冠力國際有限公司
**Softpower International Limited**

*(Incorporated in Bermuda with limited liability)*
**(Stock Code: 00380)**

# ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

**FINANCIAL HIGHLIGHTS**

| | **2018** | 2017 | Percentage |
|---|---|---|---|
| | ***HK$'000*** | *HK$'000* | Change |
| Revenue | **538,155** | 650,461 | (17%) |
| Profit attributable to equity holders of the Company | **26,015** | 74,945 | (65%) |
| Basic earnings per share | **HK1.95 cents** | HK5.62 cents | |

The board of directors (the "Board") of Softpower International Limited (the "Company") hereby announces the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2018, together with the comparative figures for the corresponding year in 2017, are as follows:

## CONSOLIDATED INCOME STATEMENT

*For the year ended 31 December 2018*

| | Note | 2018 | 2017 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| **Revenue** | *2* | **538,155** | 650,461 |
| Cost of sales | *4* | **(390,671)** | (441,328) |
| **Gross profit** | | **147,484** | 209,133 |
| Other gains, net | *3* | **4,267** | 2,623 |
| Selling and distribution costs | *4* | **(20,844)** | (23,542) |
| General and administrative expenses | *4* | **(113,018)** | (111,982) |
| Reversal of/(provision for) impairment of financial assets | *4* | **3,523** | (198) |
| **Operating profit** | | **21,412** | 76,034 |
| Finance income | *5* | **10,111** | 10,359 |
| Finance costs | *5* | **(2,051)** | (2,219) |
| Finance income, net | *5* | **8,060** | 8,140 |
| **Profit before income tax** | | **29,472** | 84,174 |
| Tax expense | *6* | **(4,621)** | (9,386) |
| **Profit for the year** | | **24,851** | 74,788 |
| **Profit attributable to:** | | | |
| Equity holders of the Company | | **26,015** | 74,945 |
| Non-controlling interests | | **(1,164)** | (157) |
| | | **24,851** | 74,788 |
| **Earnings per share** | | ***HK cents*** | *HK cents* |
| Basic and diluted | *7* | **1.95** | 5.62 |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 December 2018*

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Profit for the year** | **24,851** | 74,788 |
| **Other comprehensive income:** | | |
| **Item that will not be reclassified subsequently to profit or loss** | | |
| Actuarial (loss)/gain on post-employment benefit obligations, net of tax | **(110)** | 935 |
| **Item that may be subsequently reclassified to profit or loss** | | |
| Currency translation differences | **(1,156)** | (4) |
| Other comprehensive income for the year, net of tax | **(1,266)** | 931 |
| **Total comprehensive income for the year** | **23,585** | 75,719 |
| **Total comprehensive income attributable to:** | | |
| Equity holders of the Company | **24,744** | 75,876 |
| Non-controlling interests | **(1,159)** | (157) |
| | **23,585** | 75,719 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2018*

| | Note | **2018** *HK$'000* | 2017 *HK$'000* |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **21,377** | 5,317 |
| Loan to a related company | *9* | **-** | 78,357 |
| Rental deposits and other assets | *9* | **7,337** | 7,327 |
| | | **28,714** | 91,001 |
| **Current assets** | | | |
| Inventories | | **235,309** | 204,341 |
| Loan to a related company | *9* | **78,540** | - |
| Trade receivables | *9* | **114,747** | 119,390 |
| Deposits, prepayments and other receivables | *9* | **39,741** | 60,906 |
| Financial assets at fair value through profit or loss | | **2,601** | 2,744 |
| Tax recoverable | | **2,111** | - |
| Pledged certificate of deposit | | **10,000** | 10,000 |
| Pledged bank deposits | | **31,000** | 37,000 |
| Cash and bank balances | | **130,117** | 146,571 |
| | | **644,166** | 580,952 |
| **Total assets** | | **672,880** | 671,953 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2018*

| | Note | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| **EQUITY** | | | |
| **Equity holders** | | | |
| Share capital | | **26,665** | 26,665 |
| Reserves | | **510,150** | 485,377 |
| | | **536,815** | 512,042 |
| Non-controlling interests | | **4,618** | - |
| **Total equity** | | **541,433** | 512,042 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | | **1,352** | 436 |
| Other non-current liabilities | | **2,862** | 2,572 |
| | | **4,214** | 3,008 |
| **Current liabilities** | | | |
| Trade payables, other payables and contract liabilities | *10* | **69,227** | 82,436 |
| Taxation payable | | **562** | 3,990 |
| Borrowings | | **57,444** | 70,477 |
| | | **127,233** | 156,903 |
| **Total liabilities** | | **131,447** | 159,911 |
| **Total equity and liabilities** | | **672,880** | 671,953 |
| **Net current assets** | | **516,933** | 424,049 |
| **Total assets less current liabilities** | | **545,647** | 515,050 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") and under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss, which are carried at fair value. In addition, the consolidated financial statements include applicable disclosures required by the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

**Adoption of standards, amendments and interpretations to standards**

The Group has applied the following standards, amendments and interpretations for the first time for the annual reporting period commencing 1 January 2018:

| | |
|---|---|
| HKFRS 9 | Financial Instruments |
| HKFRS 15 | Revenue from Contracts with Customers |
| Amendments to HKFRS 2 | Classification and Measurement of Share-based Payment Transaction |
| Amendments to HKFRS 4 | Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts |
| Amendments to HKFRS 15 | Clarifications to HKFRS 15 |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2014-2016 Cycle |
| Amendments to HKAS 40 | Transfers of investment property |
| HK (IFRIC) 22 | Foreign currency transactions and advance consideration |

The Group had to change its accounting policies and make retrospective adjustments, where relevant, as a result of adopting HKFRS 9 and HKFRS 15. Reclassification of impairment losses on financial assets is also required as a result of consequential changes made to HKAS 1 Presentation of Financial Statements. Impairment losses on financial assets that were previously classified as administrative expenses are now presented separately in the consolidated income statement.

Save as disclosed below, the adoption of other amendments on standards and interpretation did not have any material impact on the consolidated financial statements of the Group for the year.

*HKFRS 9, 'Financial instruments'*

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. In accordance with the transitional provisions in HKFRS 9, comparative figures have not been restated.

Impact of adoption:

*Classification and measurement of financial instruments*

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories. There were no impacts on the amounts recognized in relation to these assets from the adoption of HKFRS 9.

There is also no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.

## 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

*Impairment of financial assets*

The Group has two types of financial assets that are subject to HKFRS 9's new expected credit loss model:

- trade receivables
- other financial assets at amortised cost (including bank deposits, cash and cash equivalents, loan to a related company, and other receivables)

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets.

(i) Trade receivables

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected losses for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. Future cash flows for each group receivables are estimated on the basis of historical loss experience, adjusted to reflect the effects of current conditions as well as forward looking information.

The adoption of the simplified expected loss approach under HKFRS 9 has not resulted in any material additional impairment loss for trade receivables as at 1 January 2018.

(ii) Other financial assets at amortised cost

For other financial assets at amortised cost, the expected credit loss is based on the 12-month expected credit loss. It is the portion of lifetime expected credit loss that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime expected credit loss. Management has closely monitored the credit qualities and the collectability of the other financial assets at amortised cost and considers that the resulted increase in loss allowance at 1 January 2018 was immaterial.

While bank deposits and cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

*HKFRS 15, 'Revenue from contracts with customers'*

The Group has adopted HKFRS 15 from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements.

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, Construction Contracts, which specified the accounting for construction contracts. The Group has elected to use the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under HKAS 11 and HKAS 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

The adoption of HKFRS 15 did not have any material impact on the Group's consolidated financial position and results of operation for the year. There is also no material impact to the Group's retained earnings as at 1 January 2018.

## 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset.

Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. 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.

The impact on the Group's financial position by the application of HKFRS 15 as compared to HKAS 18 and HKAS 11 that was previously in effect before the adoption of HKFRS 15 is as follows:

| | As at 1 January 2018 | | |
|---|---|---|---|
| | As previously stated | Reclassification under HKFRS 15 | Restated |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Consolidated statement of financial position (extracted) | | | |
| Trade payables | 39,493 | - | 39,493 |
| Accrual expenses and other payables | 42,943 | (14,901) | 28,042 |
| Contract liabilities (previously deposits received from customers) | - | 14,901 | 14,901 |
| | 82,436 | - | 82,436 |

The following new standards, amendments to standards and interpretation have been issued but are not effective for the financial year beginning 1 January 2019 and have not been early adopted by the Group.

| | |
|---|---|
| HKFRS 16 | Leases[1] |
| HKFRS 17 | Insurance contracts[3] |
| Amendments to HKFRS 3 | Definition of a business[2] |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation[1] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4] |
| Amendments to HKAS 1 and HKAS 8 | Definition of Material[2] |
| Amendments to HKAS 19 | Plan Amendments, Curtailment or Settlement[1] |
| Amendments to HKAS 28 | Long term interests in associates and Joint ventures[1] |
| HK (IFRIC) 23 | Uncertainty over income tax Treatments[1] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2015–2017 Cycle[1] |
| Conceptual Framework for Financial Reporting 2018 | Revised Conceptual Framework for Financial Reporting[2] |

[1] effective for annual periods beginning on or after 1 January 2019
[2] effective for annual periods beginning on or after 1 January 2020
[3] effective for annual periods beginning on or after 1 January 2021
[4] effective date to be determined

## 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

The Group's assessment of the impact of these new standards, amendments to standards and interpretations is set out below:

*HKFRS 16, 'Leases'*

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

The accounting for lessors will not significantly change.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. As at 31 December 2018 the Group has non-cancellable operating leases commitments of $187.3 million and $1.3 million in respect of properties and other assets respectively, the majority of which is payable later than one year after the reporting date. Upon the initial adoption of HKFRS 16, the opening balances of lease liabilities and the corresponding right-of-use assets will be recognised, after taking into account the effects of discounting, as at 1 January 2019. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the profit or loss over the period of the lease.

The Group has not yet fully assessed the adjustments, if any, that are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

HKFRS 16 is mandatory for financial years commencing on or after 1 January 2019. The Group will apply the standard from its mandatory adoption date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

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

## 2. SEGMENT INFORMATION

The Group determines its operating segments based on the reports reviewed by the chief operating decision-maker ("CODM") that are used to make strategic decisions. The CODM has been identified as the executive directors of the Company. The CODM assesses the performance of the operating segments based on a measure of the results of the segments. Finance income and costs, and corporate income and expenses are not included in the results for each operating segment that is reviewed by the CODM. Other information provided to the CODM is measured in a manner consistent with that in the financial statements.

During the year, the Group has two reportable segments, which are trading of pipes and fittings ("Trading of pipes and fittings") and manufacture and sale of biomass pellets fuel products ("Biomass Pellets fuel products"). The following summary describes the operations in each of the Group's reportable segments.

Trading of pipes and fittings includes wholesale, retail and logistics operations substantially in Hong Kong and Macau.

Biomass pellets fuel products are contributed by a subsidiary of the Group, Guizhou Zhongguan New Energy Limited, which manufactures and sells biomass pellets fuel products in the PRC.

The segment information for the year ended 31 December 2018 and 2017 are as follows:

| | For the year ended 31 December 2018 | | | | |
|---|---|---|---|---|---|
| | Reportable segments | | | | |
| | Trading of pipes and fittings<br>*HK$'000* | Biomass pellets fuel products<br>*HK$'000* | Total reportable segments<br>*HK$'000* | Unallocated<br>*HK$'000* | Total<br>*HK$'000* |
| **Revenue** | **535,978** | **2,177** | **538,155** | **-** | **538,155** |
| **Results of reportable segments** | **44,784** | **(3,536)** | **41,248** | **-** | **41,248** |
| **Reconciliation of results of reportable segments to profit for the year** | | | | | |
| **Results of reportable segments** | | | | | |
| Unallocated income | | | | | **3,181** |
| Unallocated expenses | | | | | **(23,017)** |
| **Operating profit** | | | | | **21,412** |
| Finance income | | | | | **10,111** |
| Finance costs | | | | | **(2,051)** |
| **Profit before income tax** | | | | | **29,472** |
| Tax expense | | | | | **(4,621)** |
| **Profit for the year** | | | | | **24,851** |
| **Other segment information:** | | | | | |
| Depreciation of property, plant and equipment | **3,686** | **811** | **4,497** | **56** | **4,553** |
| Net gain on disposal of property, plant and equipment | **136** | **-** | **136** | **-** | **136** |
| Provision for impairment of inventories | **4,693** | **-** | **4,693** | **-** | **4,693** |
| Reversal of impairment of financial assets | **(544)** | **-** | **(544)** | **(2,979)** | **(3,523)** |

| | For the year ended 31 December 2017 | | | | |
|---|---|---|---|---|---|
| | Reportable segments | | | | |
| | Trading of pipes and fittings *HK$'000* | Biomass pellets fuel products *HK$'000* | Total reportable segments *HK$'000* | Unallocated *HK$'000* | Total *HK$'000* |
| **Revenue** | 650,461 | - | 650,461 | - | 650,461 |
| **Results of reportable segments** | 100,712 | - | 100,712 | - | 100,712 |
| **Reconciliation of results of reportable segments to profit for the year** | | | | | |
| **Results of reportable segments** | | | | | |
| Unallocated income | | | | | 223 |
| Unallocated expenses | | | | | (24,901) |
| **Operating profit** | | | | | 76,034 |
| Finance income | | | | | 10,359 |
| Finance costs | | | | | (2,219) |
| **Profit before income tax** | | | | | 84,174 |
| Tax expense | | | | | (9,386) |
| **Profit for the year** | | | | | 74,788 |
| **Other segment information:** | | | | | |
| Depreciation of property, plant and equipment | 3,408 | - | 3,408 | - | 3,408 |
| Net gain on disposal of property, plant and equipment | 125 | - | 125 | - | 125 |
| Provision for impairment of inventories | 2,540 | - | 2,540 | - | 2,540 |
| Provision for impairment of financial assets | 198 | - | 198 | - | 198 |

The segment assets and liabilities as at 31 December 2018 and 2017 are as follows:

| | Reportable segments | | | |
|---|---|---|---|---|
| **As at 31 December 2018** | Trading of pipes and fittings *HK$'000* | Biomass pellets fuel products *HK$'000* | Unallocated *HK$'000* | Total *HK$'000* |
| **Non-current assets** | **15,914** | **12,695** | **105** | **28,714** |
| **Total current assets** | **527,968** | **6,926** | **109,272** | **644,166** |
| **Total Assets** | **543,882** | **19,621** | **109,377** | **672,880** |
| **Non-current liabilities** | **(3,818)** | **(396)** | **-** | **(4,214)** |
| **Total current liabilities** | **(120,233)** | **(4,514)** | **(2,486)** | **(127,233)** |
| **Total Liabilities** | **(124,051)** | **(4,910)** | **(2,486)** | **(131,447)** |

| | Reportable segments | | | |
|---|---|---|---|---|
| As at 31 December 2017 | Trading of pipes and fittings *HK$'000* | Biomass pellets fuel products *HK$'000* | Unallocated *HK$'000* | Total *HK$'000* |
| Non-current assets | 12,494 | - | 78,507 | 91,001 |
| Total current assets | 546,491 | - | 34,461 | 580,952 |
| Total Assets | 558,985 | - | 112,968 | 671,953 |
| Non-current liabilities | (3,008) | - | - | (3,008) |
| Total current liabilities | (151,434) | - | (5,469) | (156,903) |
| Total Liabilities | (154,442) | - | (5,469) | (159,911) |

**Geographical information**

The Group is domiciled in Hong Kong. The Group's revenues from external customers by geographical location are detailed below:

| | Revenue<br>For the year ended 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| Hong Kong | **508,391** | 604,956 |
| Macau | **27,587** | 45,505 |
| Mainland China | **2,177** | - |
| | **538,155** | 650,461 |

The Group's non-current assets by geographical location are detailed below:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Hong Kong | **14,790** | 89,680 |
| Mainland China | **13,924** | 1,321 |
| | **28,714** | 91,001 |

## 3. OTHER GAINS, NET

| | **2018**<br>***HK$'000*** | 2017<br>*HK$'000* |
|---|---|---|
| Net exchange (loss) /gain | **(107)** | 1,836 |
| Net gain on disposal of property, plant and equipment | **136** | 125 |
| (Loss)/gain on financial assets at fair value through profit or loss | **(145)** | 69 |
| Dividend income from financial assets at fair value through profit or loss | **105** | 78 |
| Reversal of provision for customer claim | **3,694** | - |
| Others | **584** | 515 |
| | **4,267** | 2,623 |

## 4. EXPENSES BY NATURE

Operating profit is arrived at after charging/(crediting):

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Cost of inventories sold | **374,317** | 428,629 |
| Auditor's remuneration | | |
| - Audit services | **1,300** | 1,252 |
| - Non-audit services | **196** | 191 |
| Depreciation of property, plant and equipment | **4,553** | 3,408 |
| Employee benefit expenses | **72,295** | 80,221 |
| Operating lease payments | **29,967** | 22,724 |
| (Reversal of)/provision for impairment of financial assets | **(3,523)** | 198 |
| Provision for impairment of inventories, net | **4,693** | 2,540 |
| Other expenses | **37,212** | 37,887 |
| | **521,010** | 577,050 |

Representing:

| | **2018** | 2017 |
|---|---|---|
| Cost of sales | **390,671** | 441,328 |
| Selling and distribution costs | **20,844** | 23,542 |
| General and administrative expenses | **113,018** | 111,982 |
| (Reversal of)/provision for impairment of financial assets | **(3,523)** | 198 |
| | **521,010** | 577,050 |

## 5. FINANCE INCOME, NET

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Bank and other interest income | **(10,111)** | (10,359) |
| Interest expense on bank borrowings | **2,051** | 2,219 |
| | **(8,060)** | (8,140) |

## 6. TAX EXPENSE

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current taxation: | | |
| Hong Kong profits tax | **3,845** | 8,806 |
| Overseas tax | **251** | 515 |
| Under / (Over) provision in prior years | **21** | (6) |
| Total current tax | **4,117** | 9,315 |
| Deferred taxation: | | |
| Origination and reversal of temporary differences | **504** | 71 |
| Tax expense | **4,621** | 9,386 |

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

## 7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the profit for the year attributable to equity holders and weighted average number of ordinary shares with adjustments where applicable as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit attributable to equity holders of the Company for the purpose of basic earnings per share | **26,015** | 74,945 |
| **Number of shares** | **Thousand** | Thousand |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **1,333,270** | 1,333,270 |

Diluted earnings per share for the years ended 31 December 2017 and 2018 equal basic earnings per share as the exercise of the outstanding share options would be anti-dilutive.

## 8. DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: Nil).

## 9. TRADE AND OTHER RECEIVABLES

| | 2018 | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade receivables | **115,401** | 121,406 |
| Less: loss allowance | **(654)** | (2,016) |
| Trade receivables – net | **114,747** | 119,390 |
| Prepayments | **30,817** | 37,919 |
| Loan to an employee | **-** | 1,328 |
| Amount due from a non-controlling shareholder | **4,697** | - |
| Other receivables, deposits and other assets (note) | **5,098** | 22,490 |
| Rental deposits | **6,466** | 6,496 |
| Loan to a related company | **78,540** | 78,357 |
| | **240,365** | 265,980 |
| Less non-current portion: | | |
| Rental deposits and other assets | **(7,337)** | (7,327) |
| Loan to a related company | **-** | (78,357) |
| | **233,028** | 180,296 |

The Group generally grants credit term of 60-120 days to its customers for its trading of pipes and fittings operation. The ageing analysis of the trade receivables based on the due date is as follows:

| | 2018 | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within credit period | **68,882** | 75,863 |
| 1 to 30 days | **23,710** | 28,226 |
| 31 to 60 days | **12,245** | 8,052 |
| 61 to 90 days | **6,281** | 3,491 |
| 91 to 120 days | **1,365** | 1,282 |
| Over 120 days | **2,918** | 4,492 |
| | **115,401** | 121,406 |

*Note:*

Pursuant to a non-legally binding memorandum of understanding (the "MOU") entered into among the Group, 北京華奧農科玉育種開發有限責任公司 (Agria NKY Seeds Co., Ltd. or "ANKY") and Agria Corporation (the "Transaction Guarantor") on 15 December 2017, the Group intends to inject capital into and subscribe the equity interests in ANKY (the "Proposed Transaction"). ANKY is an enterprise established in the PRC principally engaged in the research, production and marketing of corn seeds in the PRC and controlled by an executive director of the Company.

Pursuant to the MOU, an earnest deposit of HK$15,000,000 ("Earnest Deposit") was paid by the Group on 19 December 2017. The Earnest Deposit is unsecured, interest free and shall be refunded to the Group prior to 31 May 2018 should the Proposed Transaction not being materialised. This earnest deposit was included in "Other receivables, deposits and other assets" as at 31 December 2017 and had been refunded to the Group during the year when the MOU was lapsed.

As at 31 December 2018, loan to a third party of HK$1,121,100 (2017: HK$4,100,000) was impaired and provided for. Although the loan was secured by certain assets of the third party, the Group considered that the recoverability may take a long time and was uncertain. In this connection, the balance amount of the loan was fully provided for. During the year, HK$2,979,000 was recovered from the third party.

The closing loss allowance for all trade receivables reconcile to the opening loss allowance are as follows:

| | ***HK$'000*** |
|---|---|
| Loss allowance as at 1 January 2017 under HKAS 39 | 1,818 |
| Loss allowance for trade receivables | 210 |
| Unused amount reversed | (12) |
| Loss allowance as at 31 December 2017 under HKAS 39 and 1 January 2018 under HKFRS 9 | **2,016** |
| Loss allowance for trade receivables | **22** |
| Unused amount reversed | **(566)** |
| Receivables written off during the year as uncollectible | **(818)** |
| Loss allowance as at 31 December 2018 under HKFRS 9 | **654** |

The Group applies HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. This has not resulted in a significant change to the loss allowance of trade receivables as at 1 January 2018.

The loss allowance was decreased to HK$654,000 for trade receivables during the year ended 31 December 2018.

## 10. TRADE PAYABLES, OTHER PAYABLES AND CONTRACT LIABILITIES

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade payables | **33,904** | 39,493 |
| Contract liabilities (2017: Deposits received from customers) | **16,384** | 14,901 |
| Accrued expenses and other payables | **18,939** | 28,042 |
| | **69,227** | 82,436 |

The ageing analysis of the Group's trade payables, based on the invoice date, is as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 30 days | **26,878** | 33,706 |
| 31 to 60 days | **3,518** | 4,230 |
| 61 to 90 days | **2,350** | 1,477 |
| Over 90 days | **1,158** | 80 |
| | **33,904** | 39,493 |

## BUSINESS REVIEW

2018 was a challenging year. As mentioned in 2018 interim results, we encountered supply shortage and other factory issues. The supply of ductile iron pipes was affected by the PRC factories temporarily stopping production even though we had increased the stock level towards the end of 2017. This shortage delayed our delivery of products to fulfill our customers' needs. Against this backdrop, the Group's revenue and performance were affected.

For the year ended 31 December 2018, the Group recorded a decrease of 17.3% in revenue of approximately HK$538.2 million (2017: HK$650.5 million). We enjoyed strong growth in the preceding years from the infrastructure projects such as MTRC Express Rail Link projects in Hong Kong and Hong Kong-Zhuhai-Macao Bridge Hong Kong Boundary Crossing Facilities projects. As most of the large infrastructure projects in Hong Kong have recently been completed, our revenue returned to a normal level. Though our performance was not as strong as last year, we still achieved satisfactory results during the year under review.

Notwithstanding the challenges faced by the Group, we will continue to review our business strategies and adopt measures to improve our operational efficiency in order to minimize inventory holding costs. In addition, it is our commitment to provide high quality products and reliable customer services to our customers.

## MANAGEMENT DISCUSSION AND ANALYSIS

The Group is a leading provider to the construction sector offering a wide range of pipe (including copper tube, stainless steel and steel pipes) related products, fittings, comprehensive services and solutions to the contractors, designers, consultants and government agencies in Hong Kong and Macau.

The Group's core business mainly operated through our flagship subsidiary, Bun Kee (International) Limited, a well-established company with a long history. Starting from a small retail shop, we grew up to a company listed in Hong Kong. We have become one-stop supplier of a comprehensive range of pipes and fittings. The Group has built a good reputation for the pipes and fittings business in Hong Kong and Macau. We have established a stable major customer base and suppliers over the years.

The Group faced a challenging environment in 2018 due to the unfavorable market conditions as well as the intense competition in the market. In our last annual report, we mentioned the business challenges that the Group would have to contend during 2018 such as rising staff costs, increasing material costs and maintaining quality of products. After a stellar performance in 2017, our revenue and profit were affected by the moderating sales in 2018. The Group's revenue amounted to HK$538.2 million (2017: HK$650.5 million), representing a decrease of 17.3%. The profit attributable to equity shareholders was HK$26.0 million for the year ended 31 December 2018 (2017: HK$74.9 million), representing a decrease of 65.3%.

Apart from focusing on our core business in Hong Kong, as reported in previous reports, we have been seeking opportunities to diversify our business. In August 2018, the Group acquired a 66.7% shareholding interest in Guizhou New Energy Limited which is engaged in biomass pellets fuel products business. These biomass pellets are relatively cleaner fuel than other traditional fuel such as coal. The acquisition enables the Group to explore new business opportunity in the field of biomass pellets fuel. This was a newly start-up company and we acquired the equity interests through a capital injection of RMB10,000,000. This new subsidiary was in its initial stage of development and the turnover contribution was insignificant in 2018.

The Group's selling and distribution costs amounted to approximately HK$20.8 million in 2018 (2017: HK$23.5 million), a decrease of about 11.5% year-on-year. The decrease was mainly attributable to the decrease in transportation costs, consultancy fees and sales commission. The Group's general and administrative expenses amounted to approximately HK$113.0 million in 2018 (2017: HK$112.0 million), representing a slight increase of about 0.9% year-on-year. Such an increase was primarily attributable to the increase in rental, professional fees and depreciation and partially offset by the decrease in employee benefits expenses. .

In 2018, other net gains were about HK$4.3 million (2017: HK$2.6 million). The increase was mainly attributable to the reversal of provision for customer claim during the year. Finance income, mainly interest income from a loan to a related party, was fairly stable as compared to last year. Finance costs also decreased mainly attributed to the early settlement of trust receipt loans. As finance income outpaced costs, we recorded net finance income of HK$8.1 million (2017: HK$8.1 million).

## FUTURE PROSPECTS

Going forward, the Group will focus on its core business of supplying pipes and fittings in Hong Kong and Macau. As our main operating subsidiary, Bun Kee (International) Limited has been established in Hong Kong over 70 years, we have accumulated extensive experience and a solid position in supplying of pipes and fittings. We will remain focused on managing operating costs and improving operational efficiencies.

As supported by Hong Kong government's aim to supply more public housing in the coming years, the prospects of construction industry in Hong Kong remain positive. As such, this will drive the solid demand of our pipes and fittings products. We remain cautiously optimistic about the future prospects of the Group and our core business.

## LIQUIDITY AND CAPITAL RESOURCES ANALYSIS

As at 31 December 2018, the cash and bank balances of the Group were approximately HK$161.1 million (2017: HK$183.6 million) including pledged bank deposits of HK$31.0 million (2017: HK$37.0 million). Basically the Group's working capital requirement has been financed by its internal resources. The funds generated from operations and the available banking facilities will enable the Group to meet its future working capital requirements.

As at 31 December 2018, the Group had aggregate banking facilities for trade finance of approximately HK$265.7 million (2017: HK$289.2 million), approximately HK$62.8 million (2017: HK$88.3 million) was utilised. The Group's total borrowings stood at approximately HK$57.4 million (2017: HK$70.5 million), the entire amount of borrowings for both years end will mature within one year.

The entire amount of borrowings outstanding as at 31 December 2018 was approximately HK$57.4 million (2017: HK$70.5 million). 20% (2017: 26%) and 80% (2017: 74%) of borrowings were subject to floating and fixed rates respectively.

The gearing ratio as measured by total bank borrowings to total equity was approximately 10.6% as at 31 December 2018 (2017: 13.8%).

As at 31 December 2017 and 2018, the entire amount of the Group's borrowings was denominated in Hong Kong dollars.

The Group conducts its business transactions mainly in Hong Kong dollar, Macau Pataca, Renminbi and United States dollar. In order to manage foreign exchange risk, the Group has been closely monitoring its foreign currency exposure and will arrange for any hedging facilities if necessary.

**CHARGE ON ASSETS**

As at 31 December 2018, certain bank deposits and certificate of deposit held by subsidiaries of the Group with aggregate carrying amounts of approximately HK$31.0 million (2017: HK$37.0 million) and HK$10.0 million (2017: HK$10.0 million) respectively were pledged to banks for banking facilities.

**CONTINGENT LIABILITIES**

The Group did not have any significant contingent liabilities as at 31 December 2017 and 2018.

**COMMITMENTS**

As at 31 December 2018, the Group had outstanding commitments in respect of future minimum lease payments under non-cancellable lease of approximately HK$188.6 million (2017: HK$213.1 million).

As at 31 December 2018, the Group did not have any outstanding commitments in respect of acquisition of motor vehicles (2017: HK$1.2 million).

## STAFF AND REMUNERATION POLICY

As at 31 December 2018, the Group employed a total of 186 employees (2017: 177). Total employee benefit expenses for the year ended 31 December 2017 was approximately HK$72.3 million (2017: HK$80.2 million).

Remuneration policy is reviewed annually and certain staff members are entitled to sales commission. In addition to the basic salaries and contributions to the mandatory provident fund, the Group also pays discretionary bonus and provides staff with other benefits including medical scheme to the employees in Hong Kong. The Group contributes to an employee pension scheme established by the PRC Government which undertakes to assume the retirement benefit obligations of all existing and future retired employees of the Group in Mainland China. The Group adopted a share option scheme for the purpose of providing incentives and rewards to motivate the eligible directors and employees of the Group in recognition of their contributions to the Group.

## FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: Nil).

## PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

## COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has complied with the code provisions set out in the Corporate Governance Code as stated in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange") throughout the year ended 31 December 2018.

## AUDIT COMMITTEE

The audit committee consists of three independent non-executive directors, namely Mr. Wong Yee Shuen, Wilson, Mr. Chen Wei Wen and Mr. Guan Zhiqiang.

The annual results have been reviewed by the audit committee of the Company. The figures in respect of the Group's consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in the preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers 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 PricewaterhouseCoopers on the preliminary announcement.

## COMPLIANCE WITH THE MODEL CODE OF THE LISTING RULES

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rule (the "Model Code"). Having made specific enquiry with all directors, all directors confirmed that they have fully complied with the required standard as set out in the Model Code throughout the year ended 31 December 2018.

## PUBLICATION OF FINAL RESULTS AND ANNUAL REPORT

This results announcement is published on the website of the Company at www.softpower.hk and the website of the Stock Exchange at www.hkexnews.hk.. The 2018 annual report of the Company will be available at the website of the Company and the website of the Stock Exchange and despatched to shareholders of the Company in due course.

By Order of the Board
**Softpower International Limited**
**Lai Fulin**
*Chairman*

Hong Kong, 25 March 2019

*As at the date of this announcement, the Board consists of Mr. Lai Fulin and Mr. Yu Ben Ansheng as executive directors; Mr. Wong Yee Shuen, Wilson, Mr. Chen Wei Wen and Mr. Guan Zhiqiang as independent non-executive directors.*