash flows of the Group, the Directors are satisfied that the Group will have sufficient financial resources to meet its financial obligations as they fall due in the foreseeable future and consider that it is appropriate for the consolidated financial statements to be prepared on a going concern basis because there is no material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern.

Should the Group be unable to continue in business as a going concern, adjustments would have to be made to restate the value of assets to their recoverable amounts, to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively and to provide for any further liabilities which might arise.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 MATERIAL ACCOUNTING POLICIES

### (a) Basis of preparation

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

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

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

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

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

The principal accounting policies are set out below.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 MATERIAL ACCOUNTING POLICIES *(Continued)*

### (b) Basis of consolidation

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

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

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

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

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

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 MATERIAL ACCOUNTING POLICIES *(Continued)*

### (b) Basis of consolidation *(Continued)*

#### Changes in the Group's interests in existing subsidiaries

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

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

### (c) Business combinations

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

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 (2011) "Employee Benefits" respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based Payment" at the acquisition date (see the accounting policy below); and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 MATERIAL ACCOUNTING POLICIES *(Continued)*

### (c) Business combinations *(Continued)*

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

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

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 MATERIAL ACCOUNTING POLICIES *(Continued)*

### (d) Property acquisitions and business combinations

Where a property is acquired, via corporate acquisitions or otherwise, management considers the substance of the assets and activities of the acquired entity in determining whether the acquisition represents the acquisition of a business.

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

### (e) Property, plant and equipment

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

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

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

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

One or more items of property, plant and equipment may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The cost of such an item of property, plant and equipment is measured at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable.

The fair value of an asset is reliably measurable if (a) the variability in the range of reasonable fair value measurements is not significant for that asset or (b) the probabilities of the various estimates within the range can be reasonably assessed and used when measuring fair value. If the Group is able to measure reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 MATERIAL ACCOUNTING POLICIES *(Continued)*

### (f) Investment properties

Investment properties include the right-of-use assets arising from leases of the underlying land and building which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation.

Investment properties are stated at cost less aggregate depreciation and impairment losses. Rental income from investment properties is accounted for as described in Note 3(p). Depreciation is calculated to write off the cost of items of investment properties, less their estimated residual value, if any, using the straight-line method over their estimated useful lives. Both the useful life of an asset and its residual value, if any, are reviewed annually.

The carrying amounts of investment properties are reviewed for indications of impairment at the end of each reporting period. An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. The recoverable amount of an asset, or of the cash-generating unit to which it belongs, is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets. An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

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

### (g) Prepaid lease payments

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

### (h) Goodwill

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 MATERIAL ACCOUNTING POLICIES *(Continued)*

### (i) Intangible assets

#### Intellectual property rights

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

#### Trademarks and licenses

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

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

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

#### Research and development expenditure

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 MATERIAL ACCOUNTING POLICIES *(Continued)*

### (i) Intangible assets *(Continued)*

#### Research and development expenditure *(Continued)*

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

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

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

### (j) Non-current assets held for sale and discontinued operation

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the assets must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets and its sale must be highly probable.

Non-current assets classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of a discontinued operation are presented separately in the consolidated statement of profit or loss and other comprehensive income which are re-presented in the comparative period for the operation that is discontinued by the end of the reporting period.

### (k) Inventories

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 MATERIAL ACCOUNTING POLICIES *(Continued)*

### (l) Other investments in equity securities

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

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

For an explanation of how the Group determines fair value of financial instruments, see Note 34(c). These investments are subsequently accounted for as follows, depending on their classification.

#### Equity investments

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

### (m) Trade and other receivables

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 MATERIAL ACCOUNTING POLICIES *(Continued)*

### (n) Credit losses and impairment of assets

#### (i) Credit losses from financial instruments

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

#### *Measurement of ECLs*

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

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

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

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

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

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 MATERIAL ACCOUNTING POLICIES *(Continued)*

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

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

##### *Significant increases in credit risk*

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

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

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 MATERIAL ACCOUNTING POLICIES *(Continued)*

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

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

##### *Significant increases in credit risk (Continued)*

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

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

##### *Write-off policy*

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

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

#### (ii) Impairment of other non-current assets

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 MATERIAL ACCOUNTING POLICIES *(Continued)*

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

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

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

– *Calculation of recoverable amount*

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

– *Recognition of impairment losses*

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

– *Reversals of impairment losses*

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 MATERIAL ACCOUNTING POLICIES *(Continued)*

### (o) Contract assets and contract liabilities

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

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

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

### (p) Revenue recognition

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

#### Manufacture and sale of dyeing and finishing machines

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

Advance payment from customers before revenue recognition is recognised as contract liabilities in the consolidated statement of financial position (Note 27).

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 MATERIAL ACCOUNTING POLICIES *(Continued)*

### (p) Revenue recognition *(Continued)*

#### **Manufacture and sale of stainless steel casting products**

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

#### **Trading of stainless steel supplies**

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

#### **Rental income**

Rental income under operating leases is recognised in profit or loss in equal instalments over the period covered by lease term.

#### **Interest income**

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

#### **Dividend income**

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 MATERIAL ACCOUNTING POLICIES *(Continued)*

### (q) Leases

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

#### The Group as lessee

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

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 MATERIAL ACCOUNTING POLICIES *(Continued)*

### (r) Foreign currencies

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 MATERIAL ACCOUNTING POLICIES *(Continued)*

### (s) Borrowing costs

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

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

### (t) Government grants

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

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

As explained in Note 31, certain government grants obtained are treated as deferred revenue in the consolidated statement of financial position and credited to profit or loss in accordance with conditions set by the government body.

### (u) Retirement benefits costs

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 MATERIAL ACCOUNTING POLICIES *(Continued)*

### (u) Retirement benefits costs *(Continued)*

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

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

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

#### Share options granted to consultants

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

### (w) Taxation

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 MATERIAL ACCOUNTING POLICIES *(Continued)*

### (w) Taxation *(Continued)*

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

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

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

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

### (x) Provisions

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 MATERIAL ACCOUNTING POLICIES *(Continued)*

### (y) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
  - (i) has control or joint control of the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or the Group's parent.
  
- (b) An entity is related to the Group if any of the following conditions applies:
  - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
  - (iii) Both entities are joint ventures of the same third party;
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
  - (vi) The entity is controlled or jointly controlled by a person identified in Note 3(y)(a);
  - (vii) A person identified in Note 3(y)(a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
  - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 4 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

### **Income taxes**

As at 31 December 2023, a deferred tax asset of approximately HK\$7,427,000 (2022: HK\$8,743,000) in relation to unused tax losses of approximately HK\$50,820,000 (2022: HK\$52,988,000) has been recognised in the Group's consolidated statement of financial position. No deferred tax asset has been recognised in respect of the tax losses of approximately HK\$870,953,000 (2022: HK\$954,040,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are more or less than expected, a material recognition or reversal of deferred tax asset may arise, which would be recognised in profit or loss for the period in which such a recognition or reversal takes places. More details are given in Note 22.

### **Useful lives and impairment of property, plant and equipment**

The Group's management determines the estimated useful lives of its property, plant and equipment based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated. The impairment loss for property, plant and equipment is recognised for the amount by which the carrying amount exceeds its recoverable amount. The carrying amount of property, plant and equipment at 31 December 2023 is approximately HK\$1,367,534,000 (2022: HK\$1,573,170,000). More details are given in Note 13.

### **Impairment of goodwill and other intangible assets**

Determining whether goodwill and other intangible assets are impaired requires an estimation of future cash flows expected to arise from the products developed and services provided and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. The carrying amounts of goodwill and other intangible assets at 31 December 2023 are approximately HK\$464,797,000 (2022: HK\$533,515,000) and approximately HK\$92,459,000 (2022: HK\$92,481,000) respectively. During the year ended 31 December 2023, impairment of goodwill of approximately HK\$68,718,000 has been recognised and no impairment has been recognised for other intangible assets (2022: no impairment has been recognised for goodwill and other intangible assets). More details are given in Notes 17 and 18 respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

### **Allowances for inventories**

The management reviews the condition of the inventories of the Group and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sale and use in production. The management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of each reporting period as well as ageing analysis of the inventory and makes allowance for obsolete items. If the market conditions were deteriorating and more obsolete and slow-moving inventory items are being identified, additional allowances may be required. As at 31 December 2023, the carrying amount of inventories is approximately HK\$414,613,000 (2022: HK\$497,228,000). More details are given in Note 23.

### **Impairment of trade receivables**

The Group estimates the loss allowances for trade receivables by assessing the ECLs. This requires the use of estimates and judgements. ECLs are based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, and an assessment of both the current and forecast general economic conditions at the end of reporting period. Where the estimation is different from the original estimate, such difference will affect the carrying amounts of trade receivables and thus the impairment loss in the period in which such estimate is changed. The Group keeps assessing the ECLs of trade receivables during their expected lives. As at 31 December 2023, the carrying amount of trade receivables is approximately HK\$231,830,000 (2022: HK\$238,951,000). More details are given in Note 24.

### **Fair value measurements and valuation processes**

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

### **Compensation related to urban renewal project**

As disclosed in Note 21, the Group has completed the relocation and FNES's (as defined in Note 7) operation license, official seal and land use certificate are held in custody by the Notary Office. Since the transaction was completed, the Group recognised the cash consideration received as income and the properties to be received as other assets at 31 December 2021. Since the Group is unable to measure reliably the fair value of either the properties to be received or the properties given up, the properties to be received are measured at the carrying amount of the properties given up and recognised as other assets of approximately HK\$40,760,000 (2022: HK\$41,347,000) at 31 December 2023.

### **Provision for warranties**

The policy for provision of warranties of the Group is based on the management's best estimate of the Group's liabilities under a 12-month warranty period granted on the sale of dyeing and finishing machines based on past experience. The actual settlement may differ from the estimation made by the management. If the amounts are settled for an amount greater than management's estimation, a future charge to profit or loss will result. Likewise, if the amounts are settled for an amount that is less than estimation, a future credit to profit or loss will result. As at 31 December 2023, the carrying amount of warranty provision is approximately HK\$9,490,000 (2022: HK\$8,576,000). The movement of the warranty provision for the year is set out in Note 28.

### **Determining the lease term**

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 5 REVENUE AND SEGMENT INFORMATION

### (a) Revenue

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

#### Disaggregation of revenue

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

	2023 HK\$'000	2022 HK\$'000
<b>Revenue from contracts with customers within the scope of HKFRS 15</b>		
<b>Continuing operations</b>		
Sales of dyeing and finishing machines	1,288,151	1,840,604
Sales of stainless steel casting products	393,783	532,555
Sales of stainless steel supplies	58,396	115,529
	<b>1,740,330</b>	<b>2,488,688</b>

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

### (b) Segment reporting

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

1. Manufacture and sale of dyeing and finishing machines
2. Manufacture and sale of stainless steel casting products
3. Trading of stainless steel supplies

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

### (b) Segment reporting *(Continued)*

#### (i) Segment revenues and results from continuing operations

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

For the year ended 31 December 2023

	Manufacture and sale of dyeing and finishing machines HK\$'000	Manufacture and sale of stainless steel casting products HK\$'000	Trading of stainless steel supplies HK\$'000	Total HK\$'000
REVENUE				
Point in time	1,288,151	393,783	58,396	1,740,330
External sales	1,288,151	393,783	58,396	1,740,330
Inter-segment sales	2,868	11,042	88,351	102,261
Segment revenue	1,291,019	404,825	146,747	1,842,591
Elimination				(102,261)
Group revenue				1,740,330
Segment (loss) profit	(198,590)	7,749	6,578	(184,263)
Interest income				1,276
Finance costs				(74,517)
Share of results of an associate				9,020
Loss before tax from continuing operations				(248,484)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

### (b) Segment reporting *(Continued)*

#### (i) Segment revenues and results from continuing operations *(Continued)*

For the year ended 31 December 2022

	Manufacture and sale of dyeing and finishing machines HK\$'000	Manufacture and sale of stainless steel casting products HK\$'000	Trading of stainless steel supplies HK\$'000	Total HK\$'000
<b>REVENUE</b>				
Point in time	1,840,604	532,555	115,529	2,488,688
External sales	1,840,604	532,555	115,529	2,488,688
Inter-segment sales	976	16,481	94,374	111,831
Segment revenue	1,841,580	549,036	209,903	2,600,519
Elimination				(111,831)
Group revenue				2,488,688
Segment (loss) profit	(121,454)	28,098	4,541	(88,815)
Interest income				1,256
Finance costs				(63,051)
Share of results of an associate				(7,756)
Loss before tax from continuing operations				(158,366)

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

### (b) Segment reporting *(Continued)*

#### (ii) Segment assets and liabilities

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

**As at 31 December 2023**

	Manufacture and sale of dyeing and finishing machines HK\$'000	Manufacture and sale of stainless steel casting products HK\$'000	Trading of stainless steel supplies HK\$'000	Assets/ liabilities classified as held for sale HK\$'000	Total HK\$'000
<b>ASSETS</b>					
Segment assets	2,266,248	619,131	22,508	268,988	3,176,875
Unallocated corporate assets					272,146
Consolidated total assets					3,449,021
<b>LIABILITIES</b>					
Segment liabilities	902,743	109,407	7,461	2,444	1,022,055
Unallocated corporate liabilities					1,316,394
Consolidated total liabilities					2,338,449

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

### (b) Segment reporting *(Continued)*

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

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

As at 31 December 2022

	Manufacture and sale of dyeing and finishing machines HK\$'000	Manufacture and sale of stainless steel casting products HK\$'000	Trading of stainless steel supplies HK\$'000	A disposal group classified as held for sale HK\$'000	Total HK\$'000
<b>ASSETS</b>					
Segment assets	2,791,648	668,909	26,109	116	3,486,782
Unallocated corporate assets					477,616
Consolidated total assets					3,964,398
<b>LIABILITIES</b>					
Segment liabilities	1,033,342	147,782	18,322	35,760	1,235,206
Unallocated corporate liabilities					1,344,140
Consolidated total liabilities					2,579,346

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

### (b) Segment reporting *(Continued)*

#### (iii) Other segment information

For the year ended 31 December 2023

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

	Manufacture and sale of dyeing and finishing machines HK\$'000	Manufacture and sale of stainless steel casting products HK\$'000	Trading of stainless steel supplies HK\$'000	Total HK\$'000
Additions to non-current assets excluded investment in associate, deferred tax assets and financial assets at FVOCI	26,802	11,495	65	38,362
Depreciation and amortisation	73,119	29,983	1,749	104,851
Impairment loss of goodwill	68,718	-	-	68,718
Gain on disposal of property, plant and equipment	(1,829)	(44)	(19)	(1,892)
Reversal of allowance for inventories, net	(3,753)	(2,521)	-	(6,274)
Allowance (reversal of allowance) for doubtful debts, net	77	(1,560)	-	(1,483)

For the year ended 31 December 2022

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

	Manufacture and sale of dyeing and finishing machines HK\$'000	Manufacture and sale of stainless steel casting products HK\$'000	Trading of stainless steel supplies HK\$'000	Total HK\$'000
Additions to non-current assets excluding investment in an associate, deferred tax assets and financial assets at FVOCI	3,657	11,354	4	15,015
Depreciation and amortisation	95,763	41,415	2,773	139,951
Loss (gain) on disposal of property, plant and equipment	3,107	(107)	(706)	2,294
Allowance for inventories, net	15,168	3,060	-	18,228
Allowance (reversal of allowance) for doubtful debts, net	1,095	(38)	(1,388)	(331)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

### (b) Segment reporting *(Continued)*

#### (iv) Geographical information

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

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

	Revenue from external customers		Non-current assets	
	2023 HK\$'000	2022 HK\$'000	2023 HK\$'000	2022 HK\$'000
The PRC	742,385	785,122	2,067,143	2,176,490
Hong Kong	45,209	57,705	5,601	294,254
Asia Pacific (other than the PRC and Hong Kong)	410,703	767,796	4	19
Europe	375,936	533,193	93,482	168,441
North and South America	141,351	303,327	2,474	3,392
Others	24,746	41,545	-	-
	<b>1,740,330</b>	2,488,688	<b>2,168,704</b>	2,642,596

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

No revenue generated from any single customer amounted to 10% or more of the Group's revenue for the years ended 31 December 2023 and 2022.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6 FINANCE COSTS

	2023 HK\$'000	2022 HK\$'000
<b>Continuing operations</b>		
Interest on borrowings	68,248	52,476
Interest on lease liabilities	437	604
Bank charges	5,832	9,971
	<b>74,517</b>	63,051
<b>Discontinued operation</b>		
Interest on borrowings	–	2,583
	<b>74,517</b>	65,634

## 7 INCOME TAX (CREDIT) EXPENSE

	2023 HK\$'000	2022 HK\$'000
<b>Continuing operations</b>		
Hong Kong Profits Tax:		
Current year	1,691	4,462
Over-provision in prior years	(800)	(144)
PRC Corporate Income Tax:		
Current year	3,329	2,967
(Over) under-provision in prior years	(21,216)	7
Overseas income tax:		
Current year	329	517
Under-provision in prior years	–	3,434
	<b>(16,667)</b>	11,243
Deferred tax (Note 22):		
Current year	6,974	(2,701)
	<b>(9,693)</b>	8,542

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 7 INCOME TAX (CREDIT) EXPENSE *(Continued)*

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

PRC Corporate Income Tax is charged at the statutory tax rate of 25% of the assessable income as determined in accordance with the relevant PRC tax rules and regulations, except that certain subsidiaries are subject to a preferential tax rate of 15%. Over-provision in prior years mainly represented over-provision of the PRC Corporate Income Tax of Fong's National Engineering (Shenzhen) Company, Limited (立信染整機械(深圳)有限公司) ("FNES"), an indirect wholly-owned subsidiary of the Company, in relation to the final assessment of the taxable amount of the compensation received from the Urban Renewal Project, as defined in Note 21.

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

Withholding tax is charged by tax authorities of the PRC in respect of interest income and dividend income received from subsidiaries incorporated in the PRC at rates of 5%–10%.

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

	Continuing operations		Discontinued operation		Total	
	2023 HK\$'000	2022 HK\$'000	2023 HK\$'000	2022 HK\$'000	2023 HK\$'000	2022 HK\$'000
Loss before tax	(248,484)	(158,366)	-	(80,823)	(248,484)	(239,189)
Tax at the Hong Kong						
Profits Tax rate of 16.5%	(41,000)	(26,131)	-	(13,335)	(41,000)	(39,466)
Tax effect of:						
- expenses that are not deductible for tax purpose	28,096	23,248	-	21,584	28,096	44,832
- income that are not taxable for tax purpose	(2,246)	(1,614)	-	(1,379)	(2,246)	(2,993)
- tax losses not recognised	30,579	24,356	-	-	30,579	24,356
- different tax rates of subsidiaries operating in other jurisdictions	1,552	(3,138)	-	(6,870)	1,552	(10,008)
- utilisation of tax losses previously not recognised	(2,052)	(2,466)	-	-	(2,052)	(2,466)
- other deferred tax temporary differences previously not recognised	464	466	-	-	464	466
(Over) under-provision in prior years, net	(22,016)	3,297	-	-	(22,016)	3,297
Withholding tax	-	(4,440)	-	-	-	(4,440)
Tax concession	(2,049)	(4,109)	-	-	(2,049)	(4,109)
Others	(1,021)	(927)	-	-	(1,021)	(927)
Income tax (credit) expense for the year	(9,693)	8,542	-	-	(9,693)	8,542

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 8 LOSS FOR THE YEAR FROM CONTINUING OPERATIONS

	2023 HK\$'000	2022 HK\$'000
<b>Continuing operations</b>		
Loss for the year has been arrived at after (crediting) charging:		
Other income:		
Technical service	(2,025)	(1,939)
Income from scraps sale	(11,216)	(9,668)
Government grants	(11,848)	(7,225)
Rental income	(4,054)	(3,791)
Written off of other payables	(24,676)	(8,901)
Others	(13,433)	(12,355)
Total other income	(67,252)	(43,879)
Other gains:		
(Gain) loss on disposal of property, plant and equipment	(1,892)	2,294
Gain on lease modification	(129)	–
Foreign exchange gain, net	(5,451)	(20,453)
Total other gains	(7,472)	(18,159)
Amortisation of intangible assets	22	274
Depreciation		
– owned assets	82,194	115,699
– right-of-use assets	22,635	23,978
Total depreciation and amortisation	104,851	139,951
Impairment loss of goodwill	68,718	–
(Reversal of allowance) allowance for inventories, net (included in cost of sales)	(6,274)	18,228
Reversal of allowance for doubtful debts, net	(1,483)	(331)
Auditor's remuneration	3,061	3,260
Cost of inventories recognised as an expense	765,780	1,216,562
Research and development costs	95,680	114,339
Lease payments not included in lease liabilities	146	42
Rental income from investment properties less direct outgoings	(4,054)	(3,791)
Staff costs, including directors' emoluments		
Salaries, wages and other benefits	495,838	633,821
Retirement benefits scheme contributions	54,831	70,056
Total staff costs	550,669	703,877

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 9 DIRECTORS' AND EMPLOYEES' EMOLUMENTS

### (a) Directors' emoluments

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

2023	Note	Fees HK\$'000	Salaries and other benefits HK\$'000	Retirement benefits scheme contributions HK\$'000	Total emoluments HK\$'000
<b>Executive Directors</b>					
Ye Maoxin	(i)	-	-	-	-
Guan Youping		-	-	-	-
Chen Peng		-	767	172	939
<b>Non-executive Director</b>					
Fong Kwok Leung, Kevin		180	-	-	180
<b>Independent Non-executive Directors</b>					
Li Jianxin		200	-	-	200
Tong Wing Chi		200	-	-	200
Jiang Gaoming		180	-	-	180
<b>Total</b>		<b>760</b>	<b>767</b>	<b>172</b>	<b>1,699</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

### (a) Directors' emoluments (Continued)

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

2022	Note	Fees HK\$'000	Salaries and other benefits HK\$'000	Retirement benefits scheme contributions HK\$'000	Total emoluments HK\$'000
<b>Executive Directors</b>					
Ye Maoxin	(i)	–	–	–	–
Guan Youping		–	–	–	–
Guo Yunfei	(ii)	–	824	77	901
Wu Xudong	(iii)	–	–	–	–
Chen Peng	(iv)	–	467	140	607
<b>Non-executive Director</b>					
Fong Kwok Leung, Kevin		180	1,000	–	1,180
<b>Independent Non-executive Directors</b>					
Li Jianxin		200	–	–	200
Ying Wei	(iii)	33	–	–	33
Yuen Ming Fai	(iii)	30	–	–	30
Tong Wing Chi	(v)	167	–	–	167
Jiang Gaoming	(v)	150	–	–	150
<b>Total</b>		<b>760</b>	<b>2,291</b>	<b>217</b>	<b>3,268</b>

Notes:

- (i) Resigned on 26 May 2023
- (ii) Resigned on 1 November 2022
- (iii) Resigned on 1 March 2022
- (iv) Appointed on 16 June 2022
- (v) Appointed on 1 March 2022

There were no arrangement under which a Director of the Company waived or agreed to waive any emolument during the year ended 31 December 2023 and 2022.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

### (b) Employees' emoluments

The five individuals whose emoluments were the highest in the Group for the year include nil (2022: nil) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the five (2022: five) individuals during the year are as follows:

	2023 HK\$'000	2022 HK\$'000
Salaries and other benefits	7,737	11,172
Retirement benefits scheme contribution	331	362
	<b>8,068</b>	<b>11,534</b>

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

Emolument bands	Number of individual	
	2023	2022
<b>HK\$</b>		
1,000,001–1,500,000	1	–
1,500,001–2,000,000	4	2
2,000,001–2,500,000	–	2
2,500,001–3,000,000	–	–
3,000,001–3,500,000	–	1

During the years ended 31 December 2023 and 2022, no remuneration was paid by the Group to the Directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

### (c) Senior management's emoluments

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

Emolument bands	Number of individual	
	2023	2022
<b>HK\$</b>		
Below 1,000,000	5	6
1,000,001–1,500,000	1	3
1,500,001–2,000,000	4	3
2,000,001–2,500,000	–	2
2,500,001–3,000,000	–	–
3,000,001–3,500,000	–	1

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 10 DISCONTINUED OPERATION AND A DISPOSAL GROUP OR ASSETS/ LIABILITIES CLASSIFIED AS HELD FOR SALE

- (a) PT Harvest Holdings Limited (“PT Harvest”), a wholly-owned subsidiary of the Group, held an office premises and certain car parks located in Hong Kong. In order to enhance the Group’s financial position, the Directors were committed to the disposal plan to sell PT Harvest. Accordingly, PT Harvest has been classified as held for sale as at 31 December 2023 and the assets and liabilities of PT Harvest are presented separately in the consolidated statement of financial position as assets and liabilities classified as held for sale in current assets and current liabilities respectively.

The major class of assets and liabilities classified as held for sale as at 31 December 2023 are as follows:

	2023 HK\$'000
<b>Assets classified as held for sale</b>	
Property, plant and equipment (Note 13)	134,873
Investment properties (Note 14)	133,181
Other receivables	853
Cash and bank balances	3,701
<b>Total assets classified as held for sale</b>	<b>272,608</b>
<b>Liabilities classified as held for sale</b>	
Other payables	(1,223)
Deferred tax liabilities (Note 22)	(1,221)
<b>Total liabilities classified as held for sale</b>	<b>(2,444)</b>

The recoverable amount is measured at the lower of the carrying amount and fair value less costs to sell in accordance with HKFRS 5. The fair value less costs to sell of the properties of HK\$288,000,000 was estimated based on a valuation report prepared by an independent professional valuer using the market approach under which making reference to the relevant market transactions in the vicinity. Its fair value is classified within level 3 of the fair value hierarchy.

As the fair value less costs to sell is greater than the carrying amount, no impairment loss is recognised for the year.

At 31 December 2023, the property, plant and equipment and investment properties of approximately HK\$134,873,000 and approximately HK\$133,181,000 respectively were pledged to secure banking facilities granted to the Group (Note 30).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 10 DISCONTINUED OPERATION AND A DISPOSAL GROUP OR ASSETS/ LIABILITIES CLASSIFIED AS HELD FOR SALE *(Continued)*

- (b) The results from the discontinued operation of the provision of environmental protection services for the years ended 31 December 2023 and 2022, which have been included in the consolidated statement of profit or loss and other comprehensive income for the years ended 31 December 2023 and 2022, are as follows:

	2023 HK\$'000	2022 HK\$'000
Revenue	–	–
Other income	–	631
Administrative and other expenses	–	(607)
Loss allowance on trade and other receivables	–	(78,264)
Finance costs	–	(2,583)
Loss before tax	–	(80,823)
Income tax	–	–
Loss for the year from a discontinued operation	–	(80,823)
Loss for the year from a discontinued operation attributable to:		
Owners of the Company	–	(38,518)
Non-controlling interests	–	(42,305)
	–	(80,823)

Loss for the year from the discontinued operation of the provision of environmental protection services has been arrived at after charging:

	2023 HK\$'000	2022 HK\$'000
Loss allowance on trade and other receivables	–	78,264

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 10 DISCONTINUED OPERATION AND A DISPOSAL GROUP OR ASSETS/ LIABILITIES CLASSIFIED AS HELD FOR SALE *(Continued)*

The net cash flows incurred by the discontinued operation of the provision of environmental protection services for the years ended 31 December 2023 and 2022 are as follows:

	2023 HK\$'000	2022 HK\$'000
Net cash used in operating activities	–	(2)
Net cash from investing activities	–	–
Net cash from financing activities	–	–

During the year ended 31 December 2020, the Directors decided to discontinue the operation of the provision of environmental protection services and initiate a program to dispose the segment. The major class of assets and liabilities of the disposal group classified as held for sale as at 31 December 2023 and 2022 are as follows:

	2023 HK\$'000	2022 HK\$'000
<b>Assets of a disposal group classified as held for sale</b>		
Property, plant and equipment	–	6
Other receivables	–	110
Cash and bank balances	–	20
<b>Total assets of a disposal group classified as held for sale</b>	–	136
<b>Liabilities of a disposal group classified as held for sale</b>		
Other payables	–	(35,760)
<b>Total liabilities of a disposal group classified as held for sale</b>	–	(35,760)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 11 DIVIDEND

The Board has resolved not to recommend the payment of any final dividend for the year ended 31 December 2023. As no interim dividend was paid during the year, there was no dividend distribution for the whole year of 2023.

## 12 LOSS PER SHARE

### (a) From continuing and discontinued operations

The calculation of the basic loss per share from continuing and discontinued operations attributable to owners of the Company is based on the following data:

	2023 HK\$'000	2022 HK\$'000
Loss for the year attributable to owners of the Company for the purpose of calculation of basic loss per share	(238,623)	(204,621)
	'000	'000
Number of ordinary shares for the purpose of basic loss per share	1,100,217	1,100,217

Diluted loss per share for the years ended 31 December 2023 and 2022 are same as the basic loss per share as the Group has no potential ordinary shares in issue during the years.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 12 LOSS PER SHARE *(Continued)*

### (b) From continuing operations

The calculation of the basic loss per share from continuing operations attributable to owners of the Company is based on the following data:

	2023 HK\$'000	2022 HK\$'000
Loss for the year attributable to owners of the Company	(238,623)	(204,621)
Less: Loss for the year from a discontinued operation attributable to owners of the Company	-	(38,518)
Loss for the year from continuing operations attributable to owners of the Company for the purpose of calculation of basic loss per share	(238,623)	(166,103)

The denominators used are the same as those detailed in Note 12(a) above for both basic and diluted loss per share.

### (c) From a discontinued operation

The calculation of the basic loss per share from a discontinued operation attributable to owners of the Company is based on the following data:

	2023 HK\$'000	2022 HK\$'000
Loss for the year from a discontinued operation attributable to owners of the Company	-	(38,518)

The denominators used are the same as those detailed in Note 12(a) above for both basic and diluted loss per share.

	2023	2022
Loss per share		
– Basic	N/A	(3.50) HK cents
– Diluted	N/A	(3.50) HK cents

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 13 PROPERTY, PLANT AND EQUIPMENT

	Freehold land HK\$'000	Buildings HK\$'000	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture and equipment HK\$'000	Motor vehicles HK\$'000	Moulds and tools HK\$'000	Construction in progress HK\$'000	Total HK\$'000
<b>COST</b>										
At 1 January 2022	8,302	1,435,987	162,818	16,273	583,018	222,065	35,898	93,406	34,914	2,592,681
Currency realignment	(490)	(115,851)	-	(1,070)	(36,473)	(16,583)	(1,617)	(4,867)	(3,240)	(180,191)
Reclassification	-	6,943	-	-	9,096	219	-	-	(16,258)	-
Additions	-	1,326	-	-	4,878	3,330	113	268	5,100	15,015
Disposals/write off	-	(1,550)	-	-	(17,939)	(11,264)	(12,504)	(50)	-	(43,307)
At 31 December 2022 and 1 January 2023	7,812	1,326,855	162,818	15,203	542,580	197,767	21,890	88,757	20,516	2,384,198
Currency realignment	227	(14,764)	-	1,297	(2,446)	1,305	(44)	(748)	(280)	(15,453)
Reclassification	-	20,829	-	-	-	347	-	-	(21,176)	-
Additions	-	1,418	-	63	14,703	3,876	11	785	10,782	31,638
Disposals/write off	-	(85)	-	(11,391)	(44,107)	(7,191)	(5,949)	(72)	(386)	(69,181)
Classified as held for sale (Note 10(a))	-	-	(162,818)	(4,156)	-	(2,580)	-	-	-	(169,554)
At 31 December 2023	8,039	1,334,253	-	1,016	510,730	193,524	15,908	88,722	9,456	2,161,648
<b>ACCUMULATED DEPRECIATION</b>										
At 1 January 2022	-	146,094	19,036	12,633	335,978	164,498	29,050	80,198	-	787,487
Currency realignment	-	(13,026)	-	(1,070)	(28,347)	(11,413)	(1,289)	(4,441)	-	(59,586)
Provided for the year	-	64,623	5,645	416	34,684	11,727	2,383	1,866	-	121,344
Eliminated on disposals/ write off	-	(1,550)	-	-	(16,183)	(8,554)	(11,884)	(46)	-	(38,217)
At 31 December 2022 and 1 January 2023	-	196,141	24,681	11,979	326,132	156,258	18,260	77,577	-	811,028
Currency realignment	-	(2,418)	-	1,256	(2,330)	1,303	(6)	(697)	-	(2,892)
Provided for the year	-	36,051	5,681	417	32,362	11,056	1,585	723	-	87,875
Eliminated on disposals/ write off	-	(85)	-	(11,391)	(42,798)	(7,024)	(5,853)	(65)	-	(67,216)
Classified as held for sale (Note 10(a))	-	-	(30,362)	(1,745)	-	(2,574)	-	-	-	(34,681)
At 31 December 2023	-	229,689	-	516	313,366	159,019	13,986	77,538	-	794,114
<b>CARRYING VALUE</b>										
At 31 December 2023	8,039	1,104,564	-	500	197,364	34,505	1,922	11,184	9,456	1,367,534
At 31 December 2022	7,812	1,130,714	138,137	3,224	216,448	41,509	3,630	11,180	20,516	1,573,170

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Leasehold land	Over the terms of the leases
Buildings	Over the terms of the leases or 2.5%, whichever is shorter
Leasehold improvements	10%
Plant and machinery	10%–20%
Furniture and equipment	20%–33%
Motor vehicles	20%–25%
Moulds and tools	20%

At 31 December 2023, the Group's property, plant and equipment of approximately HK\$345,943,000 (2022: HK\$221,408,000) was pledged to secure banking facilities granted to the Group (Note 30).

At 31 December 2022, included in the property, plant and equipment is the Group's right-of-use assets, in respect of leasehold land and buildings under medium-term lease located in Hong Kong of approximately HK\$138,137,000 of which the Group is the registered owner of these properties interests. The Group holds commercial properties for its operations in Hong Kong, where its office premises are located. Lump sum payments were made upfront to acquire these properties interests from their previous registered owner in Hong Kong, and there are no ongoing payments to be made under the terms of the land lease, other than payments based on rateable values set by the government authorities. These payments vary from time to time and are payable to the government authorities.

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

	2023 HK\$'000	2022 HK\$'000
Buildings on land under long-term leases located in the PRC	385	442
Buildings on land under medium-term leases located in the PRC	1,099,365	1,125,547
Freehold land and buildings in Europe	12,853	12,537
Leasehold land and buildings under medium-term lease located in Hong Kong	–	138,137
	<b>1,112,603</b>	<b>1,276,663</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 14 INVESTMENT PROPERTIES

	2023 HK\$'000	2022 HK\$'000
<b>COST</b>		
At beginning of the year	162,818	162,818
Classified as held for sale (Note 10(a))	(162,818)	–
At end of the year	–	162,818
<b>ACCUMULATED DEPRECIATION</b>		
At beginning of the year	24,463	18,818
Provided for the year	5,174	5,645
Classified as held for sale (Note 10(a))	(29,637)	–
At end of the year	–	24,463
<b>CARRYING VALUE</b>		
At end of the year	–	138,355

The investment properties are depreciated on a straight-line basis at the following rates per annum:

Leasehold land	Over the terms of the leases
Buildings	Over the terms of the leases or 5%, whichever is shorter

At 31 December 2022, the Group's investment properties of approximately HK\$138,355,000 was pledged to secure banking facilities granted to the Group (Note 30).

At 31 December 2022, the investment properties are under medium-term lease located in Hong Kong of which the Group is the registered owner of these properties interests.

The fair value of the investment properties at 31 December 2022 is approximately HK\$141,268,000.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 15 RIGHT-OF-USE ASSETS

	2023 HK\$'000	2022 HK\$'000
Leasehold properties	17,613	19,927
	2023 HK\$'000	2022 HK\$'000
At beginning of the year	19,927	28,782
Currency realignment	558	(1,254)
Addition	5,375	–
Lease modification	(1,308)	–
Depreciation	(6,939)	(7,601)
At end of the year	17,613	19,927

The Group has entered into lease agreements to obtain the right to use properties as its office premises, factories, godowns and residential units for its employees and as a result incurred lease liabilities (Note 29). The leases typically run for an initial period of 2 to 10 years. Lease terms are negotiated on an individual/group basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

In addition to the above, the Group has right-of-use assets related to properties interests of which the Group is the registered owner. They are included in “assets classified as held for sale”, “property, plant and equipment”, “investment properties” and “prepaid lease payments”. Details of which are set out in Notes 10, 13, 14 and 16 respectively.

## 16 PREPAID LEASE PAYMENTS

	2023 HK\$'000	2022 HK\$'000
The Group's prepaid lease payments comprise:		
Leasehold land in the PRC:		
Long-term leases	1,217	1,260
Medium-term leases	180,077	187,279
	181,294	188,539

Movement in prepaid lease payments:

	2023 HK\$'000	2022 HK\$'000
At beginning of the year	188,539	209,726
Currency realignment	(2,404)	(16,100)
Amortisation of prepaid lease payments	(4,841)	(5,087)
At end of the year	181,294	188,539

At 31 December 2023, the Group's prepaid lease payments of approximately HK\$73,696,000 (2022: HK\$76,546,000) was pledged to secure banking facilities granted to the Group (Note 30).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 17 GOODWILL

	2023 HK\$'000	2022 HK\$'000
At beginning of the year	533,515	533,515
Impairment loss recognised	(68,718)	–
At end of the year	464,797	533,515

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

	2023 HK\$'000	2022 HK\$'000
Dyeing and finishing machines	533,515	533,515

The recoverable amount of the cash-generating unit related to dyeing and finishing machines has been determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The pre-tax discount rate applied to the cash flow projections is 14.78% (2022: 14.67%). The growth rate used to extrapolate the cash flows of the cash-generating unit beyond the five-year period is 3% (2022: 3%).

Assumptions were used in the value-in-use calculation of the cash-generating unit (“CGU”) at 31 December 2023 and 31 December 2022. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing:

**Budgeted sale growth rate** – The budgeted sales annual growth rate of 3% (2022: 3%) is based on the historical sales data and market outlook perceived by management.

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

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

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

The impairment loss of HK\$68,718,000 recognised during the year ended 31 December 2023 solely relates to the Group’s dyeing and finishing machines manufacturing activities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 18 INTANGIBLE ASSETS

	Intellectual property rights HK\$'000	Trademarks and licenses HK\$'000	Total HK\$'000
<b>COST</b>			
At 1 January 2022	45,463	90,727	136,910
Currency realignment	(532)	–	(532)
At 31 December 2022 and 1 January 2023	<b>44,931</b>	<b>90,727</b>	<b>135,658</b>
Currency realignment	<b>370</b>	<b>–</b>	<b>370</b>
At 31 December 2023	<b>45,301</b>	<b>90,727</b>	<b>136,028</b>
<b>ACCUMULATED AMORTISATION</b>			
At 1 January 2022	43,435	–	43,435
Currency realignment	(532)	–	(532)
Provided for the year	274	–	274
At 31 December 2022 and 1 January 2023	<b>43,177</b>	<b>–</b>	<b>43,177</b>
Currency realignment	<b>370</b>	<b>–</b>	<b>370</b>
Provided for the year	<b>22</b>	<b>–</b>	<b>22</b>
At 31 December 2023	<b>43,569</b>	<b>–</b>	<b>43,569</b>
<b>CARRYING VALUE</b>			
At 31 December 2023	<b>1,732</b>	<b>90,727</b>	<b>92,459</b>
At 31 December 2022	1,754	90,727	92,481

Amortisation of approximately HK\$22,000 (2022: HK\$274,000) is included in “administrative and other expenses” in profit or loss.

### Intellectual property rights

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 18 INTANGIBLE ASSETS *(Continued)*

### Trademarks and licenses

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

### Impairment test for trademarks and licenses with indefinite useful lives

For the purposes of impairment testing, the carrying amount of goodwill and the intangible assets with indefinite useful lives is allocated to the cash-generating unit, i.e., dyeing and finishing machines. The key assumptions used in the impairment test of the intangible assets with indefinite useful lives are given in Note 17.

## 19 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Note	2023 HK\$'000	2022 HK\$'000
Financial assets at fair value through other comprehensive income			
Unlisted equity securities	(i)	22,900	45,660
		22,900	45,660

Note:

- (i) The Group designated its investment at FVOCI (non-recycling) as the investment is held for strategic purposes. No dividend was received on this investment during the year (2022: Nil).

## 20 INVESTMENT IN AN ASSOCIATE

	2023 HK\$'000	2022 HK\$'000
At beginning of the year	18,583	28,472
Post-acquisition profit (loss) and reserve for the year	8,845	(9,889)
At end of the year	27,428	18,583

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 20 INVESTMENT IN AN ASSOCIATE *(Continued)*

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

Name of Company	Form of business structure	Place of incorporation/ operation	Proportion of ownership interest		Principal activities
			Group's effective interest	Held by a subsidiary	
Yantai Yelin Textile Technology Co., Ltd. 煙臺業林紡織科技有限公司 ("Yantai Yelin")	Incorporated	The PRC	25% (2022: 25%)	25% (2022: 25%)	Printing, dyeing and finishing of high-end fabrics business

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

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

	2023 HK\$'000	2022 HK\$'000
Gross amounts of the associate:		
Current assets	171,179	39,391
Non-current assets	215,229	169,907
Current liabilities	(276,695)	(104,202)
Non-current liabilities	–	(30,764)
Total equity	109,713	74,332
	2023 HK\$'000	2022 HK\$'000
Revenue	543,434	91,260
Profit (loss) for the year	36,080	(31,025)
Reconciled to the Group's interest in the associate:		
Gross amounts of net assets of the associate	109,713	74,332
Group's effective interest	25%	25%
Group's share of net assets of the associate	27,428	18,583
Carrying amount of the Group's interest in the associate	27,428	18,583

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 21 OTHER ASSETS

On 28 March 2014, FNES, entered into a Co-operation Agreement (the “Agreement”) with a third party (the “Project Company”), for the redevelopment of FNES’s existing land (the “Land”) in Shenzhen by way of urban renewal (the “Urban Renewal Project”).

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

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

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

The Agreement has become effective upon the fulfilment of certain conditions precedent, including the approval of the Agreement by the shareholders at the special general meeting of the Company held on 15 May 2014 and by the State-owned Assets Supervision and Administration Commission of the State Council on 23 December 2014 respectively.

On 30 September 2021 (after trading session), FNES and the Project Company (among others) entered into the new supplemental agreement in relation to the further variation of the terms under the Co-operation Agreement in relation to the Urban Renewal Project (“New Supplemental Agreement”).

The Project Company will deliver the New Property to FNES no later than 31 December 2034. If the Project Company fails to do so, unless otherwise negotiated between the Project Company and FNES by that time:

- (a) the Project Company shall pay to FNES a rental compensation, which will be calculated on the basis of the market rent of comparable properties in the area; or
- (b) FNES shall be entitled to accept at its option from the Project Company another property of the same value as the New Property instead.

As the timeframe of the remaining instalment payments of the Cash Compensation has been varied under the New Supplemental Agreement for the Cash Compensation to be paid ahead of the originally agreed schedule in favour of the Group, in return, if FNES breaches the terms of the New Supplemental Agreement, the Project Company is entitled to terminate the Co-operation Agreement (as supplemented by the New Supplemental Agreement) and request FNES to repay double the amount of the Cash Compensation that has already been paid by the Project Company to FNES and to compensate the loss of profits suffered by the Project Company under the Co-operation Agreement (as supplemented by the New Supplemental Agreement).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 21 OTHER ASSETS *(Continued)*

The Group received the final instalment payment in 2021 and the aggregate sum of RMB1 billion has been received by 2021. The relocation was completed in 2021. Apart from the RMB1 billion cash consideration, the Group should also receive properties with a total gross floor area of approximately 30,000 m<sup>2</sup> and at least 100 car-parks in exchange of the properties given up by the Group.

Since the Group is unable to measure reliably the fair value of either the properties to be received or the properties given up, the properties to be received is measured at the carrying amount of the properties given up and recognised as other assets of approximately HK\$40,760,000 at 31 December 2023 (2022: HK\$41,347,000).

### 22 DEFERRED TAXATION

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

	2023 HK\$'000	2022 HK\$'000
Deferred tax assets	9,796	10,896
Deferred tax liabilities	(36,743)	(32,243)
	<b>(26,947)</b>	<b>(21,347)</b>

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

	Accelerated tax depreciation HK\$'000	Provisions HK\$'000	Allowance for doubtful debts HK\$'000	Tax losses HK\$'000	Distributable profit of PRC subsidiaries HK\$'000	Defined benefit obligation HK\$'000	Others HK\$'000	Total HK\$'000
At 1 January 2022	8,145	(151)	(228)	(9,096)	27,537	(3,099)	-	23,108
Currency realignment	-	(1)	-	-	(278)	399	-	120
(Credit) charge to profit or loss (Note 7)	117	(122)	228	353	(3,278)	1	-	(2,701)
Charge to other comprehensive income	-	-	-	-	-	820	-	820
At 31 December 2022 and 1 January 2023	<b>8,262</b>	<b>(274)</b>	<b>-</b>	<b>(8,743)</b>	<b>23,981</b>	<b>(1,879)</b>	<b>-</b>	<b>21,347</b>
Currency realignment	-	6	-	-	243	(121)	-	128
Charge (credit) to profit or loss (Note 7)	9,913	111	-	358	(3,477)	69	-	6,974
Credit to other comprehensive income	-	-	-	-	-	(281)	-	(281)
Classified as held for sale (Note 10(a))	(2,179)	-	-	958	-	-	-	(1,221)
At 31 December 2023	<b>15,996</b>	<b>(157)</b>	<b>-</b>	<b>(7,427)</b>	<b>20,747</b>	<b>(2,212)</b>	<b>-</b>	<b>26,947</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 22 DEFERRED TAXATION *(Continued)*

At the end of the reporting period, the Group had unused tax losses of approximately HK\$921,773,000 (2022: HK\$1,007,028,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK\$50,820,000 (2022: HK\$52,988,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of approximately HK\$870,953,000 (2022: HK\$954,040,000) due to the unpredictability of future profit streams.

The Group has tax losses arising in Switzerland of HK\$Nil (2022: approximately HK\$222,000) that will expire in one to seven years for offsetting against future taxable profits. The Group also has tax losses arising in the PRC of approximately HK\$392,093,000 (2022: HK\$409,558,000) that will expire in one to five years for offsetting against future taxable profits. Other losses may be carried forward indefinitely.

According to the Enterprise Income Tax Law, starting from 1 January 2008, a 10% withholding tax will be levied on the immediate holding company established out of the PRC when its PRC subsidiary declares dividends out of its profits earned after 1 January 2008. A lower withholding tax rate of 5% may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign immediate holding company. A deferred tax liability of approximately HK\$20,747,000 (2022: HK\$23,981,000) has been provided for in the consolidated financial statements in respect of such temporary difference.

At the end of the reporting period, temporary difference relating to the undistributed profits of the Company's subsidiaries in the PRC was approximately HK\$30,754,000 (2022: HK\$33,013,000). The related deferred tax liability of approximately HK\$7,689,000 (2022: HK\$8,253,000) has not been recognised in respect of the withholding tax that would be payable on the distribution of these retained profits as the Group controls the dividend policy of the subsidiaries and the Directors have determined that these retained profits are not likely to be distributed in the foreseeable future.

## 23 INVENTORIES

	2023 HK\$'000	2022 HK\$'000
Raw materials	193,947	272,749
Work in progress	104,944	113,922
Finished goods	115,722	110,557
	<b>414,613</b>	497,228

The cost of inventories recognised as expenses and included in "cost of sales" amounted to approximately HK\$765,780,000 (2022: HK\$1,216,562,000) (see Note 8). Reversal of allowance for inventories during the year, as included in "cost of sales", amounted to approximately HK\$6,274,000 (2022: allowance for inventories amounted to approximately HK\$18,228,000) (see Note 8). The Group reversed the allowance of inventories because the related inventories were utilised or sold during the year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 24 TRADE AND OTHER RECEIVABLES

	2023 HK\$'000	2022 HK\$'000
Trade receivables	234,029	242,545
Less: Loss allowance	(2,199)	(3,594)
	<b>231,830</b>	238,951
Bills receivable	<b>34,488</b>	31,057
	<b>266,318</b>	270,008
Prepayments and other receivables	<b>58,333</b>	76,834
Total trade and other receivables	<b>324,651</b>	346,842

The Group allows an average credit period of 60 days (2022: 60 days) to its trade customers.

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

	2023 HK\$'000	2022 HK\$'000
0–60 days	188,581	181,573
61–90 days	8,749	14,817
Over 90 days	34,500	42,561
	<b>231,830</b>	238,951

### Movement in the loss allowance for trade receivables

	2023 HK\$'000	2022 HK\$'000
At beginning of the year	3,594	3,883
Currency realignment	88	42
Impairment losses recognised on trade receivables	168	1,663
Amounts recovered during the year	(1,651)	(1,994)
At end of the year	<b>2,199</b>	3,594

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

	2023 HK\$'000	2022 HK\$'000
HKD	7,994	4,707
USD	111,748	145,039
EUR	79,208	42,809
RMB	67,290	77,361
Others	78	92
	<b>266,318</b>	270,008

### 25 CASH AND BANK BALANCES AND OTHER CASH FLOW INFORMATION

#### (a) Cash and bank balances

Bank balances, with original maturity less than 3 months, carry interest at market rates which range from 0.02% to 2.85% (2022: 0.01% to 2.85%) per annum.

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

	2023 HK\$'000	2022 HK\$'000
HKD	20,196	104,683
USD	32,497	65,079
EUR	32,430	73,492
RMB	115,096	152,965
INR	1,632	273
Others	1,751	4,842
	<b>203,602</b>	401,334

At 31 December 2023, restricted cash amounted to approximately HK\$22,849,000 (2022: HK\$20,925,000) comprises deposits held at banks as collateral for the issuance of the bills payable. The carrying amount of restricted cash approximates its fair value and denominated in RMB.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 25 CASH AND BANK BALANCES AND OTHER CASH FLOW INFORMATION

(Continued)

### (b) Reconciliation of liabilities arising from financing activities

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

	Interest payable included in other payables HK\$'000	Lease liabilities HK\$'000	Loan from intermediate holding company HK\$'000	Loan from immediate holding company HK\$'000	Bank and other borrowings (Note i) HK\$'000	Total HK\$'000
At 1 January 2022	7,852	30,181	-	-	1,099,158	1,137,191
<b>Changes from financing cash flows:</b>						
New bank and other borrowings raised	-	-	-	-	1,350,301	1,350,301
New loans raised	-	-	240,440	135,000	-	375,440
Repayment of borrowings	-	-	-	-	(1,203,778)	(1,203,778)
Repayment of loan	-	-	(112,990)	-	-	(112,990)
Interest paid	(38,314)	-	-	-	-	(38,314)
Capital element of lease rentals paid	-	(7,822)	-	-	-	(7,822)
Interest element of lease rentals paid	-	(604)	-	-	-	(604)
Total changes from financing cash flows	(38,314)	(8,426)	127,450	135,000	146,523	362,233
<b>Other changes:</b>						
Currency realignment	-	(1,289)	(15,510)	-	(47,253)	(64,052)
Interest expenses	52,476	-	-	-	-	52,476
Interest expenses on lease liabilities	-	604	-	-	-	604
Total other changes	52,476	(685)	(15,510)	-	(47,253)	(10,972)
At 31 December 2022	22,014	21,070	111,940	135,000	1,198,428	1,488,452

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 25 CASH AND BANK BALANCES AND OTHER CASH FLOW INFORMATION

(Continued)

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

	Interest payable included in other payables HK\$'000	Lease liabilities HK\$'000	Loan from intermediate holding company HK\$000	Loan from immediate holding company HK\$000	Bank and other borrowings (Note i) HK\$'000	Total HK\$'000
At 1 January 2023	22,014	21,070	111,940	135,000	1,198,428	1,488,452
<b>Changes from financing cash flows:</b>						
New bank and other borrowings raised	-	-	-	-	1,386,537	1,386,537
Repayment of borrowings	-	-	-	-	(1,395,330)	(1,395,330)
Repayment of loan	-	-	(111,940)	-	-	(111,940)
Interest paid	(60,086)	-	-	-	-	(60,086)
Capital element of lease rentals paid	-	(7,242)	-	-	-	(7,242)
Interest element of lease rentals paid	-	(437)	-	-	-	(437)
Total changes from financing cash flows	(60,086)	(7,679)	(111,940)	-	(8,793)	(188,498)
<b>Other changes:</b>						
Currency realignment	-	579	-	-	(778)	(199)
Increase in lease liabilities from entering into new lease during the year	-	5,375	-	-	-	5,375
Lease modification	-	(1,437)	-	-	-	(1,437)
Interest expenses	68,248	-	-	-	-	68,248
Interest expenses on lease liabilities	-	437	-	-	-	437
Total other changes	68,248	4,954	-	-	(778)	72,424
At 31 December 2023	30,176	18,345	-	135,000	1,188,857	1,372,378

Note:

- (i) Borrowings consist of bank loans, trust receipts loans, discounted bills with recourse and other borrowing as disclosed in Note 30.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 25 CASH AND BANK BALANCES AND OTHER CASH FLOW INFORMATION

(Continued)

### (c) Total cash outflow for leases

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

	2023 HK\$'000	2022 HK\$'000
Within:		
Operating cash flows	146	42
Investing cash flows	–	–
Financing cash flows	7,679	8,426
	<b>7,825</b>	8,468

These amounts relate to the following:

	2023 HK\$'000	2022 HK\$'000
Lease rentals paid	7,825	8,468

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 26 TRADE AND OTHER PAYABLES

	2023 HK\$'000	2022 HK\$'000
Trade payables	171,918	232,455
Bills payables	74,784	52,163
	<b>246,702</b>	284,618
Employee compensation arising as a result of the Urban Renewal Project	–	19,689
Interest payable	30,176	22,014
Loan from intermediate holding company (Note i)	–	111,940
Amount due to intermediate holding company (Note ii)	44,162	–
Loan from immediate holding company (Note iii)	135,000	135,000
Payroll payables	75,647	99,607
Payables for property, plant and equipment	7,354	29,794
Payables for raw materials with unreceived invoices	57,187	54,150
VAT and other tax payables	44,345	11,581
Accrued commission and other operation expenses	26,760	49,069
Others	115,858	94,358
	<b>783,191</b>	911,820

Notes:

- (i) The loan was unsecured, interest bearing at a fixed rate of 5.22% per annum and fully repaid during the year.
- (ii) The amount due was unsecured, interest-free and repayable on demand.
- (iii) The loan was unsecured, interest bearing at a fixed rate of 4.3% per annum and repayable within one year.

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

	2023 HK\$'000	2022 HK\$'000
0–90 days	134,380	195,330
91–120 days	11,816	11,105
Over 120 days	25,722	26,020
	<b>171,918</b>	232,455

The average credit period on purchase of goods is 90 days (2022: 90 days). The Group has financial risk management policies in place to ensure that all payables are within the credit time frame.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 26 TRADE AND OTHER PAYABLES *(Continued)*

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

	2023 HK\$'000	2022 HK\$'000
HKD	3,827	8,364
USD	3,178	3,715
EUR	22,390	32,567
RMB	141,821	187,037
CHF	205	285
Others	497	487
	<b>171,918</b>	232,455

### 27 CONTRACT LIABILITIES

	2023 HK\$'000	2022 HK\$'000
Receipts in advance	155,220	199,030

Note: Revenue of approximately HK\$192,339,000 recognised for the year ended 31 December 2023 (2022: HK\$290,546,000) was related to carried forward contract liabilities that were satisfied in the prior year.

### 28 WARRANTY

	2023 HK\$'000	2022 HK\$'000
At beginning of the year	8,576	10,586
Currency realignment	375	(625)
Provision for the year	3,313	1,398
Utilisation of provision	<b>(2,774)</b>	(2,783)
At end of the year	<b>9,490</b>	8,576

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 29 LEASE LIABILITIES

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

	Present value of minimum lease payments		Total minimum lease payments	
	At 31 December 2023 HK\$'000	At 31 December 2022 HK\$'000	At 31 December 2023 HK\$'000	At 31 December 2022 HK\$'000
Amounts payable:				
Within one year	6,745	7,831	7,157	8,176
In the second to fifth year	11,600	13,239	11,884	13,540
	<b>18,345</b>	21,070	<b>19,041</b>	21,716
Less: Future finance charges			(696)	(646)
Present value of lease obligation			<b>18,345</b>	21,070
Less: current portion			<b>(6,745)</b>	(7,831)
Non-current portion			<b>11,600</b>	13,239

## 30 BANK AND OTHER BORROWINGS

	2023 HK\$'000	2022 HK\$'000
Unsecured borrowings comprise the following:		
– Bank loans	54,945	364,030
– Trust receipts loans	40,654	202,004
– Other borrowing	121,385	47,388
	<b>216,984</b>	613,422
Secured borrowings comprise the following:		
– Bank loans	903,015	529,036
– Trust receipts loans	68,858	55,970
	<b>971,873</b>	585,006
	<b>1,188,857</b>	1,198,428
Analysed for reporting purpose:		
– Current	1,114,479	1,198,428
– Non-current	74,378	–
	<b>1,188,857</b>	1,198,428

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 30 BANK AND OTHER BORROWINGS *(Continued)*

At 31 December 2023, the Group's banking facilities to the extent of approximately HK\$2,714,073,000 (2022: HK\$819,700,000) were secured by:

- (a) property, plant and equipment of approximately HK\$480,816,000 (2022: HK\$221,408,000) (Notes 10 and 13);
- (b) investment properties of approximately HK\$133,181,000 (2022: HK\$138,355,000) (Notes 10 and 14); and
- (c) prepaid lease payments of approximately HK\$73,696,000 (2022: HK\$76,546,000) (Note 16).

At 31 December 2023, the unutilised banking facilities amounted to approximately HK\$1,742,200,000 (2022: HK\$234,694,000). The contractual maturity dates of the borrowings are as follows:

	2023 HK\$'000	2022 HK\$'000
Carrying amounts repayable*:		
Within one year	564,479	569,846
More than one year, but not exceeding two years	74,378	–
	<b>638,857</b>	569,846
Carrying amounts of borrowings contain a repayment on demand clause that are repayable (shown under current liabilities)*:		
Within one year	550,000	414,582
More than one year, but not exceeding two years	–	124,000
More than two years, but not exceeding five years	–	90,000
	<b>550,000</b>	628,582
	<b>1,188,857</b>	1,198,428
Less: Amounts due within one year shown under current liabilities	<b>(1,114,479)</b>	(1,198,428)
Amounts shown under non-current liabilities	<b>74,378</b>	–

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

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

	2023 %	2022 %
Bank loans and trust receipts loans	5.79	5.33
Other borrowing	0.13	5.90

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 30 BANK AND OTHER BORROWINGS *(Continued)*

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

	2023 HK\$'000	2022 HK\$'000
HKD	550,000	570,000
RMB	638,857	628,428
	<b>1,188,857</b>	1,198,428

## 31 DEFERRED REVENUE

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

	2023 HK\$'000	2022 HK\$'000
At beginning of the year	58,950	69,261
Currency realignment	(1,172)	(5,712)
Recognised as other income during the year	(4,413)	(4,599)
At end of the year	<b>53,365</b>	58,950

## 32 SHARE CAPITAL AND RESERVES

### a. Movements in components of equity

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

### b. Share capital of the Company

	2023		2022	
	Number of shares	HK\$'000	Number of shares	HK\$'000
Authorised:				
Ordinary shares of HK\$0.05 each	2,000,000,000	100,000	2,000,000,000	100,000
Issued and fully paid:				
At 1 January and 31 December	1,100,216,570	55,011	1,100,216,570	55,011

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 33 CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which includes bank and other borrowings disclosed in Note 30, less cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits.

Certain bank borrowings of the Group include covenants that require the maintenance of certain financial ratios. As at 31 December 2023, no financial ratio covenant was breached.

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

## 34 FINANCIAL INSTRUMENTS

### a. Categories of financial instruments

	Financial assets		
	Amortised cost HK\$'000	Financial assets at fair value through other comprehensive income HK\$'000	Total HK\$'000
<b>2023</b>			
Financial assets at FVOCI	–	22,900	22,900
Trade and other receivables	286,420	–	286,420
Cash and bank balances	207,303	–	207,303
	<b>493,723</b>	<b>22,900</b>	<b>516,623</b>
	Financial liabilities		Total
	Financial liabilities at amortised cost HK\$'000		HK\$'000
<b>2023</b>			
Trade and other payables	784,414		784,414
Lease liabilities	18,345		18,345
Bank and other borrowings	1,188,857		1,188,857
	<b>1,991,616</b>		<b>1,991,616</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 34 FINANCIAL INSTRUMENTS *(Continued)*

### a. Categories of financial instruments *(Continued)*

	Financial assets		
	Amortised cost HK\$'000	Financial assets at fair value through other comprehensive income HK\$'000	Total HK\$'000
2022			
Financial assets at FVOCI	–	45,660	45,660
Trade and other receivables	301,073	–	301,073
Cash and bank balances	401,354	–	401,354
	702,427	45,660	748,087
	Financial liabilities		Total
	Financial liabilities at amortised cost HK\$'000	HK\$'000	
2022			
Trade and other payables	947,580	947,580	
Lease liabilities	21,070	21,070	
Bank and other borrowings	1,198,428	1,198,428	
	2,167,078	2,167,078	

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 34 FINANCIAL INSTRUMENTS *(Continued)*

### b. Financial risk management objectives and policies

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

#### Market risk (currency risk)

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

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

	Liabilities		Assets	
	2023 HK\$'000	2022 HK\$'000	2023 HK\$'000	2022 HK\$'000
USD	3,680	11,348	143,526	189,307
HKD	2,842	288,538	3,539	326
EUR	19,396	37,371	4,603	5,253
RMB	–	111,944	1,248	28,959

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 34 FINANCIAL INSTRUMENTS *(Continued)*

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

#### Market risk (currency risk) *(Continued)*

The following table details the Group's sensitivity to a 5% increase and decrease in the relevant functional currencies against the foreign currencies. 5% is the sensitivity rate which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive (negative) number below indicates a decrease (an increase) in post-tax loss (2022: a decrease (an increase) in post-tax loss) where respective functional currencies weakening 5% against the relevant foreign currencies. For a 5% strengthen of respective functional currencies against the relevant foreign currencies, there would be an equal and opposite impact on the post-tax loss (2022: loss).

	USD		HKD		EUR		RMB	
	2023 HK\$'000	2022 HK\$'000	2023 HK\$'000	2022 HK\$'000	2023 HK\$'000	2022 HK\$'000	2023 HK\$'000	2022 HK\$'000
Decrease (increase) in loss for the year*	498	667	29	(12,033)	(618)	(1,341)	52	(3,465)

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

#### Market risk (interest rate risk)

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 34 FINANCIAL INSTRUMENTS *(Continued)*

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

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

##### *Sensitivity analysis*

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

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax loss (2022: loss) for the year ended 31 December 2023 would increase/decrease (2022: increase/decrease) by approximately HK\$1,514,000 (2022: HK\$704,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank balances and bank borrowings.

#### Market risk (equity price risk)

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

##### *Sensitivity analysis*

The sensitivity analysis as stated in Note 34(c)(i) below has been determined based on the exposure to equity price risk at the end of the reporting period.

#### Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables, bills receivable and other receivables and deposits with banks. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. As at 31 December 2023, the Group does not provide any guarantees which would expose the Group to credit risk.

##### *(i) Trade receivables*

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

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. The Group has large number of customers and in the opinion of the Directors, there was no concentration of credit risk. As at 31 December 2023, 20% (2022: 9%) of the total trade receivables were concentrated in one customer, and 35% (2022: 27%) of the total trade receivables were concentrated in five customers of the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 34 FINANCIAL INSTRUMENTS *(Continued)*

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

#### Credit risk *(Continued)*

##### (i) Trade receivables *(Continued)*

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

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

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2023:

	Expected loss rate %	Gross carrying amount HK\$'000	Loss allowance HK\$'000
<b>2023</b>			
Current (not past due)	0%–2%	171,612	119
1–30 days past due	0%–35%	25,858	5
31–60 days past due	0%	6,710	–
61–180 days past due	0%	22,983	–
Over 180 days past due	0%–100%	6,866	2,075
		<b>234,029</b>	<b>2,199</b>
<b>2022</b>			
Current (not past due)	0%–5%	183,867	2,000
1–30 days past due	0%–2%	34,641	3
31–60 days past due	0%–50%	3,945	575
61–180 days past due	0%–100%	12,943	1,007
Over 180 days past due	0%–100%	7,149	9
		<b>242,545</b>	<b>3,594</b>

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

Movement in the loss allowance account in respect of trade receivables during the year is disclosed in Note 24.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in Note 24.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 34 FINANCIAL INSTRUMENTS *(Continued)*

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

#### Credit risk *(Continued)*

##### (ii) Bills receivables

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

##### (iii) Other receivables

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

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

##### (iv) Deposits with banks

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

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

#### Liquidity risk

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 34 FINANCIAL INSTRUMENTS *(Continued)*

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

#### Liquidity risk *(Continued)*

##### Liquidity tables

	Weighted average interest rate %	On demand or within 1 year HK\$'000	1-2 years HK\$'000	2-5 years HK\$'000	Over 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
<b>2023</b>							
<b>Non-derivative financial liabilities</b>							
Trade and other payables	-	649,414	-	-	-	649,414	649,414
Loan from immediate holding company	4.30	135,000	-	-	-	135,000	135,000
Lease liabilities	2.86	7,157	6,527	5,357	-	19,041	18,345
Bank and other borrowings							
- variable rate	7.05	551,104	52,803	-	-	603,907	601,734
- fixed rate	4.13	599,614	24,699	-	-	624,313	587,123
		1,942,289	84,029	5,357	-	2,031,675	1,991,616
<b>2022</b>							
<b>Non-derivative financial liabilities</b>							
Trade and other payables	-	700,640	-	-	-	700,640	700,640
Loan from intermediate holding company	5.22	111,940	-	-	-	111,940	111,940
Loan from immediate holding company	4.30	135,000	-	-	-	135,000	135,000
Lease liabilities	2.21	8,176	5,200	8,340	-	21,716	21,070
Bank and other borrowings							
- variable rate	6.42	570,055	-	-	-	570,055	570,000
- fixed rate	4.42	656,229	-	-	-	656,229	628,428
		2,182,040	5,200	8,340	-	2,195,580	2,167,078

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 34 FINANCIAL INSTRUMENTS *(Continued)*

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

#### Liquidity risk *(Continued)*

##### Liquidity tables *(Continued)*

Bank loans with a repayment on demand clause are included in the “on demand or within 1 year” time band in the above maturity analysis. As at 31 December 2023 and 2022, the aggregate undiscounted principal amounts of these bank loans amounted to approximately HK\$550,000,000 and approximately HK\$628,582,000 respectively. Taking into account the Group’s financial position, the Directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The Directors believe that such bank loans will be repaid within 3 years after the reporting date in accordance with the scheduled repayment dates set out in the loan agreements as set out in this table below:

	Weighted average interest rate %	On demand or within 1 year HK\$'000	1-2 years HK\$'000	2-5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
<b>2023</b>						
<b>Bank and other borrowings</b>						
- variable rate	7.33	590,303	-	-	590,303	550,000
<b>2022</b>						
<b>Bank and other borrowings</b>						
- variable rate	6.42	361,777	131,973	90,257	584,007	570,000
- fixed rate	4.73	61,351	-	-	61,351	58,582
		423,128	131,973	90,257	645,358	628,582

At that time, the aggregate principal and interest cash outflows will amount to approximately HK\$590,303,000 (2022: HK\$645,358,000).

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 34 FINANCIAL INSTRUMENTS *(Continued)*

### c. Fair value estimation

#### (i) Financial instruments carried at fair value

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

- Level 1 valuations: fair values measured using Level 1 inputs, i.e. unadjusted quoted prices in active markets for identical assets and liabilities at the measurement date
- Level 2 valuations: fair values measured using Level 2 inputs, i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: fair values measured using significant unobservable inputs

	Fair value HK\$'000	Fair value measurement categorised into		
		Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
<b>2023</b>				
Financial assets at FVOCI	22,900	–	–	22,900
<b>2022</b>				
Financial assets at FVOCI	45,660	–	–	45,660

Information about Level 3 fair value measurements is as follows:

	Valuation technique	Significant unobservable input	Range
Financial assets at FVOCI	Market comparable companies	Adjusted price to book ratio	0.09–0.15 (2022: 0.1–1.09)
		Discount for lack of marketability	15.7% (2022: 15.7%)

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 34 FINANCIAL INSTRUMENTS *(Continued)*

### c. Fair value estimation *(Continued)*

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

The fair value measurement is positively correlated to the adjusted price to book ratio. As at 31 December 2023, it was estimated that with all other variables held constants, a decrease/increase in adjusted price to book ratio by 10% would have decreased/increased the Group's other comprehensive income by approximately HK\$785,000 (2022: HK\$1,432,000).

The fair value measurement is negatively correlated to the discount for lack of marketability. As at 31 December 2023, it was estimated that with all other variables held constant, a decrease/increase in discount for lack of marketability by 5% would have increased/decreased the Group's other comprehensive income by approximately HK\$214,000 (2022: HK\$426,000).

The movements during the year ended 31 December 2023 in the balance of these Level 3 fair value measurements are as follows:

	HK\$'000
Unlisted financial assets at FVOCI:	
At 1 January 2022	114,087
Currency realignment	(9,673)
Change in fair value recognised in other comprehensive expense	(58,754)
At 31 December 2022 and 1 January 2023	<b>45,660</b>
Currency realignment	<b>(458)</b>
Change in fair value recognised in other comprehensive expense	<b>(22,302)</b>
At 31 December 2023	<b>22,900</b>

During the years ended 31 December 2023 and 2022, there were no transfers between financial instruments in Level 1 and Level 2, or transfers into or out of Level 3.

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

The carrying amounts of the Group's financial instruments carried at amortised cost were not materially different from their fair values as at 31 December 2023 and 2022.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 35 SHARE OPTION SCHEME

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

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

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

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

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

The Scheme shall be valid and effective for a period of ten years commencing on the adoption date after which period no further share options shall be offered or granted but the provisions of the Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any share options granted or exercised prior thereto.

There are no share option outstanding at 31 December 2023 and 2022.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 36 CAPITAL COMMITMENTS

	2023 HK\$'000	2022 HK\$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of the acquisition of:		
Property, plant and equipment	6,137	7,699
Leasehold land	–	106,605
	<b>6,137</b>	<b>114,304</b>

## 37 RETIREMENT BENEFITS SCHEME

The major retirement benefits schemes of the Group are summarised as follows:

### Schemes in Hong Kong

The Group has a defined contribution provident fund under Occupational Retirement Scheme (“ORSO Scheme”) for its Hong Kong employees. The Group is required to make contributions to the ORSO Scheme calculated at 5% of the employees’ basic salaries on a monthly basis. The Group’s contribution will start with 5% and further increase proportionally to a maximum of 8% of each employee’s basic salary after completion of three years of service to the Group. The employees are entitled to 100% of the employers’ contribution and the accrued interest after 10 years of completed service, or at a reduced scale of between 30% to 100% after completion of 3 to 10 years of service. The forfeited contributions and related accrued interest are to be used to reduce the employers’ contribution.

With effect from 1 December 2000, the Group has also participated in Hong Kong Mandatory Provident Fund Scheme (“MPF Scheme”). The assets of the MPF Scheme are held under two mandatory provident funds managed by AXA China Region Trustees Limited and Sun Life Trustee Co. Ltd. respectively. Under the MPF Scheme, the Group is required to make contributions to the scheme calculated at 5% of the employees’ relevant income subject to a monthly maximum amount of HK\$1,500 per employee and vest fully with employees when contributed into the MPF Scheme (as defined in the Mandatory Provident Fund Scheme Ordinance).

The employees entitled to participate in the ORSO Scheme before 1 December 2000 were given an option to join the MPF Scheme or to continue making contributions to the ORSO Scheme. All other existing or newly employed employees are required to join the MPF Scheme. The Group is required to make contributions to either of the two schemes in accordance with the option selected by the employees.

The aggregate employers’ contributions which have been dealt with in profit or loss of the Group amounted to approximately HK\$1,546,000 (2022: HK\$2,989,000).

At the end of the reporting period, there are no significant forfeited contributions available to offset employer’s future contributions to the ORSO Scheme.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 37 RETIREMENT BENEFITS SCHEME *(Continued)*

### Scheme in the PRC

The employees of the Company's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These PRC subsidiaries are required to contribute 15% to 16% of its payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

The total cost charged to profit or loss for the scheme in the PRC amounted to approximately HK\$42,591,000 (2022: HK\$58,381,000).

### Scheme in Germany

In Germany, the Group is obliged to contribute to a social pension programme for employees on a monthly basis at around 9.3% of the employees' gross income. The only obligation of the Group with respect to this retirement benefit scheme is to make the specified contribution.

The total cost charged to profit or loss for the scheme in Germany amounted to approximately HK\$7,716,000 (2022: HK\$5,416,000).

In Germany, the Group operates a defined benefit plan for its employees, the Group is required to pay the benefits granted to the present and past employees.

The movements of the defined benefit obligations are as follows:

	2023 HK\$'000	2022 HK\$'000
At beginning of the year	20,612	27,826
Remeasurement loss (gain)	942	(4,148)
	21,554	23,678
Currency realignment	854	(1,775)
Benefits paid by the plans	(1,067)	(1,902)
Current service cost	352	422
Interest cost	628	189
At end of the year	22,321	20,612

At the end of the reporting period, the amount of the defined benefit obligations is included in other payables (Note 26).

For the year ended 31 December 2023, the defined benefit plan is valued using the projected unit credit method in accordance with HKAS 19, which was prepared by a qualified actuary. A portion of the above liability is expected to be settled after more than one year. However, it is not practicable to segregate this amount from the amounts payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions, and therefore the obligations are classified as current liabilities at the end of the reporting period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 37 RETIREMENT BENEFITS SCHEME *(Continued)*

### **Scheme in Germany** *(Continued)*

The material actuarial assumptions used in valuing these obligations are as follows:

- (i) Discount rates adopted (per annum):

	2023	2022
Discount rate	3.25%	3.00%

- (ii) Mortality: Heubeck mortality tables;

- (iii) Cost of living increase rate: 1.5%;

- (iv) Pensionable income increase rate: 2.5%; and

- (v) Adjustment of current pensions according to Section 16 of German Company Pensions Act (BetrAVG): 2% (2022: 2%).

### **Scheme in Switzerland**

In Switzerland, the Group is obliged to contribute to a basic pension plan on a monthly basis at 5.3% (2022: 5.3%) of the employee's gross income plus administrative charges.

Besides, the Group also has a mandatory occupational benefit plan ("the Plan") for all the employees as regulated under federal law. The Group is obliged to make contributions to the Plan, calculated up to 10% of the employees' basic annual salary, plus an individual risk surcharge of about 2%.

The total cost charged to profit or loss for the Plan in Switzerland amounted to approximately HK\$104,000 (2022: HK\$133,000).

### **Scheme in Austria**

In Austria, the Group is obliged to contribute to a social pension programme for employees on a monthly basis at around 12.55% of the employees' gross income. The only obligation of the Group with respect to this retirement benefit scheme is to make the specified contribution.

The total cost charged to profit or loss for the scheme in Austria amounted to approximately HK\$2,874,000 (2022: HK\$2,764,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 38 RELATED PARTY TRANSACTIONS DISCLOSURE

The Company is a subsidiary of SINOMACH, a State-owned enterprise under the direct supervision and administration of, and is beneficially owned by, the SASAC. Accordingly, the Company and the Group are ultimately controlled by the PRC government.

The Group has entered into the following transactions with related parties during the year:

	2023 HK\$'000	2022 HK\$'000
<b>Related parties in which a Director of the Company has significant influence</b>		
Purchase of materials	3,327	11,807
<b>Fellow subsidiaries</b>		
Rental income	118	157
Sales of goods	57	7
Research and development costs	328	415
Purchase of materials	76	312
Service fee	371	–
<b>Immediate holding company</b>		
Other income	2	2
Interest expense	5,886	5,331
<b>Intermediate holding company</b>		
Interest expense	–	6,581
<b>Associate</b>		
Sales of goods	7,606	51

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 38 RELATED PARTY TRANSACTIONS DISCLOSURE *(Continued)*

At the end of the reporting period, CHTC undertakes that it will be at all times maintain an aggregate beneficial ownership (directly or indirectly) of not less than 30% in the issued share capital of the Company throughout the terms of the banking facilities granted to the Group.

All the above transactions also constituted related party transactions as defined in HKAS 24 and connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

### **Outstanding balances with related parties**

Apart from disclosed elsewhere in these consolidated financial statements, the Group had no other outstanding balances with related parties at 31 December 2023 and 2022.

### **Compensation of key management personnel**

The remuneration of Directors and other members of key management during the year was as follows:

	2023 HK\$'000	2022 HK\$'000
Short-term benefits	13,074	26,925
Post-employment benefits	788	1,511
	<b>13,862</b>	28,436

The remuneration of Directors and key executives is determined by the Remuneration Committee of the Company having regard to the performance of individuals and market trends.

### **Government-related entities operated in the PRC**

The Group has entered into various transactions, including deposits placements, bank borrowings and other general banking facilities, with certain banks and financial institutions which are state-controlled entities in its ordinary course of business. About 16% (2022: 49%) of its bank deposits and bank borrowings are with government-related entities. In view of the nature of those banking transactions, the Directors are of the opinion that separate disclosure would not be meaningful.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 39 PARTICULARS OF PRINCIPAL SUBSIDIARIES

Name of company	Place of incorporation or registration/ operations	Issued capital/ paid up capital	Equity interest attributable to the Company				Principal activities
			Direct		Indirect		
			2023	2022	2023	2022	
Fong's Manufacturers Company Limited	British Virgin Islands	US\$10,000	100%	100%	-	-	Investment holding
PT Harvest Holdings Limited	Hong Kong	HK\$10,000	-	-	100%	100%	Property investment
A. Monforts Textilmaschinen GmbH & Co KG**	Germany	N/A	-	-	100%	100%	Manufacture and trading of textile machinery
Fong's Europe GmbH	Germany	EUR1,900,000	-	-	100%	100%	Manufacture and trading of textile machinery and technical parts
Fong's National Engineering Company, Limited	Hong Kong	Ordinary – HK\$100 Deferred – HK\$8,000,000 (Note i)	-	-	100%	100%	Trading of dyeing and finishing machines
Fong's National Engineering (Shenzhen) Co., Ltd.* 立信染整機械(深圳)有限公司	The PRC	US\$22,500,000	-	-	100%	100%	Manufacture and trading of dyeing and finishing machines
Fong's National Engineering (Guangdong) Co., Ltd.* 立信染整機械(廣東)有限公司	The PRC	US\$39,000,000	-	-	100%	100%	Manufacture and trading of dyeing and finishing machinery
Monforts Fong's Textile Machinery Co. Limited	Hong Kong	HK\$18,400,000	100%	-	-	100%	Trading of textile machinery
Monforts Fong's Textile Machinery (Zhongshan) Co., Ltd.* 立信門富士紡織機械(中山)有限公司	The PRC	US\$26,500,000	-	-	100%	100%	Manufacture and trading of textile machinery
Fong's Steels Supplies Company Limited	Hong Kong	HK\$10,000	100%	-	-	100%	Trading of stainless steel supplies
Fong's Steels (Foshan) Co., Ltd.* 立信鋼材(佛山)有限公司	The PRC	US\$100,000	-	-	100%	100%	Trading of stainless steel supplies

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 39 PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of company	Place of incorporation or registration/ operations	Issued capital/ paid up capital	Equity interest attributable to the Company				Principal activities
			Direct		Indirect		
			2023	2022	2023	2022	
Tycon Alloy Industries (Hong Kong) Co., Ltd.	Hong Kong	HK\$10,000	100%	100%	-	-	Trading of stainless steels casting products
Tycon Alloy Industries (Shenzhen) Co., Ltd.* 泰鋼合金(深圳)有限公司	The PRC	US\$16,550,000	-	-	100%	100%	Manufacture and trading of stainless steels casting products
Tycon Alloy Industries (Zhongshan) Co., Ltd.* 泰鋼合金(中山)有限公司	The PRC	US\$28,500,000	-	-	100%	100%	Manufacture and trading of stainless steels casting products
Beijing CSCE Environmental Engineering Technology Co., Ltd. ("Beijing CSCE") 北京中科潔能環境工程技術有限公司	The PRC	RMB30,000,000	-	-	51%	51%	Investment holding

\* A wholly foreign-owned enterprise in the PRC.

\*\* A. Monforts Textilmaschinen GmbH & Co KG is a partnership of which two subsidiaries of the Company are respectively acting as the limited partner and general partner.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 39 PARTICULARS OF PRINCIPAL SUBSIDIARIES

Note:

- (i) The deferred shares entitle the holders to dividends from one half of the remaining net profit after the first HK\$10,000,000,000 has been distributed to holders of ordinary shares of HK\$1 each of the company. The deferred shares also entitle the holders to participate in distribution of one half of the surplus assets on winding up after the first HK\$20,000,000,000 has been distributed to holders of ordinary shares of HK\$1 each of the company.

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affect the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. The details of these subsidiaries are summarised as follows:

Principal activities	Principal place of business	Number of subsidiaries	
		2023	2022
Manufacture and sale of dyeing and finishing machines	British Virgin Islands	1	3
	Germany	1	1
	Hong Kong	4	7
	India	1	1
	Luxembourg	1	1
	Switzerland	–	1
	The PRC	1	3
	Macau	1	–
		<b>10</b>	<b>17</b>
Manufacture and sale of stainless steel casting products	Hong Kong	2	2
	The United States of America	2	2
		<b>4</b>	<b>4</b>
Trading of stainless steel supplies	Hong Kong	–	2
		<b>–</b>	<b>2</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 39 PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

The following table lists out the information relating to the subsidiaries of the Group which have non-controlling interests as at 31 December 2023. The summarised financial information presented below represents the amounts before any inter-company elimination.

	2023		2022	
	Tycon Alloy USA LLC HK\$'000	Beijing CSCE HK\$'000	Tycon Alloy USA LLC HK\$'000	Beijing CSCE HK\$'000
Non-controlling interests percentage	40%	49%	40%	49%
Current assets	4,544	81	4,544	130
Non-current assets	1,245	–	1,245	6
Current liabilities	(10,659)	(146,312)	(10,659)	(148,133)
Net liabilities	(4,870)	(146,231)	(4,870)	(147,997)
Carrying amount of non-controlling interests	(1,948)	(71,653)	(1,948)	(72,518)
	2023		2022	
	Tycon Alloy USA LLC HK\$'000	Beijing CSCE HK\$'000	Tycon Alloy USA LLC HK\$'000	Beijing CSCE HK\$'000
Revenue	–	–	1,050	–
Loss for the year	–	(343)	(2,012)	(86,337)
Loss allocated to non-controlling interests	–	(168)	(805)	(42,305)
Cash flows used in operating activities	(1,096)	(20)	(1,594)	(2)
Cash flows from investing activities	–	–	–	–
Cash flows used in financing activities	–	–	(335)	–

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 40 INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

	2023 HK\$'000	2022 HK\$'000
Unlisted investments in subsidiaries	39,447	39,447
Cash and cash equivalents	184	339
Amounts due from subsidiaries	342,467	392,377
Other receivables	98	369
Total assets	382,196	432,532
Other payables	(25,802)	(7,994)
Loan from immediate holding company	(135,000)	(111,940)
Net assets	221,394	312,598
Share capital (Note 32(b))	55,011	55,011
Reserves	166,383	257,587
Total equity (Note a)	221,394	312,598

Note:

- (a) Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Retained profits (Accumulated losses) HK\$'000	Contributed surplus HK\$'000	Total HK\$'000
At 1 January 2022	55,011	152,122	2,504	84,168	23,033	316,838
Profit and total comprehensive income for the year	-	-	-	6,762	-	6,762
Final dividend for 2021 paid	-	-	-	(11,002)	-	(11,002)
At 31 December 2022 and 1 January 2023	55,011	152,122	2,504	79,928	23,033	312,598
Loss and total comprehensive expense for the year	-	-	-	(91,204)	-	(91,204)
At 31 December 2023	55,011	152,122	2,504	(11,276)	23,033	221,394

# FINANCIAL SUMMARY

## RESULTS

	Year ended 31 December				
	2019 HK\$'000	2020 HK\$'000	2021 HK\$'000	2022 HK\$'000	2023 HK\$'000
Revenue	2,663,259	2,275,477	2,672,467	2,488,688	<b>1,740,330</b>
Profit (loss) before tax	217,499	16,827	165,254	(239,189)	<b>(248,484)</b>
Income tax expense	(58,633)	(28,467)	(94,216)	(8,542)	<b>9,693</b>
Profit (loss) for the year	158,866	(11,640)	71,038	(247,731)	<b>(238,791)</b>
Profit (loss) attributable to:					
Owners of the Company	168,836	6,289	77,005	(204,621)	<b>(238,623)</b>
Non-controlling interests	(9,970)	(17,929)	(5,967)	(43,110)	<b>(168)</b>
	158,866	(11,640)	71,038	(247,731)	<b>(238,791)</b>

## ASSETS AND LIABILITIES

	As at 31 December				
	2019 HK\$'000	2020 HK\$'000	2021 HK\$'000	2022 HK\$'000	2023 HK\$'000
Total assets	4,682,024	4,605,688	4,495,780	3,964,398	<b>3,449,021</b>
Total liabilities	(2,994,624)	(2,857,513)	(2,669,807)	(2,579,346)	<b>(2,338,449)</b>
	1,687,400	1,748,175	1,825,973	1,385,052	<b>1,110,572</b>
Equity attributable to:					
Owners of the Company	1,692,700	1,774,401	1,859,039	1,459,518	<b>1,184,173</b>
Non-controlling interests	(5,300)	(26,226)	(33,066)	(74,466)	<b>(73,601)</b>
	1,687,400	1,748,175	1,825,973	1,385,052	<b>1,110,572</b>