建 聯 集 團 有 限 公 司*
Chinney Alliance Group Limited
(Incorporated in Bermuda with limited liability)
(Stock Code: 385)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

The board of directors (the "Board") of Chinney Alliance Group Limited (the "Company") is pleased to announce the consolidated statement of profit or loss and the consolidated statement of comprehensive income of the Company and its subsidiaries (the "Group") for the year ended 31 December 2017 and the consolidated statement of financial position of the Group as at 31 December 2017 together with comparative figures in 2016 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Year ended 31 December	
		2017	2016
	Notes	***HK$'000***	*HK$'000*
REVENUE	2	**5,595,889**	4,570,724
Cost of sales/services provided		**(4,928,802)**	(3,866,320)
Gross profit		**667,087**	704,404
Other income	3	**11,445**	10,015
Selling and distribution costs		**(14,981)**	(14,584)
Administrative expenses		**(420,070)**	(421,098)
Other operating income/(expenses), net		**729**	(547)
Changes in fair value of investment properties		**1,312**	(1,186)
Finance costs	4	**(7,109)**	(3,239)
Share of profits and losses of an associate		**1,622**	5,022
PROFIT BEFORE TAX	5	**240,035**	278,787
Income tax expense	6	**(42,782)**	(43,353)
PROFIT FOR THE YEAR		**197,253**	235,434
Attributable to:			
Owners of the Company		**176,770**	209,928
Non-controlling interests		**20,483**	25,506
		197,253	235,434
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	7		
Basic		**HK 29.7 cents**	HK 35.3 cents
Diluted		**HK 29.7 cents**	HK 35.3 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2017	2016
	HK$'000	*HK$'000*
PROFIT FOR THE YEAR	**197,253**	235,434
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations and net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	**5,243**	(3,672)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Surplus on revaluation of land and buildings	**60,418**	8,539
Income tax effect	**(7,595)**	(1,012)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	**52,823**	7,527
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**58,066**	3,855
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**255,319**	239,289
Attributable to:		
Owners of the Company	**234,836**	213,783
Non-controlling interests	**20,483**	25,506
	255,319	239,289

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**31 December 2017** *HK$'000*	31 December 2016 *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**797,550**	769,753
Investment properties		**16,990**	15,678
Investment in an associate		**13,969**	50,997
Investment in a joint venture		**-**	-
Available-for-sale investment		**1,287**	-
Goodwill		**12,528**	12,528
Deferred tax assets		**210**	236
Other assets		**2,345**	2,345
Total non-current assets		**844,879**	851,537
CURRENT ASSETS			
Inventories		**100,409**	82,845
Gross amount due from contract customers		**430,576**	261,303
Trade receivables	*9*	**647,337**	612,057
Retention monies receivable		**476,014**	412,932
Amount due from a related company	*10*	**37,282**	-
Amount due from a joint venture		**967**	967
Prepayments, deposits and other receivables		**85,800**	108,875
Tax recoverable		**5,083**	19,678
Pledged time deposits		**11,264**	14,894
Cash and cash equivalents		**942,074**	858,797
Total current assets		**2,736,806**	2,372,348
CURRENT LIABILITIES			
Gross amount due to contract customers		**754,948**	773,072
Trade and bills payables	*11*	**476,900**	372,224
Trust receipt loans		**106,934**	138,602
Retention monies payable		**231,231**	178,537
Amount due to an associate		**6,708**	-
Other payables and accruals		**119,668**	126,519
Tax payable		**21,404**	21,782
Interest-bearing bank borrowings		**918**	890
Convertible bond	*12*	**37,290**	-
Total current liabilities		**1,756,001**	1,611,626
NET CURRENT ASSETS		**980,805**	760,722
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,825,684**	1,612,259

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

	Notes	**31 December 2017** ***HK$'000***	31 December 2016 *HK$'000*
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		**946**	1,864
Deferred tax liabilities		**96,487**	92,968
Total non-current liabilities		**97,433**	94,832
Net assets		**1,728,251**	1,517,427
EQUITY			
Equity attributable to owners of the Company			
Issued capital		**59,490**	59,490
Reserves		**1,559,534**	1,353,893
		1,619,024	1,413,383
Non-controlling interests		**109,227**	104,044
Total equity		**1,728,251**	1,517,427

NOTES:

1. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for land and buildings included in property, plant and equipment and investment properties which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

<u>Changes in accounting policies and disclosures</u>

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12 included in *Annual Improvements to HKFRSs 2014-2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12*

The nature and the impact of the amendments are described below:

(a) Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

(b) Amendments to HKAS 12 clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The amendments have had no impact on the financial position or performance of the Group as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

(c) Amendments to HKFRS 12 clarify that the disclosure requirements in HKFRS 12, other than those disclosure requirements in paragraphs B10 to B16 of HKFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate, or a portion of its interest in a joint venture or an associate that is classified as held for sale or included in a disposal group classified as held for sale. The amendments have had no impact on the Group's financial statements.

2. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the trading of plastic and chemical products, provision of building related contracting services, provision of foundation piling works and sub-structure works, building construction works for both public and private sectors and others, which include the distribution of aviation system and other hi-tech products and property holding. During the year, the Group reviewed the structure and internal organisation and changed the composition of its reportable segments. Accordingly, certain subsidiaries which were previously included in "Building related contracting services" segment have been reclassified to the "Others" segment.

Year ended 31 December 2017

	Plastic and chemical products *HK$'000*	Building related contracting services *HK$'000*	Building construction *HK$'000*	Foundation piling and ground investigation *HK$'000*	Others *HK$'000*	Total *HK$'000*
Segment revenue:						
Sales to external customers	**556,515**	**2,178,883**	**1,648,543**	**1,190,441**	**21,507**	**5,595,889**
Intersegment sales	**317**	**55,329**	**-**	**-**	**-**	**55,646**
Other revenue	**5,216**	**313**	**585**	**1,547**	**771**	**8,432**
	562,048	**2,234,525**	**1,649,128**	**1,191,988**	**22,278**	**5,659,967**
Reconciliation:						
Elimination of intersegment sales						**(55,646)**
Revenue						**5,604,321**
Segment results	**13,609**	**102,907**	**51,907**	**95,537**	**127**	**264,087**
Reconciliation:						
Interest income and unallocated gains						**3,013**
Unallocated expenses						**(29,999)**
Changes in fair value of investment properties						**1,312**
Share of profits and losses of an associate						**1,622**
Profit before tax						**240,035**

2. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2017

	Plastic and chemical products *HK$'000*	Building related contracting services *HK$'000*	Building construction *HK$'000*	Foundation piling and ground investigation *HK$'000*	Others *HK$'000*	Total *HK$'000*
Segment assets	**385,700**	**979,646**	**739,262**	**1,016,185**	**188,741**	**3,309,534**
Reconciliation:						
Elimination of intersegment receivables						**(21,862)**
Investment in an associate						**13,969**
Available-for-sale investment						**1,287**
Corporate and other unallocated assets						**278,757**
Total assets						**3,581,685**
Segment liabilities	**140,718**	**654,881**	**387,290**	**532,146**	**29,275**	**1,744,310**
Reconciliation:						
Elimination of intersegment payables						**(21,862)**
Corporate and other unallocated liabilities						**130,986**
Total liabilities						**1,853,434**
Other segment information:						
Impairment of trade receivables	**77**	**-**	**-**	**-**	**-**	**77**
Bad debts written off	**-**	**-**	**788**	**-**	**-**	**788**
Provision/(write-back of provision) for inventories included in cost of inventories sold	**23**	**34**	**-**	**-**	**(78)**	**(21)**
Depreciation	**4,143**	**2,667**	**5,545**	**65,011**	**5,937**	**83,303**
Capital expenditure*	**439**	**3,231**	**34**	**64,653**	**30**	**68,387**

* *Capital expenditure represents additions to property, plant and equipment.*

2. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2016

	Plastic and chemical products *HK$'000*	Building related contracting services *HK$'000* *(Restated)*	Building construction *HK$'000*	Foundation piling and ground investigation *HK$'000*	Others *HK$'000* *(Restated)*	Total *HK$'000*
Segment revenue:						
Sales to external customers	552,121	1,558,306	1,079,307	1,355,692	25,298	4,570,724
Intersegment sales	185	42,781	-	30,433	-	73,399
Other revenue	2,212	427	491	691	1,209	5,030
	554,518	1,601,514	1,079,798	1,386,816	26,507	4,649,153
Reconciliation:						
Elimination of intersegment sales						(73,399)
Revenue						4,575,754
Segment results	5,201	102,425	65,677	119,395	(1,659)	291,039
Reconciliation:						
Gain on dissolution of a former associate						6,243
Interest income and unallocated gains						4,985
Unallocated expenses						(27,316)
Changes in fair value of investment properties						(1,186)
Share of profits and losses of an associate						5,022
Profit before tax						278,787

2. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2016

	Plastic and chemical products *HK$'000*	Building related contracting services *HK$'000* *(Restated)*	Building construction *HK$'000*	Foundation piling and ground investigation *HK$'000*	Others *HK$'000* *(Restated)*	Total *HK$'000*
Segment assets	339,392	735,434	655,039	1,022,521	171,609	2,923,995
Reconciliation:						
Elimination of intersegment receivables						(17,911)
Investment in an associate						50,997
Corporate and other unallocated assets						266,804
Total assets						3,223,885
Segment liabilities	135,792	500,936	362,886	578,432	25,165	1,603,211
Reconciliation:						
Elimination of intersegment payables						(17,911)
Corporate and other unallocated liabilities						121,158
Total liabilities						1,706,458
Other segment information:						
Impairment of trade receivables	15	-	-	-	-	15
Write-off of other receivables	-	-	-	-	29	29
Provision for inventories included in cost of inventories sold	499	56	-	-	91	646
Depreciation	3,952	2,207	5,508	73,027	6,103	90,797
Capital expenditure*	659	4,711	1,003	46,871	10,614	63,858

* *Capital expenditure represents additions to property, plant and equipment.*

2. OPERATING SEGMENT INFORMATION *(continued)*

Geographical information

(a) Revenue from external customers

	2017	2016
	HK$'000	*HK$'000*
Hong Kong	**4,776,930**	3,927,949
Mainland China, Macau and Singapore	**818,959**	642,775
	5,595,889	4,570,724

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	2017	2016
	HK$'000	*HK$'000*
Hong Kong	**748,505**	723,889
Mainland China and Macau	**66,035**	61,542
	814,540	785,431

The non-current asset information above is based on the locations of assets and excludes an investment in an associate, an investment in a joint venture, an available-for-sale investment, goodwill, deferred tax assets and other assets.

Information about a major customer

During the years ended 31 December 2017 and 31 December 2016, none of the Group's revenue derived from transactions with a single external customer amounted to 10 per cent, or more of the Group's revenue.

3. OTHER INCOME

	2017	2016
	HK$'000	*HK$'000*
Interest income	**4,122**	3,769
Commission income	**4,557**	1,932
Gross rental income	**1,405**	1,542
Others	**1,361**	2,772
	11,445	10,015

4. FINANCE COSTS

	2017	2016
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts	**3,320**	3,239
Interest on a convertible bond	**3,789**	-
	7,109	3,239

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2017	2016
	HK$'000	*HK$'000*
Auditor's remuneration	**3,975**	3,807
Employee benefit expense (including directors' remuneration)	**238,059**	221,686
Depreciation	**83,303**	90,797
Cost of inventories sold	**504,145**	619,545
Cost of services provided	**4,424,657**	3,246,775
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties	**201**	224
Minimum lease payments under operating leases in respect of land and buildings	**13,345**	9,352
Impairment of trade receivables*	**77**	15
Bad debt written off*	**788**	-
Write-off of other receivables*	**-**	29
Provision/(write-back of provision) for inventories included in cost of inventories sold	**(21)**	646
Loss on disposal of items of property, plant and equipment, net*	**1,229**	5,793
Gain on dissolution of a former associate*	**-**	(6,243)
Foreign exchange differences, net*	**(2,823)**	954

* *These expenses/(income) items are included in "Other operating income/(expenses), net" in the statement of profit or loss.*

6. INCOME TAX

	2017	2016
	HK$'000	*HK$'000*
Current – Hong Kong		
Charge for the year	**36,767**	27,427
Over provision in prior years	**(390)**	(244)
Current – Elsewhere		
Charge for the year	**10,507**	3,797
Over provision in prior years	**(52)**	(625)
Deferred	**(4,050)**	12,998
Total tax charge for the year	**42,782**	43,353

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company of HK$176,770,000 (2016: HK$209,928,000), and the number of 594,899,245 ordinary shares in issue during both years.

The calculation of diluted earnings per share amounts is based on the profit of the year attributable to ordinary equity holders of the Company, adjusted to reflect the interest on the convertible bond of a subsidiary and the dilution effect on earning assuming there is a full conversion of the convertible bond of a subsidiary, where applicable. The number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year as used in the basic earnings per share calculation.

The calculation of diluted earnings per share is based on:

	2017	2016
	HK$'000	*HK$'000*
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation	**176,770**	209,928
Interest on convertible bond of a subsidiary, net of tax	**3,789**	-
Dilution of earnings arising from the full conversion of the convertible bond of a subsidiary	**85**	-
	180,644 *	209,928

* *No adjustment has been made to the basic earnings per share amount represented for the year ended 31 December 2017 in respect of a dilution as the impact of the convertible bond of a subsidiary outstanding has an anti-dilutive effect on the basic earnings per share amount presented.*

The Group had no potentially dilutive ordinary shares in issue during the year ended 31 December 2016.

8. DIVIDEND

	2017	2016
	HK$'000	*HK$'000*
Proposed final – HK6.0 cents (2016: HK6.0 cents) per ordinary share	**35,694**	35,694

9. TRADE RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Trade receivables	**647,337**	612,057

The Group's trading terms with its customers are mainly on credit. The credit periods range from cash on delivery to 60 days. A longer credit period may be allowed for customers with good business relationships with the Group. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	2017	2016
	HK$'000	*HK$'000*
Current to 30 days	**416,290**	416,630
31 to 60 days	**117,537**	129,727
61 to 90 days	**58,624**	43,029
Over 90 days	**54,886**	22,671
	647,337	612,057

10. AMOUNT DUE FROM A RELATED COMPANY

The amount due from a related company represented construction contracting income certified from Gold Famous Development Limited ("Gold Famous"). Gold Famous is an indirect wholly-owned subsidiary of Hon Kwok Land Investment Company, Limited ("Hon Kwok") of which Dr. James Sai-Wing Wong, a director and a controlling shareholder of the Company, is also a director of and has a beneficial interest in. Mr. Herman Man-Hei Fung, Mr. James Sing-Wai Wong and Mr. Yuen-Keung Chan are common directors of the Company and Hon Kwok.

The amount due from a related company was unsecured, interest-free and repayable within 30 days.

11. TRADE AND BILLS PAYABLES

	2017	2016
	HK$'000	*HK$'000*
Trade payables	**453,746**	357,877
Bills payable	**23,154**	14,347
	476,900	372,224

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2017	2016
	HK$'000	*HK$'000*
Current to 30 days	**338,450**	286,752
31 to 60 days	**69,544**	44,235
61 to 90 days	**31,701**	11,134
Over 90 days	**14,051**	15,756
	453,746	357,877

12. CONVERTIBLE BOND

On 27 April, 2017, Chinney Shun Cheong Holdings Limited ("Chinney Shun Cheong"), a wholly-owned subsidiary of the Company, issued a 5% convertible bond with a nominal value of HK$40,000,000 and matures on 31 December 2018 (the "Convertible Bond"). Unless previously redeemed or converted in whole, Chinney Shun Cheong shall redeem the Convertible Bond then outstanding in full plus interest on the maturity date. Chinney Shun Cheong has the right, without necessity of obtaining the consent of the bondholder, to redeem the outstanding principal amount of the Convertible Bond in full at any time before the maturity date when it considers, at its sole discretion, that it is not feasible or practicable to continue or proceed with the proposed spin-off of the ordinary shares of Chinney Shun Cheong in The Stock Exchange of Hong Kong Limited (the "Spin-off"). The Convertible Bond may be converted into 50,000 new ordinary shares of HK$0.1 each in the share capital of Chinney Shun Cheong (the "Conversion Shares") based on the initial conversion price of HK$800 per Conversion Share (subject to adjustment), representing approximately 25% of the issued share capital of Chinney Shun Cheong as enlarged by the Conversion Shares (assuming there is no other change in the issued share capital of Chinney Shun Cheong from the date of issuance of the Convertible Bond and up to the date of conversion) on a fully diluted basis. The Convertible Bond is convertible to the Conversion Shares at:

(a) mandatorily and automatically on the date when and upon the Spin-off becoming unconditional; or

(b) upon the exercise of the conversion rights at the option of the bondholder and on the date on which Chinney Shun Cheong receives a conversion notice from the bondholder falling between 1 October 2018 and the maturity date of 31 December 2018 (both dates inclusive),

whichever is earlier.

The fair value of the liability component was estimated by computing the present value of all future cash flows discounted by the prevailing market rate of interests for similar instruments. The default risk of the Convertible Bond is factored into the calculation of discount rate by adding a credit spread to the Hong Kong risk-free rate. The residual amount is assigned as the equity component and is included in shareholders' equity.

The Convertible Bond issued during the year has been split into the liability and equity components as follows:

	2017	2016
	HK$'000	*HK$'000*
Nominal value of Convertible Bond issued during the year	**40,000**	-
Equity component	**(6,499)**	-
Liability component at the issuance date	**33,501**	-
Interest expense	**3,789**	-
Liability component at the end of the reporting period	**37,290**	-

RESULTS

The Group recorded a revenue of HK$5,596 million for the year ended 31 December 2017 (2016: HK$4,571 million). The net profit for the year amounted to HK$197.3 million (2016: HK$235.4 million). The net profit of 2016 included a gain on dissolution of a former associate of HK$6.2 million. If such gain was excluded, the net profit of 2016 would be HK$229.2 million. The profit attributable to the owners of the Company was HK$176.8 million (2016: HK$209.9 million), which was arrived after the deduction of the profit attributable to non-controlling interests held by the public shareholders in the Company's listed subsidiary Chinney Kin Wing Holdings Limited ("Chinney Kin Wing", collectively with its subsidiaries, the "Chinney Kin Wing Group") of HK$20.5 million (2016: HK$25.5 million). The Group's land and buildings held for own use recorded a surplus arising from revaluation of HK$52.8 million (net of deferred tax) which was credited to reserve as other comprehensive income (2016: HK$7.5 million).

PROPOSED FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK6.0 cents per share for the year ended 31 December 2017 (2016: HK6.0 cents) to the shareholders of the Company whose names appear on the Company's register of members on 11 June 2018. It is expected that the final dividend cheques will be despatched to the shareholders on or before 28 June 2018.

CLOSURE OF REGISTER OF MEMBERS FOR ANNUAL GENERAL MEETING

The annual general meeting of the Company is scheduled to be held on 1 June 2018. For determining the entitlement to attend and vote at the annual general meeting, the register of members of the Company will be closed from 29 May 2018 to 1 June 2018 (both days inclusive), during which period no share transfers will be registered. In order to be eligible to attend and vote at the annual general meeting, all transfer forms accompanied by relevant share certificates must be lodged with Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by no later than 4:30 p.m. on 28 May 2018.

CLOSURE OF REGISTER OF MEMBERS FOR DIVIDEND

The proposed final dividend for the year ended 31 December 2017 is subject to the approval by the shareholders of the Company at the annual general meeting. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from 8 June 2018 to 11 June 2018 (both days inclusive), during which period no share transfers will be registered. The last day for dealing in the Company's share cum entitlements to the proposed final dividend will be 5 June 2018. In order to qualify for the proposed final dividend, all transfer forms accompanied by relevant share certificates must be lodged with Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by no later than 4:30 p.m. on 7 June 2018.

BUSINESS REVIEW AND PROSPECTS

Trading of plastic and chemical products

Jacobson van den Berg (Hong Kong) Limited and its fellow subsidiaries contributed a revenue of HK$557 million (2016: HK$552 million) and an operating profit of HK$13.6 million (2016: HK$5.2 million). While the revenue maintained at last year's level, the increase in profit was mainly attributable to increase in commission and rebate from the increase in sales of chemical products, improved margin for plastics materials as the customers were more willing to maintain inventories under the current economic recovery and the exchange gain on appreciation of Renminbi. The recovery of the US and Europe economies increased export of goods from production bases like the Mainland China, which benefited the division as the manufacturers in the area are the division's customers. Nevertheless, the local Chinese manufacturers now play a more substantial role than the Taiwan and Hong Kong companies used to be in the market. The division continues to develop its plastics and chemical distribution business in the Mainland China so as to grab the opportunity of the recovery of the global economic as well as the growth of China. The sales of the "JcoNAT" brand disinfectant products, which are sold via the web and vending machines in various locations, are picking up gradually. The division is exploring opportunities in new products and technologies to enhance its product line.

Building related contracting services

During the year, the Group reviewed the business operation of its “Building related contracting services” sgement and transferred the distribution of aviation system and other hi-tech products business engaged by Chinney Alliance Engineering Limited (“CAE”) to ”Others” segment. Shun Cheong Investments Limited and its subsidiaries (“Shun Cheong”) contributed a revenue of HK$2,179 million (2016: HK$1,558 million, restated) and an operating profit of HK$102.9 million for 2017 (2016: HK$102.4 million, restated). The division is actively expanding its business in pumping and drainage, in addition to the well-developed electrical and air-conditioning contracting and maintenance businesses. Although the gross profit amount increased with the increase in revenue, the profit margin decreased which was mainly due to certain contracts commenced during 2017 will only contribute profit in 2018 when they are progressed to the stage to recognise profit in accordance with the accounting policies adopted. There was increase in staff number of all levels and hence staff costs to cope with the increase in contracts awarded. In January 2018, the division acquired IDC Realty Holdings Limited and its subsidiary (the “IDC Group”) for the development of internet data centre operating and management business. As at year end, the division had outstanding contract sum of approximately HK$5,220 million.

Building construction

Chinney Construction Company, Limited and Chinney Builders Company Limited which operate in Hong Kong and Chinney Timwill Construction (Macau) Company Limited which operates in Macau, contributed a revenue of HK$1,649 million (2016: HK$1,079 million) and an operating profit of HK$51.9 million (2016: HK$65.7 million). The higher profit of 2016 was mainly due to projects which commenced in 2015 and progressed to the stage of completion to recognise profit in 2016. Extra profit was also recorded on variation orders agreed upon completion of project accounts in 2016. So the division’s 2017 results were comparatively lowered. The division is actively seeking tender opportunities in Hong Kong and Macau. The outstanding contract sum as at year end was approximately HK$1,754 million.

Foundation piling and ground investigation

The Company’s separate listed subsidiary Chinney Kin Wing and its subsidiaries contributed revenue of HK$1,190 million (2016: HK$1,356 million) and operating profit of HK$95.5 million (2016: HK$119.4 million) to the Group. The decrease in revenue in the reporting year was primarily due to the continuing weakness of the foundation market and keen competition among the market players which in turn resulted in reducing the contract value of individual projects. The reduced number of foundation contracts from both the public and private sectors of the construction market had a further negative impact on the division’s revenue in 2017. Such market conditions had also led to the decrease in profit margin. On the other hand, there were savings in administrative expenses which were due to the implementation of stringent costs control on overhead costs.

The balance of the net proceeds raised from the market on listing of the shares of Chinney Kin Wing of HK$9.8 million brought forward from last year were fully utilised in 2017 for the acquisition of additional machinery in the amount of HK$9.0 million and for enhancement of design capability and modifications of plant and machinery in the amount of HK$0.8 million.

Given the weak foundation industry and keen competition among the market players, Chinney Kin Wing has implemented the “3P Enhancement Program”, namely Project Management System, Production Efficiency and Plant Modernisation, over the years to improve the project cost control and production effectiveness, and to sharpen its competitive edge to cope with the challenging market environment. In addition, the division will place adequate resources to further strengthen the design and build team to enhance flexibility and capability of the foundation design which will in turn better fulfill the site environment and the client’s requirements and the key of success in winning new tenders.

The drilling business of the division had performed well and recorded a historical high value in terms of revenue from external customers in 2017 since its establishment. Adequate resources will be allocated to the drilling business to well equip its plant and machinery and recruitment of talented professionals for expanding its site investigation and down-the-hole business in Hong Kong and overseas when opportunities come. In 2017, Chinney Kin Wing has established a new division specialised in site formation, pile cap and basement construction works which will be in line with the overall development of the division in providing all round and professional foundation services to customers.

Given the division's well established reputation in the foundation industry, together with the talented and highly motivated staff led by a committed Execution Panel, the management of Chinney Kin Wing has confidence on the expansion of the business and client base under the existing challenging environment. In late 2017, the division was awarded the single largest foundation contract since its establishment, and it is therefore conservatively optimistic as to the long-term demand in the construction industry especially in view of the long-term housing supply target of 460,000 housing units in Hong Kong from both the public and private sectors in the next decade.

Other businesses

Other businesses recorded a profit of HK$0.1 million (2016: loss of HK$1.7 million, restated), which included the profit contributed from CAE, rental income from investment properties and after deduction of depreciation charges of the properties held for the Group's own use.

The Group's share of the profits and losses of associates reported net profit of HK$1.6 million (2016: HK$5.0 million), represented the share of the results of the Group's investment in Fineshade Investments Limited ("Fineshade"). During the year, Fineshade disposed all its interests in the real estate property in Hangzhou, the People's Republic of China (the "PRC") and paid HK$35.2 million to the Group.

FINANCIAL REVIEW

Liquidity and financial resources

Total interest-bearing debts of the Group, which included trust receipt loans, bank loans and the liability component of the convertible bond, amounted to HK$146.1 million as at 31 December 2016 (2016: HK$141.4 million), of which HK$145.1 million or 99% (2016: HK$139.5 million or 99%) were classified as current liabilities. Included in the current portion of bank and other borrowings were trust receipt loans of HK$106.9 million (2016: HK$138.6 million) for financing the purchases of goods by the Group's trading of plastic and chemical products division and the purchases of materials and equipment for installation in the projects of the Group's building related contracting services division. Current ratio of the Group as at 31 December 2017, measured by total current assets over total current liabilities, was 1.6 (2016: 1.5). Total unpledged cash and bank balances as at 31 December 2017 was HK$942.1 million (2016: HK$858.8 million). The increase in unpledged bank balances was mainly due to cash received from operations of HK$103.9 million, proceeds from the Convertible Bond of HK$40 million and receipt from an associate of HK$35.2 million, less capital expenditure in purchases of plant and machinery as well as other equipment of HK$68.4 million and net repayment of bank borrowings (including trust receipt loans) of HK$32.6 million during the year.

The Group had a total of HK$2,106 million undrawn banking facilities at year-end available for its working capital, trade finance and issue of performance/surety bonds. The gearing ratio of the Group, measured by total interest-bearing borrowings of HK$146.1 million over the equity attributable to the owners of the Company of HK$1,619.0 million, was 9.0% as at 31 December 2017 (2016: 10.0%).

Funding and treasury policy

The Group maintains a prudent funding and treasury policy. Surplus funds are maintained in the form of cash deposits with leading banks. Borrowings are mainly denominated in Hong Kong dollars and bear interest at floating rates. Forward contracts of non-speculative nature are entered to hedge the foreign currency trade purchase commitments of the Group when desirable.

Pledge of assets

As at 31 December 2017, certain properties having an aggregate book value of HK$161.1 million were pledged to banks to secure certain bank loans and general banking facilities extended to the Group. In addition, time deposits of HK$11.3 million were pledged to banks to secure the performance/surety bonds issued in favour of the Group's clients on contracting works.

Contingent liability

As at 31 December 2017, the Group provided corporate guarantees and indemnities to certain banks and financial institutions of an aggregate amount of HK$698.4 million to secure the performance/surety bonds issued in favour of the Group's clients on contracting works. Such amount included performance/surety bonds issued in favour of the clients of the Chinney Kin Wing Group of which corporate guarantees and indemnities of HK$261.7 million were provided by Chinney Kin Wing Group.

Save as disclosed above, the Group has no other material contingent liabilities as at 31 December 2016.

Employees and remuneration policies

The Group employed approximately 1,670 staff in Hong Kong and other parts of the PRC as at 31 December 2017. Remuneration packages are reviewed annually and determined by reference to market pay and individual performance. In addition to salary payments and year-end discretionary bonuses, the Group also provides other employment benefits including medical insurance cover, provident fund and educational subsidies to eligible staff.

ISSUE OF CONVERTIBLE BOND

As detailed in the Company's announcements dated 9 February 2017 and 27 April 2017, a subscription agreement was entered between Chinney Shun Cheong, a wholly-owned subsidiary of the Company, and FRO Management Holdings Limited (the "Subscriber"), an independent third party, for the issue of the Convertible Bond with a principal amount of HK$40 million on 9 February 2017. On 27 April 2017, a supplemental agreement was entered between the above-mentioned parties to extend the final maturity date of the Convertible Bond to 31 December 2018. On the same date, the Subscriber paid in full the principal sum of HK$40 million to Chinney Shun Cheong and the issue of the Convertible Bond was completed. The net proceeds of HK$39.7 million after deduction of expenses incurred directly for the issue of the Convertible Bond shall be fully used for the development of the building related contracting services business of the Group (the "E&M Engineering Business"). In 2018 and up to the date of this report, the Group utilised HK$16 million for capital injection to the newly acquired IDC Group, which is engaged in the development and technical services of internet information technology. Such amount was used for the conversion of an industrial building located in Longgang District, Shenzhen, the PRC into internet data centre. The Company is considering the feasibility and possibility of the spin-off the E&M Engineering Business by way of a separate listing of Chinney Shun Cheong on The Stock Exchange of Hong Kong Limited and will comply with the relevant disclosure requirements under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") on the progress of the spin-off as and when appropriate.

COMPARATIVE AMOUNTS

The comparative operating segment information has been represented as if the change of the composition of the Group's reportable segments has been effected at the beginning of the comparative period.

OUTLOOK

The global economy strengthened in 2017 and the growth is expected to continue in 2018. With the strengthening economy, the US Federal Reserve raised the interest rate three times in 2017. The normalisation of the monetary policy continues to proceed and it is expected the interest rate will be increased by the US Federal Reserve three to four times in 2018, including the most recent one announced on 21 March 2018. The long-term effect of the US tax reform to effective from April 2018 is yet to be seen, but the US economy is expected to boost short-term growth. In Europe, the improved labour market and stronger economic sentiment support the growth in the economy. Although there are positive news for easing of the tensions with North Korea, there are uncertainties as to the impact of the reduction of monetary easing measures and interest rate hike to the volatility of global financial market, the effect of US tax reform to the international cash flows, the possibility of trade war in reaction to the increase in tariff for steel and aluminium, and more than 100 different types of goods from China by the US, and the market reaction during the Brexit negotiation. The developing regions in Asia will continue to contribute the global economy. China recorded a remarkable growth of 6.9% in 2017 and continues the consumption upgrading and supply-side structural reform to pursuit high-quality development in economic growth. All in all, a moderate growth for the global economy is expecting in 2018.

Hong Kong's economy recorded notable expansion in 2017, with 3.8% growth in real terms for the year which is notably above the average annual growth of 2.9% in the preceding ten years. The unemployment rate further lowered to 2.9% in the fourth quarter of 2017. Such growth was driven by external demand, with the increase in exports of goods and services as benefited from the recovery of the external markets, and the domestic private consumption. Notwithstanding this, there is shortage in land supply in Hong Kong which not only affects the livelihood of the citizens, but also restrains its growth potential. The shortage in supply of skilled labour and site staff is another constrain for the costs and resources for the construction industry. The Group's trading of plastic and chemical products division would be benefited from the continuing recovery of the external market and the continuing growth in China. Given the costs escalation and competitive tender pricing, the Group's construction businesses would face keen competition to secure projects and spend great effort to manage the progress and costs of projects. The Hong Kong dollars interest rate will have to go up due to the pegging with United States dollars. But the shortage of land and housing supply and the desire of general public to purchase residential property will support the residential property market and bring business opportunity for the construction industry. With the satisfactory level of value of contracts on hand, the Board is cautiously optimistic on the Group's business development in the coming year.

APPRECIATION

I would like to thank my fellow directors for their advice and continued support and staff of all levels for their hard working and contribution for the success during the past year.

CORPORATE GOVERNANCE

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code") set out in Appendix 10 of the Listing Rules. On specific enquiries made, all directors of the Company have confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2017.

Compliance with the Corporate Governance Code

In the opinion of the directors, the Company has complied with all relevant code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules during the year, except A.1.1, A.4.1, A.4.2, A.5.1 to A.5.4 and A.6.7, which are explained below.

1. Board meetings of the Company were held twice during the year on a regular basis, which deviated from code provision A.1.1 of the CG Code which stipulates that the Board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals. In view of the simplicity of the Group's businesses, regular board meetings have not been held quarterly during the year. The interim and annual results together with all corporate transactions happened during the year have been reviewed and discussed amongst the directors at the full board meetings held in the year.

2. Code provision A.4.1 of the CG Code stipulates that non-executive directors should be appointed for a specific term, subject to re-election and that code provision A.4.2 of the CG Code stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

   The existing non-executive directors of the Company do not have a specific term of appointment but are subject to retirement by rotation and re-election at the Company's annual general meeting under the Bye-laws of the Company. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

   According to the provisions of the Company's Bye-laws, at each annual general meeting 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 greater than one-third) shall retire from office by rotation save that the Chairman and/or the Managing Director of the Company shall not be subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year.

   Dr. James Sai-Wing Wong, the beneficial owner of Chinney Investments, Limited, Enhancement Investments Limited and Chinney Capital Limited, which collectively holds approximately 73.43% interest in the Company, is the Chairman of the Board to safeguard their investments in the Company. In addition, the Board considers that the continuity of the office of the Chairman and Managing Director provide the Group with a strong and consistent leadership for the smooth operation of the businesses of the Group. As a result, the Board concurred that the Chairman and the Managing Director need not be subject to retirement by rotation.

3. Code provisions A.5.1 to A.5.4 of the CG Code in respect of the establishment, terms of reference and resources of a nomination committee. The Company has not established a nomination committee. The Board is responsible for considering the suitability of a candidate to act as a director, and collectively approving and terminating the appointment of a director as this allows a more informed and balanced decision to be made. The Chairman is mainly responsible for identifying suitable candidates for members of the Board when there is a vacancy or an additional director is considered necessary. The Chairman will propose the appointment of such candidates to the Board for consideration and the Board will determine the suitability of the relevant candidates on the basis of their gender, age, professional qualifications and experience as well as educational background.

4. Code provision A.6.7 of the CG Code requires that independent non-executive directors and other non-executive directors shall attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Herman Man-Hei Fung, Ms. Wendy Kim-See Gan and Mr. Chi-Chiu Wu, being non-executive directors of the Company, did not attend the annual general meeting of the Company held on 2 June 2017 due to their engagement in their own business.

Details of the Company's corporate governance corporate governance policies and practices (including the above deviations from the code provisions) will be discussed in the Company's 2017 annual report.

Audit Committee

Regular meetings have been held by the Audit Committee since establishment and it meets at least twice each year to review and supervise the Group's financial reporting process and internal control. The Audit Committee has reviewed the accounting principles and policies adopted by the Company and discussed with management and the external auditor the financial reporting matters of the Group for the year ended 31 December 2017.

SCOPE OF WORK OF THE COMPANY'S AUDITOR

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2017 as set out in the preliminary announcement have been agreed by the Company's auditor, Ernst & Young, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by the Company's auditor in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by the Company's auditor on the preliminary announcement.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares during the year.

By Order of the Board
James Sai-Wing Wong
Chairman

Hong Kong, 27 March 2018

At the date of this announcement, the Board comprises of nine directors, of which four are executive directors, namely Dr. James Sai-Wing Wong, Mr. Yuen-Keung Chan, Mr. James Sing-Wai Wong and Mr. Philip Bing-Lun Lam; and two are non-executive directors, namely Mr. Herman Man-Hei Fung and Ms. Wendy Kim-See Gan; and three are independent non-executive directors, namely Mr. Yuen-Tin Ng, Mr. Chi-Chiu Wu and Mr. Ronald James Blake.

** For identification purpose only*