中漆集團有限公司
CPM GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code : 1932

Annual Report

2017

GOLDEN FLOWER

Contents

Corporate Information

BOARD OF DIRECTORS

Non-executive Director and Chairman
Lam Ting Ball, Paul

Executive Directors
Tsui Ho Chuen, Philip *(Managing Director)*
Li Guangzhong *(Sales Director)*
Wong Anders *(Finance Director)*

Non-executive Director
Chong Chi Kwan

Independent Non-executive Directors
Chiu Kam Hing, Kathy
Chua Joo Bin
Xia Jun

AUDIT COMMITTEE

Chiu Kam Hing, Kathy *(AC Chairlady)*
Chua Joo Bin
Chong Chi Kwan

REMUNERATION COMMITTEE

Chiu Kam Hing, Kathy *(RC Chairlady)*
Chong Chi Kwan
Xia Jun

NOMINATION COMMITTEE

Chiu Kam Hing, Kathy *(NC Chairlady)*
Tsui Ho Chuen, Philip
Xia Jun

COMPANY SECRETARY

Fok Pik Yi, Carol

AUDITORS

Ernst & Young
22nd Floor, CITIC Tower, 1 Tim Mei Avenue
Central, Hong Kong

COMPLIANCE ADVISER

Innovax Capital Limited
Room 2002, 20th Floor, Chinachem Century Tower
178 Gloucester Road, Wanchai, Hong Kong

SHARE REGISTRARS

Hong Kong
Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East, Hong Kong

Cayman Islands
Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive, PO Box 2681
Grand Cayman, KY1-1111, Cayman Islands

PRINCIPAL BANKERS

Hong Kong
The Hongkong and Shanghai Banking Corporation Limited
DBS Bank (Hong Kong) Limited

PRC
HSBC Bank (China) Company Limited Shenzhen Branch

REGISTERED OFFICE

Cricket Square, Hutchins Drive, PO Box 2681
Grand Cayman, KY1-1111, Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

31st Floor, CNT Tower, 338 Hennessy Road
Wanchai, Hong Kong

WEBSITE

www.cpmgroup.com.hk

Chairman's Statement

In 2017, China's economy maintained a steady growth with the gross domestic product ("GDP") increasing by 6.9%, despite the economic transformation and China's strict anti-pollution measures. Regarding the paint and coating industry in Mainland China, the apparent consumption of paint and coating products in 2017 grew by 7.0% to 20.3 million tonnes as compared to last year. This growth was attributable to the steady growth of downstream industries, in particular the building and construction industry, furniture industry and automotive industry, the increasing application of protective and environmental-friendly coatings and the continuous expansion of manufacturing industries in Mainland China. Benefited from improved liquidity conditions and a comparatively low interest rate environment, and coupled with a strong demand from downstream industries, the paint and coating market in Mainland China continued to grow steadily.

However, high oil prices affected profit margins in the paint and coating market in Mainland China. During the year, the price of some resins, solvents and pigments increased dramatically as compared to last year. Besides, there was a significant increase of crude oil price in 2017. This sharp increase was compounded by supply shortages of certain key raw materials, such as resins, solvents and titanium dioxide. With the implementation of new stringent environmental protection policies from the local governments, the production activities of numerous resin and solvent suppliers in Mainland China were either interrupted or ceased in order to comply with administrative orders of local environment bureaus. These latest developments have led to the closure of small resin and solvent suppliers, resulting in the reduction in the supply of and the increase in the prices of raw materials. This factor further increased the cost of raw materials and has an adverse impact on the paint and coating market in Mainland China's gross profit margin as well as gross profit during the year 2017.

The overall Group's operating performance declined significantly in 2017.

RESULTS

The Group's revenue for the year amounted to approximately HK$995.96 million, representing an increase of 6.2% when compared with last year. Gross profit decreased by approximately HK$39.56 million, representing a decrease of 11.4% when compared with last year.

The Group recorded a profit attributable to the shareholders of the Company of approximately HK$17.33 million for the year ended 31 December 2017 (2016: approximately HK$55.45 million), representing a significant decline of 68.7% when compared with last year.

PROSPECTS

China's economy experienced a healthy and synchronous growth in 2017. In 2017, the paint and coating market in Mainland China grew at a rate of 7.0% from 2016 in terms of volume. It experienced a good growth in 2017 with architectural paint and coating products leading the way. The real estate industry grew by approximately 7.7% and was slightly faster than the GDP growth rate in Mainland China. It is notable that industrial coating products also experienced a good growth but it was not as high as that of architectural paint and coating products. In general, the growth of paint and coating market in Mainland China is expected to continue in 2018, although it will be at a slightly slower pace than in 2017.

PROSPECTS (continued)

The Group can achieve future growth through the following main drivers of paint and coating market in Mainland China:

Accelerating the expansion of water-based industrial paint and coating products

The water-based paint and coating market in Mainland China has expanded rapidly in 2017. The production volume of water-based paint and coating products increased by 22.1% to 2.32 million tonnes in 2017 as compared to 1.90 million tonnes in 2016. Over the past few years, more water-based architectural paint and coating products have been used than solvent-based architectural coatings. But the proportion of water-based products in wood coatings, automotive coating and industrial paint and coating products are still relatively low. With the increasing application of water-based paint and coating products, it is predicted that China's water-based paint and coating products will account for up to 20.0% of the market in the next five years. In the next five years, the production volume of water-based industrial paint and coating products will grow at an average rate of 23.0%. It is predicted that the output of water-based industrial paint and coating products in Mainland China in 2018 will be approximately 2.84 million tonnes.

Strengthening our brand presence and foundation

Strengthening the presence of our paint and coating activities in Southern China and Eastern China is a key element of the Group's expansion strategy in Mainland China. In addition, the Group is committed to the philosophy of "quality, consumer and environmental protection first" (品質為上、客戶為先、環保為念) as its core values. We believe that strong brand recognition and marketing efforts are crucial to the success of our business and therefore we place strong emphasis on the marketing and promotion of our brands and products. As people are becoming more aware of environmental protection, paint and coating products will move towards the trend of health, environmental protection and better quality.

Synergies with the acquisition opportunities in the region of Southern China

Apart from the expansion strategy in the retail and wholesale markets, the Group also targets on expanding into the manufacturing sectors, in particular the furniture industry and automotive industry, which had contributed to a large proportion of China's GDP. The Group considered that the consolidation will enable its fast penetration into the furniture industry and automotive industry as well as strengthen its presence in the paint and coating market in Southern China. The Group is looking for acquisition opportunities with advantages in geographical location and logistics infrastructure, and with the industrial structure and comprehensive supporting facilities.

As mentioned in the Prospectus, the Group has prepared budget for pursuing acquisitions of businesses or production facilities.

BUSINESS REVIEW

Our products can be broadly divided into industrial paint and coating products, architectural paint and coating products, and general paint and coating and ancillary products. Industrial paint and coating products are used in a wide range of applications such as furniture painting, manufacturing and surface finishing for different kinds of materials, and are being used by manufacturers, renovation contractors for property and infrastructure projects and household users. Architectural paint and coating products are used for wall, floor and exterior parts of buildings. Our architectural paint and coating products focus primarily on the construction and maintenance markets of the commercial and residential properties. General paint and coating and ancillary products such as thinner, enamels and anti-mold agents and solvent agents can be used for both architectural and industrial purposes.

REVIEW OF OPERATIONS

Revenue

During the year under review, our revenue increased by 6.2% to HK$995.96 million in 2017 from HK$937.45 million in 2016. The following sets forth an analysis of our revenue during the years ended 31 December 2016 and 2017 by our principal products:

	Year ended 31 December				
	2016		**2017**		% of
	HK$'000	%	**HK$'000**	**%**	change
Industrial paint and coating products	527,354	56.3	**555,696**	**55.8**	5.4
Architectural paint and coating products	195,037	20.8	**208,142**	**20.9**	6.7
General paint and coating and ancillary products [1]	215,059	22.9	**232,120**	**23.3**	7.9
	937,450	100.0	**995,958**	**100.0**	6.2

(1) General paint and coating and ancillary products include thinner, enamel, solvent agent, anti-mold agent, colouring agent and other ancillary products for paint and coating purposes.

Industrial paint and coating products, architectural paint and coating products, and general paint and coating and ancillary products account for 55.8% (2016: 56.3%), 20.9% (2016: 20.8%) and 23.3% (2016: 22.9%) of total revenue of paint business in 2017 respectively. We continue to focus on Mainland China market which contributed to approximately 91.3% (2016: 91.5%) of the total revenue in 2017.

The increase in the revenue from the sales of industrial paint and coating products, architectural paint and coating products, and general paint and coating and ancillary products for the year under review were 5.4%, 6.7% and 7.9% respectively. Such increase was primarily attributed to the expansion of paint and coating market in Mainland China with the industry growth rate at 7.0%. In the meantime, we continue to make appropriate adjustments in our pricing policy, appoint new distributors with streamlined distribution network, and increase direct sales to manufacturers and renovation contractors for property and infrastructure projects in Hong Kong and Mainland China.

REVIEW OF OPERATIONS (continued)

Cost of sales

The following set forth an analysis of the cost of sales during the years ended 31 December 2016 and 2017, and the percentage of change.

	Year ended 31 December				
	2016		**2017**		
	HK$'000	% to revenue	**HK$'000**	**% to revenue**	% of change
Raw materials	505,612	53.9	**601,991**	**60.4**	19.1
Direct labour	57,771	6.2	**56,843**	**5.7**	(1.6)
Depreciation	11,147	1.2	**10,771**	**1.1**	(3.4)
Production overhead	15,558	1.7	**18,546**	**1.9**	19.2
Total	590,088	63.0	**688,151**	**69.1**	16.6

Gross profit and gross profit margin of our products

The following set forth an analysis of the gross profit and gross profit margin for each of our principal products for the years ended 31 December 2016 and 2017.

	Year ended 31 December				
	2016		**2017**		
	HK$'000	%	**HK$'000**	**%**	% of change
Industrial paint and coating products	204,339	38.7	**181,877**	**32.7**	(15.5)
Architectural paint and coating products	71,102	36.5	**57,589**	**27.7**	(24.1)
General paint and coating and ancillary products [1]	71,921	33.4	**68,341**	**29.4**	(12.0)
	347,362	37.1	**307,807**	**30.9**	(16.7)

(1) General paint and coating and ancillary products include thinner, enamel, solvent agent, anti-mold agent, colouring agent and other ancillary products for paint and coating purposes.

REVIEW OF OPERATIONS (continued)

Gross profit and gross profit margin of our products (continued)

The significant decrease in the gross profit margin of the Group in 2017 was primarily due to the following reasons:

(1) Substantial increase in the cost of raw materials

The raw materials used by the Group include resins, solvents and other materials, of which resins and solvents accounted for a significant portion of the total cost of raw materials. As resins and solvents are the downstream products of crude oil, their market prices generally correlate with the price of crude oil. Since the beginning of the second half of 2017, the international price of crude oil has started to increase notably as opposed to the declining trend since 2014. The oil price maintained an increasing trend throughout the second half of 2017 and closed with the highest level at the end of 2017 since 2014.

Closing at the said highest level of crude oil price also happened at the time when the Group was making most of its sales during the year. The Group's sales is affected by seasonal factors with the majority of its sales recorded in the second half of the year. Hence, the purchase of raw materials in the corresponding period does have an over-weighting effect on the cost of raw materials for the whole year, which increased the cost of sales significantly.

As a result of the said price increase in resins and solvents and other factors, the cost of raw materials increased significantly by 19.1% to HK$601.99 million in 2017 as compared to HK$505.61 million in 2016. The increase in the cost of raw materials has adversely affected the gross profit margin of the Group in 2017, causing it to drop from 37.1% in 2016 to 30.9% in 2017.

(2) Curtailment of the number of resin and solvent suppliers in Mainland China

During the second half of 2017, numerous resin and solvent suppliers of the Group in Guangdong province in the PRC ceased their production activities due to a number of reasons. As reported in news media, one of the reasons was that the Chinese government has implemented stringent environmental protection policies in August 2017 which resulted in the closure or relocation of businesses that may emit air pollutants or otherwise contain dangerous particles/components in the production process. Such policies have led to the closure of small resin and solvent suppliers, which resulted in the reduction in the supply of and the increase in the price of the said raw materials. This factor further increased the cost of raw materials and has an adverse impact on the Group's gross profit margin as well as the gross profit for the whole year of 2017.

(3) Adjustment in the pricing policy

The Group adjusted the selling price of our paint and coating products from time to time, taking into consideration the production cost as well as the price levels of similar products offered by our competitors in the markets. The purchase price of major raw materials increased significantly during the second half of 2017. The Group reduced the discount offered to the distributors in the middle of third quarter of 2017, although the Group implemented the adjustment in our pricing policy in the first half of 2017. This reduction only applied to the industrial paint and coating products, and general paint and coating and ancillary products.

REVIEW OF OPERATIONS (continued)

Gross profit and gross profit margin of our products (continued)

In order to further penetrate into the water-based architectural paint and coating markets and increase the market shares in Southern and Central China, the Group will continue to implement the adjustment in our pricing policy in this product segment. The 13th Five-Year Plan for the Development of National Environmental Protection Standards《國家環境保護標準「十三五」發展規劃》indicates that the environmental protection industry will have unprecedented opportunities. In the future, the Group will continue to invest in the development of water-based and low VOC (volatile organic compounds) paint and coatings products.

In view of the stringent safety and environmental laws and regulations implemented in recent years by the Chinese Government and respective local authorities, we have established "Environment, Health and Safety" teams at our production plants for the purpose of monitoring and implementing all relevant measures to ensure full compliance with the applicable laws and regulations on safety as well as emission control. The implementation of stringent laws and regulations inevitably increases the compliance costs. However, we consider that such stringent requirements adopted by the Chinese Government would accelerate the healthy development of the paint and coating industry in Mainland China by placing more emphasis on product safety and environmental protection.

Recovery of Hubei production capacity after the fire accident in July 2017

As disclosed in the announcement of the Company dated 30 July 2017, a fire accident occurred at the production plant operated by Hubei Giraffe Paint Mfg. Co., Ltd. (the "Ezhou Production Plant"), a non-wholly owned subsidiary of the Company, situated at Gedian Economic and Technological Development Zone, Ezhou City, Hubei Province, the PRC in the morning of Friday, 28 July 2017. As a result of the fire accident, certain raw materials, finished goods and fixture have been damaged. No person was injured or killed in the fire accident.

After a five-month investigation, repairs and improvements, the Ezhou Production Plant resumed its production in December 2017.

According to the Industrial Development Plan for the 13th Five-Year Plan in Hubei Province《湖北省工業「十三五」發展規劃》, the Hubei government targeted at achieving the top six in its industrial production output in Mainland China by 2020. The demand for the industrial paint and coating products is expected to be strong in Hubei province. We believe that Ezhou Production Plant will benefit from this target.

The demand for our paint and coating products is also affected by the seasonality factor of the manufacturing industries of toys, electronics and electrical appliances and the pattern that most of the construction, repairs and renovation undertakings will be completed during the second half of a calendar year. As a result, sales of our paint and coating products will generally increase in the second and the fourth quarters of the calendar year.

Looking forward, the selling price of the competitors of paint and coating products is expected to have an upward adjustment at around 5% to 10% in accordance with public information. It is expected that the paint and coating market will have a better growth in terms of turnover in 2018 in Mainland China as compared to 2017.

FINANCIAL REVIEW

The management has been provided with key performance indicators ("KPIs") to manage its business, through evaluating, controlling and setting strategies to improve performance. Such KPIs include revenue, gross profit margin, net profit attributable to shareholders, inventory turnover days, and trade and bill receivables turnover days.

The Group recorded a profit attributable to the shareholders of the Company of approximately HK$17.33 million for the year when compared with that of approximately HK$55.45 million last year. Revenue for the year amounted to approximately HK$995.96 million, representing an increase of approximately 6.2% when compared with that of last year. Gross profit for the year amounted to approximately HK$307.81 million, representing a decrease of approximately 11.4% when compared with that of last year. The gross profit margin decreased by 16.6% from 37.1% in 2016 to 30.9% in 2017.

LIQUIDITY AND FINANCIAL INFORMATION

The Group's business operation was generally financed by its internal funding and bank borrowings. Cash and cash equivalents amounted to approximately HK$247.26 million as at 31 December 2017 when compared with approximately HK$219.54 million as at 31 December 2016. Total cash and bank balances, including structured deposits, amounted to approximately HK$247.26 million as at 31 December 2017 when compared with approximately HK$318.21 million as at 31 December 2016. Bank and other borrowings amounted to approximately HK$101.79 million as at 31 December 2017 when compared with approximately HK$114.73 million as at 31 December 2016. The Group's bank and other borrowings mainly carried interest at floating rates. Of the Group's total bank and other borrowings as at 31 December 2017, approximately HK$100.77 million (99.0%) was payable within one year, approximately HK$0.39 million (0.4%) was payable in the second year and approximately HK$0.62 million (0.6%) was payable in the third to fifth years.

Gearing ratio of the Group which was expressed as a percentage of total bank and other borrowings to adjusted capital (as defined below) was 13.6% as at 31 December 2017 when compared with 17.2% as at 31 December 2016.

Liquidity ratio of the Group which was expressed as a percentage of current assets to current liabilities was 2.04 times as at 31 December 2017 when compared with 1.99 times as at 31 December 2016.

For the year under review, the inventory turnover days[1] were 35 days which was slightly different from that of 36 days in 2016. The trade and bills receivables turnover days[2] were 210 days compared to that of 150 days in 2016. The increase in the trade receivable turnover days were primarily due to the requests by our customers (including distributors) to extend the credit period amid the less favourable industry environment in Mainland China.

Equity and Net Asset Value

Shareholders' funds of the Group as at 31 December 2017 was approximately HK$752.21 million when compared with approximately HK$674.75 million as at 31 December 2016. Adjusted capital of the Group, being shareholders' funds less the unrealised leasehold land and building revaluation reserve, as at 31 December 2017 was approximately HK$745.72 million when compared with approximately HK$668.26 million as at 31 December 2016. Net assets value per share as at 31 December 2017 was HK$0.76 when compared with HK$0.90 as at 31 December 2016, assuming that the total number of 1,000,000,000 and 750,000,000 shares respectively in respect of the Capitalization Issue have been issued.

1 The calculation of inventory turnover days is based on the average of the beginning and the ending balances of inventories divided by the cost of sales and multiplied by 365 days.

2 The calculation of trade and bills receivables turnover days is based on the average of the beginning and the ending balances of trade and bills receivables divided by the revenue and multiplied by 365 days.

LIQUIDITY AND FINANCIAL INFORMATION (continued)

Contingent liabilities

At 31 December 2017, the banking facilities granted to various subsidiaries subject to guarantees given to banks by the Company were utilized to the extent of approximately HK$100.77 million (2016: Nil).

The banking facilities granted to the Remaining Group, which are subject to guarantees given to banks by the Group and a joint guarantee given to a bank by the Group and the ultimate holding company were utilized to the extent of HK$42.40 million as at 31 December 2016. Such guarantee and guarantees given by the Group were released during the year.

Pledge of assets

As at 31 December 2017, certain land and buildings with an aggregate net book value of HK$8.00 million (31 December 2016: HK$8.03 million) were pledged to secure a general banking facility granted to the Group and the related banking facility was not yet utilised as at 31 December 2017.

TREASURY MANAGEMENT

Funding and Treasury Policy

The Group adopts a prudent approach in its funding and treasury policy, which aims to maintain an optimal financial position for the Group and minimize its financial risks. The Group regularly reviews the funding requirements to ensure there are adequate financial resources to support its business operations and future investments as and when needed.

Foreign Currency Exposure

The Group's cash, bank balances and bank and other borrowings were mainly denominated in Hong Kong Dollars and Renminbi. The Group's results can be affected by movements in the exchange rate between Hong Kong Dollars and Renminbi. The Group did not have any hedging instrument to hedge the foreign currency exposure as at 31 December 2017. The Group will continue to monitor its foreign currency exposure and requirements closely and arrange hedging facilities when necessary.

Capital Expenditure

During the year under review, the Group invested a total sum of HK$16.28 million (2016: HK$24.17 million) in the plant and equipment, and the construction of dangerous warehouses.

HUMAN RESOURCES

Headcount as at 31 December 2017 was 1,013 (31 December 2016: 1,030). Staff costs (excluding directors' emoluments) amounted to HK$159.03 million for the year as compared with HK$168.25 million last year. The Group has a comprehensive and competitive staff remuneration and benefits system which is based on the performance of individual employees.

PRINCIPAL RISKS AND UNCERTAINTIES

FINANCIAL RISKS

Interest Rate Risk

The Group is exposed to interest rate risk due to changes in interest rates of interest-bearing financial assets and liabilities. Interest-bearing financial assets are mainly deposits with banks which are mostly short-term in nature whereas interest-bearing financing liabilities are mainly bank borrowings with primarily floating interest rates. The Group is therefore exposed to interest rate risk. The Group's policy is to obtain the most favorable interest rates available.

Currency Rate Risk

The Group has transactional currency exposures. Those exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. The Group's main operating subsidiaries are located in Hong Kong and Mainland China and the Group's sales and purchases were mainly conducted in Hong Kong Dollars and Renminbi. The Group also has significant investments in Mainland China and its statement of financial position can be affected by movements in the exchange rate between Hong Kong Dollars and Renminbi.

Credit Risk

The Group trades only with recognized and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The Group maintains an allowance for the estimated loss arising from the inability of its debtors to make the required payments. The Group makes its estimates based on the aging of its receivable balances, debtors' creditworthiness, past payment history and historical write-off experience. If the financial condition of its debtors deteriorates which resulted in the actual impairment loss being higher than expected, the Group would be required to revise the basis of making the allowance.

BUSINESS RISKS

Market Risks

Loss of market share to competitors is the market risk to the Group. The Group's core markets in Hong Kong and Mainland China are subject to increasing competition. Loss of business to competitors resulting from failure to consider changes in the environment in Hong Kong and Mainland China could have an adverse effect on the Group's financial position. The Group has specialized sales and marketing teams and is committed to protect existing business with competitive pricing policies and high quality green and safe paint products.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and system or from external events. Responsibility for managing operational risks basically rests with every function at divisional and departmental levels.

Key functions in the Group are guided by their standard operating procedures, safety standards, limits of authority and reporting framework. The management will identify and assess key operational exposures regularly so that appropriate risk response can be taken.

ENVIRONMENTAL POLICIES AND PERFORMANCE

During the year, the Group has carried out the following environmental works for the paint business of the Group with the aims of "Prevention First, Protect the Environment, Comply with Laws and Regulations, and Environmental Sustainability":

(1) effective monitoring on air emission and source of water pollution in accordance with the relevant statutory and regulatory requirements;

(2) disposal of hazardous solid waste via qualified waste disposal service providers;

(3) effective use of water and electricity; and

(4) education to the staff on environmental protection laws and regulations to enhance their awareness on environmental protection.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year, as far as the Group is aware, there was no material breach of or non-compliance with applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

EVENTS AFTER THE REPORTING DATE

There is no significant subsequent event after 31 December 2017.

USE OF NET PROCEEDS FROM THE SHARE OFFER

The Company listed the Shares on the Stock Exchange on the Listing Date (the "Listing"). Net proceeds from the Listing were approximately HK$168.2 million (after deduction of the underwriting commission and relevant expenses), which are intended to be applied in the manner as disclosed in the Prospectus. As at the date of this report, the net proceeds from the Listing were utilised as follows:

	Net proceeds HK$ million	**Amount utilised as at the date of this report** HK$ million	**Amount unutilised as at the date of this report** HK$ million
(1) Construction of our Xinfeng Production Plant	78.5	(4.1)	74.4
(2) Repayment of our bank loans	19.1	(19.1)	0
(3) Acquisitions of businesses or production assets	42.0	0	42.0
(4) Sales and market campaigns and activities	28.6	(13.2)	15.4
TOTAL	168.2	(36.4)	131.8

The Company is considering an acquisition opportunity by applying the net proceeds from the Listing as well as the internal financial resources of the Group. As of the date of this report, the Company has not entered into any legal binding agreement for the purpose. The Company will fully comply with the applicable disclosure requirements under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") should there be any target businesses or assets acquired for the purpose.

CORPORATE GOVERNANCE PRACTICES

The Board recognises the importance of and benefit from good corporate governance practices and has devoted considerable efforts to develop the best corporate governance practices appropriate to the businesses of the Group. Throughout the period from the Listing Date up to 31 December 2017, the Company has applied the principles and complied with the code provisions as set out in the CG Code.

THE BOARD

During the period from the Listing Date and up to the date of this report, the Board comprises the following members:

Executive Directors

Tsui Ho Chuen, Philip *(Managing Director)*
Li Guangzhong *(Sales Director)*
Wong Anders *(Finance Director)*

Non-executive Directors

Lam Ting Ball, Paul *(Chairman)*
Chong Chi Kwan

Independent Non-executive Directors

Chiu Kam Hing, Kathy
Chua Joo Bin
Xia Jun

The biographical details of the Directors and the relationships among them, if any, are set out in the "Biographies of Directors and Senior Management" on pages 35 to 37.

The role of the Chairman and the Managing Director are separate and exercised by different individuals. Their respective responsibilities are clearly established and set out in writing. The Chairman is responsible for the management of the Board and ensuring that the Board is functioning effectively with good corporate governance practices and procedures; whilst the Managing Director is responsible for managing the Group's businesses, including implementation of major strategies and initiatives set by the Board.

The non-executive Directors have diversified expertise and experiences. They provide invaluable contribution and independent judgement on issues of strategic development, performance and accountability. The Company currently has three independent non-executive Directors and one of the independent non-executive Directors possesses appropriate professional accounting qualifications or financial management expertise. The Company has received from each of the independent non-executive Directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and the Company considers that all independent non-executive Directors are independent.

THE BOARD (continued)

The Board has reserved for its decision or consideration matters covering the Group's overall strategy, annual budgets, annual and interim results, major acquisitions and disposals, recommendations on Directors' appointment or re-appointment, corporate governance duties and other significant operational and financial matters. The Board has delegated the day-to-day operations of the Group to management under the leadership of the Managing Director.

The Board meets regularly to discuss and review the Group's overall strategy, the operation and financial performance of the Group and other duties of the Board. The attendance record of each Director at the Board meetings during the period from the Listing Date to 31 December 2017 is set out below:

Directors	**Number of Board meetings attended/held**
Executive Directors	
Tsui Ho Chuen, Philip	2/2
Li Guangzhong	2/2
Wong Anders	2/2
Non-executive Directors	
Lam Ting Ball, Paul	2/2
Chong Chi Kwan	2/2
Independent Non-executive Directors	
Chiu Kam Hing, Kathy	2/2
Chua Joo Bin	2/2
Xia Jun	2/2

Note: The Company has not held any general meeting during the period from the Listing Date to 31 December 2017.

Board meetings are scheduled to be held at approximately quarterly intervals and as required by business needs. At least 14 days' notice of a regular Board meeting is given to all Directors who are given an opportunity to include matters for discussion in the agenda. Agenda and accompanying Board papers are sent to all Directors at least 3 days before the date of a regular Board meeting. Draft and final versions of minutes of regular Board meetings are circulated to all Directors for their comments and records respectively. All Directors are kept informed in a timely manner of major changes that may affect the Group's businesses, including relevant rules and regulations. Written procedures are also in place for the Directors to obtain independent professional advice in performing their duties at the expense of the Company in appropriate circumstances.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Board is responsible for the appointment of Directors and will take into consideration criteria such as expertise, experience, integrity and commitment of the candidates as recommended by the Nomination Committee when considering new Director appointments. A set of procedures and criteria for selecting candidates for directorship of the Company has been in place.

All Directors appointed by the Board are subject to re-election at the first general meeting after their appointment. Every Director (including the non-executive Directors) is required to be re-elected at least once every three years at AGM pursuant to the Articles.

The Board has adopted a board diversity policy setting out the approach to achieve diversity on the Board. The Company recognises and embraces the benefits of having a diverse Board to enhance the effectiveness of the Board. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. All Board appointments will continue to be made on merit, in the context of the skills and experience the Board as a whole requires to be effective. The Nomination Committee will monitor and review the implementation of the board diversity policy from time to time to ensure its effectiveness.

NON-EXECUTIVE DIRECTORS

Each of the non-executive Directors and independent non-executive Directors has entered into an appointment letter with the Company pursuant to which each of them is appointed for service with the Company for a term of three years commencing on 9 June 2017. Their terms of appointment shall be subject to the rotational retirement provision of the Articles.

DIRECTORS' TRAINING

Every Director must always know his/her responsibilities as a Director and of the conduct, business activities and development of the Company. Every newly appointed Director would receive an induction package covering the Group's businesses, the statutory and regulatory obligations and duties of a director of a listed company. The Company continuously updates the Directors on the Group's businesses and the latest developments regarding the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices. During the period from the Listing Date to 31 December 2017, the Directors participated in the following training:

Directors	**Type of training**
Executive Directors	
Tsui Ho Chuen, Philip	A,D
Li Guangzhong	A,D
Wong Anders	A,B,D
Non-executive Directors	
Lam Ting Ball, Paul	A,B,D
Chong Chi Kwan	A,B,D
Independent Non-executive Directors	
Chiu Kam Hing, Kathy	A,D
Chua Joo Bin	A,B,D
Xia Jun	A,B,C,D

DIRECTORS' TRAINING (continued)

A: Reading materials given by the Company relating to the Company's businesses and the regular updates on the Listing Rules and other applicable regulatory requirements relevant to the director's duties and responsibilities

B: Attending briefings/seminars/conferences relevant to the director's duties and responsibilities

C: Giving talks at briefings/seminars/conferences relevant to the director's duties and responsibilities

D: Reading newspapers, journals and updates relating to the economy, environment and social issues or the director's duties and responsibilities

BOARD COMMITTEES

The Board has established the Audit Committee, the Remuneration Committee and the Nomination Committee with defined terms of reference (available on the website of the Company at www.cpmgroup.com.hk and the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk), which are of no less exacting terms than those as set out in the code provisions of the CG Code.

Audit Committee

During the period from the Listing Date to 31 December 2017, the Audit Committee consisted of three non-executive Directors (the majority of whom are independent): Ms. Chiu Kam Hing, Kathy (AC Chairlady), Mr. Chua Joo Bin and Mr. Chong Chi Kwan.

The Audit Committee met once during the period from the Listing Date to 31 December 2017 to review with the Company's external auditors the reporting of financial and other information to the Shareholders (including the 2017 interim results before recommending them to the Board for approval), the accounting principles and practices adopted by the Group, the effectiveness and objectivity of the audit process, the effectiveness of the risk management and internal control systems of the Group, and the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function. The Audit Committee resolved by resolutions in writing to approve (i) the fee, terms and conditions of engaging the Company's external auditors to audit and report on the financial statements of the Group for the year ended 31 December 2017; and (ii) the scope and extent of the agreed-upon procedures engagement in respect to the unaudited consolidated financial statements of the Group for the six months ended 30 June 2017. The Audit Committee also keeps under review the independence and objectivity of the Company's external auditors and the non-audit services provided by the Company's external auditors to the Group. The attendance record of each committee member is set out below:

Directors	**Number of committee meeting attended/held**
Chiu Kam Hing, Kathy *(AC Chairlady)*	1/1
Chua Joo Bin	1/1
Chong Chi Kwan	1/1

BOARD COMMITTEES (continued)

Remuneration Committee

During the period from the Listing Date to 31 December 2017, the Remuneration Committee comprised two independent non-executive Directors and one non-executive Director: Ms. Chiu Kam Hing, Kathy (RC Chairlady), Mr. Chong Chi Kwan and Mr. Xia Jun.

The primary objectives and duties of the Remuneration Committee are set out in its terms of reference adopted in compliance with the requirements under the CG Code, which include, inter alia, making recommendations to the Board on the remuneration policy and structure for all the Directors and the senior management of the Company and on the establishment of a formal and transparent procedure for developing its remuneration policy. The remuneration of the executive Directors is determined by the Remuneration Committee and the remuneration of the non-executive Directors is determined by the Board on the recommendation of the Remuneration Committee, by reference to their duties and responsibilities, performance, experiences, time commitment, market conditions and the corporate goals and objectives as set by the Board. No Director is involved in deciding his/her own remuneration. Details of the remuneration of the Directors are set out in note 9 to the financial statements. No meeting of the Remuneration Committee was held during the period from the Listing Date to 31 December 2017. The Remuneration Committee resolved by resolutions in writing to approve the remuneration packages of the Directors and the payment schedule of annual director's fee.

The remuneration paid to the members of senior management of the Company by bands during the year is set out below:

Remuneration Bands	Number of Individuals
HK$500,001 – HK$1,000,000	4
HK$1,000,001 – HK$1,500,000	1

Nomination Committee

During the period from the Listing Date to 31 December 2017, the Nomination Committee comprised two independent non-executive Directors and one executive Director: Ms. Chiu Kam Hing, Kathy (NC Chairlady), Mr. Tsui Ho Chuen, Philip and Mr. Xia Jun.

No meeting of the Nomination Committee was held during the period from the Listing Date to 31 December 2017. The Nomination Committee resolved by resolutions in writing to approve the nomination procedures, process and criteria to select and recommend candidates for directorship of the Company.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibility for maintaining sound and effective risk management and internal control systems of the Group and reviewing the effectiveness of such systems. The risk management and internal control systems are designed to facilitate the effectiveness and efficiency of operations, safeguard assets against unauthorised use and disposition, ensure the maintenance of proper accounting records and the truth and fairness of the financial statements, and ensure compliance with relevant legislation and regulations. The systems can only provide reasonable and not absolute assurance against material misstatement or loss as it is designed to manage, rather than eliminate the risk of failure, to achieve business objectives.

For long-term growth and sustainability, effective risk management is a fundamental part of the Group's business strategy. The Board is responsible for managing risks lies initially with the business functions concerned, working within the overall strategy and establishing risk tolerance. Each department of the Group is responsible for identifying its own risks and designing, implementing and monitoring the relevant risk management and internal control systems. In addition, the Board has conducted a half-yearly review of the effectiveness of the Group's risk management and internal control systems during the period from the Listing Date to 31 December 2017 with a view to enhance its risk management and internal control systems and considered them effective and adequate.

INTERNAL AUDIT

Internal control system shall allow monitoring of the Company's overall financial position, safeguard its assets against major losses and misappropriation, provide reasonable assurance against material fraud and errors, and monitor and correct non-compliance efficiently.

Through the Company's outsourced internal auditor, the Board has conducted a review of the effectiveness of the internal control system of the Group which covers all material controls, including operational, financial and compliance controls and risk management functions.

During the period from the Listing Date to 31 December 2017, the Company appointed an outsourced internal auditor. The outsourced internal auditor of the Company reviews the major operational, financial and compliance controls and risk management functions of the Group on a continuing basis and aims to cover all major operations of the Group on a rotational basis. The outsourced internal auditor of the Company presents its internal audit plan annually to the Managing Director for approval.

POLICY ON DISCLOSURE OF INSIDE INFORMATION

The Company has a policy on disclosure of inside information which sets out the system in place for monitoring the developments of our business so that potential inside information can be escalated to the Board so as to decide whether announcement in relation to such inside information is to be made, in order to comply with the Listing Rules and the SFO.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance duties with defined terms of reference as follows: (a) to develop and review the Company's policies and practices on corporate governance; (b) to review and monitor the training and continuous professional development of Directors and senior management; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to the employees and Directors; and (e) to review the Company's compliance with the CG Code and disclosure in the corporate governance report.

During the period from the Listing Date and up to the date of this report, the Board has performed the corporate governance functions of the Group in accordance with its terms of reference.

CODES FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard as set out in the Model Code. After specific enquiries by the Company, all Directors confirmed that they have complied with the required standard as set out in the Model Code and the Company's own code throughout the period from the Listing Date to 31 December 2017.

The Company also adopted a code on no less exacting terms than the Model Code to regulate dealings in the securities of the Company by certain employees of the Group who are considered to be likely in possession of inside information in relation to the Company or its securities.

EXTERNAL AUDITORS' REMUNERATION

In 2017, the remuneration of the Company's external auditors, Ernst & Young, is set out below:

Services rendered to the Group	Remuneration
	HK$
Audit services	2,350,000
Non-audit services	273,550
	2,623,550

The non-audit services rendered by the Company's external auditors to the Group included performance of agreed-upon procedures on the 2017 interim financial statements and the preliminary results announcement for the year ended 31 December 2017 and audit examination of the statement on details of contribution of the Group's occupational retirement schemes.

RESPONSIBILITY STATEMENTS

The Directors are responsible for the preparation of financial statements which give a true and fair view. In preparing the financial statements for the year ended 31 December 2017, the Directors have selected appropriate accounting policies and applied them consistently, made judgements and estimates that are prudent and reasonable, and have prepared the financial statements on a going concern basis.

The statement by the Company's external auditors about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on pages 41 to 44.

COMMUNICATION WITH SHAREHOLDERS

The Company endeavors to maintain a high level of transparency in communicating with the Shareholders. Information in relation to the Group is disseminated to the Shareholders in a timely manner through a number of communication channels including interim and annual reports, announcements and circulars.

SHAREHOLDERS' RIGHTS

Convening an extraordinary general meeting

Pursuant to article 58 of the Articles, an extraordinary general meeting may be convened by the Board upon requisition by any Shareholder(s) holding not less than one-tenth (10%) of the paid up capital of the Company carrying the right of voting at general meetings of the Company, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. The Board shall arrange to hold such general meeting within two months after the deposit of such written requisition. If within twenty-one days of the deposit of such written requisition, the Board fails to proceed to convene such extraordinary general meeting, the Shareholder(s) may do so in the same manner, and all reasonable expenses incurred by the Shareholder(s) as a result of the failure of the Board shall be reimbursed to the Shareholder(s) by the Company.

SHAREHOLDERS' RIGHTS (continued)

Putting forward proposals at general meeting

Pursuant to Article 85 of the Articles, if a Shareholder wishes to propose a person for election as a Director, unless the person proposed to be elected as a Director is a Director retiring at the general meeting or is recommended by the Board for election, a Shareholder shall submit: (i) a notice in writing (the "Nomination Notice") signed by a Shareholder duly qualified to attend and vote at the meeting for which such notice is given of his/her intention to propose that person for election as a Director; and (ii) a notice in writing signed by that person of his/her willingness to be elected as a Director to the principal place of business of the Company in Hong Kong at 31st Floor, CNT Tower, 338 Hennessy Road, Wanchai, Hong Kong for the attention of the Company Secretary within the following prescribed period.

The period for lodgement of the notices referred to above will commence on the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least seven days.

The Nomination Notice must state the full name of the person proposed for election as a Director and include such person's biographical details as required by Rule 13.51(2) of the Listing Rules.

Making enquiries to the Board

Shareholders may send their enquiries to the Board in writing for the attention of the Company Secretary to the Company's principal place of business in Hong Kong at 31st Floor, CNT Tower, 338 Hennessy Road, Wanchai, Hong Kong or by fax at (852) 2792 7341.

CONSTITUTIONAL DOCUMENTS

Save for the adoption of the amended and restated Memorandum and Articles for the purpose of the Listing of the Company from the Listing Date and up to 31 December 2017, there was no change in the Company's constitutional documents.

On behalf of the Board
CPM Group Limited

Lam Ting Ball, Paul
Chairman
28 March 2018

ABOUT THIS REPORT

The purpose of this environmental, social and governance report ("ESG Report") is not only to enhance the stakeholders' understanding of the sustainable development strategies, management approaches and performance of the Group, but also to promote their understanding of the Group's development and efforts in the areas of social and environmental sustainability. The ESG Report outlines the Group's efforts and achievements in corporate social responsibility and sustainable development.

In the course of achieving its business objectives and creating value for its shareholders/investors, the Group also aims at making full use of various resources and minimising pollutants from its operations to protect the ecological environment. As a socially responsible enterprise with a sense of accountability and vision, we always strive to achieve a balance between our operations and the environment. With the continuous enhancement and optimisation of various initiatives in the areas of operation management, business strategies, environmental protection, talent development and community investments, etc., the Group endeavors to contribute to the sustainable development of our planet, humanity and its businesses.

Reporting Scope and Period

The ESG Report, which covers mainly the Group's business of the manufacture and sale of paint and coating products, sets out the Group's strategic approach and performance in the area of environmental and social sustainable development. For the disclosure of various environmental-related indicators and performance data, please refer to the section headed "Summary of Environmental Data and Performance" below. The reporting period covers the financial year ended 31 December 2017.

Reporting Guide

The ESG Report is prepared in accordance with the Environmental, Social and Governance Reporting Guide (revised) as set out in Appendix 27 to the Listing Rules issued by the Stock Exchange.

ENVIRONMENTAL PROTECTION

Emissions Management

The Group has always been committed to environmental management of our factories as we are fully aware that volatile organic compounds, paint residues and industrial sewage are generated during the paint production process. Such efforts are aimed at reducing the impact of waste gas, waste water, noise and solid waste on the environment. The Group has obtained pollutant discharge permit in respect of waste gas, waste water and noise issued by the PRC government. In addition to the international accredited GB/T24001-2016/ISO14001:2015 Environmental Management System Certificate, the Shenzhen plant has set up a safety and environmental protection department to lead, supervise and coordinate various initiatives in environmental protection, and to monitor the environmental performance of the entire plant in a regulated and systematic manner. For areas which require special attention, the Group has formulated relevant policies and procedures such as "Prevention and Emergency Procedures for Air Pollution", "Prevention and Emergency Procedures for Water Pollution", "Sewage Treatment Operation Manual" and "Prevention and Emergency Procedures for Noise Pollution" to monitor the emission processes of waste air, waste water and noise, and to ensure that all production processes are in compliance with the national and local environmental standards. The Group also identifies and updates the relevant environmental laws and regulations in a timely manner, and provides training to all relevant staff to ensure that the operation of all plants is in full compliance with the relevant environmental laws and regulations. During the reporting period, the Group had strictly complied with the national and local environmental laws and regulations and did not involve in any non-compliance incidents relating to emissions that had significant impact on the Group.

ENVIRONMENTAL PROTECTION (continued)

Emissions Management (continued)

1. Management of air and greenhouse gas emissions

The Group has set up a safety and environmental protection department, which is responsible for the management of industrial waste gas. With the cooperation of production units, emission management work is enhanced and efforts are made to ensure full compliance with industrial waste gas standards. Waste gas is treated with active charcoal and released through exhaust pipes. Designated staff is responsible for replacing active charcoal regularly to ensure compliance with the emission standards. The engineering department repairs and maintains industrial waste gas treatment facilities regularly to ensure proper functioning of the facilities and to prevent any accidents which may result in pollution. We engage a local accredited company to test the concentrations of emissions from various production units once a year. Such tests include the measurement of benzene, methylbenzene, xylene, volatile organic compounds and particulate matter. During the reporting period, all the test results were in compliance with the national emission standards.

2. Management of waste water

To comply with the "Water Pollution Prevention and Control Law of the People's Republic of China", the Group set up the safety and environmental protection department to manage industrial waste water and monitor the sewage emissions from various production units. Sewage from the plants are mainly industrial sewage. We continuously upgrade and improve our sewage treatment system. Our waste water treatment facilities include conditioning tanks, sedimentation tanks, chemical tanks and biological pools. Waste water discharged from the production of water-based paint is processed by filtration, sedimentation coagulation, and chemical and biological treatments. Only waste water in compliance with the applicable regulatory standards in all material aspects is discharged. Designated staff is responsible for monitoring the chemical oxygen demand ("COD") of waste water regularly, measuring the pH value of waste water once a day, and keeping proper record of the monitoring results. During the third quarter of the year, in order to monitor the sewage treatment facilities effectively, the Shenzhen plant has set up the online monitoring facilities. An effluent monitoring system connects directly, through data collection devices, to the relevant system of the PRC environmental department, for real time data retrieval.

In addition, we engaged a local environmental accredited company to test and measure the pH value, suspended substance, ammonia nitrogen, 5-day biochemical oxygen demand and COD of waste water. During the reporting period, all quarterly test results were in compliance with the national emissions standards. The PRC government also performs tests on waste water irregularly for two to three times a year. Failure to comply with the relevant standards will result in the issue of breaches report. During the reporting period, we had not received any breaches report from the PRC government.

The Group puts much effort on the daily maintenance of waste water treatment facilities to ensure their proper functioning. Important waste water treatment facilities have roof cover to prevent any overflow of waste water in rainy days. The safety and environmental protection department conduct regular inspection on the facilities to prevent overflow of waste water and to avoid any abnormal conditions which may result in serious pollution.

3. Management of disposal of solid wastes

To comply with the "Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste" and relevant laws and regulations, the Group has established policies and procedures to manage and monitor the workflow of handling solid wastes. Regarding the hazardous waste, the Group has also established the "Policy on the Prevention of Environmental Pollution by Hazardous Waste". Solid wastes generated during the production process may be categorized as recyclable wastes, non-recyclable wastes and hazardous wastes. We recycle as much recyclable wastes as we can. We have engaged local accredited companies for the disposal of non-recyclable wastes. Hazardous wastes are treated in accordance with national requirements.

ENVIRONMENTAL PROTECTION (continued)

Emissions Management (continued)

3. Management of disposal of solid wastes (continued)

The major hazardous solid waste generated during the production process is sludge. We clean up the sludge generated during the sewage treatment process regularly. We deal with sludge in the sedimentation tank twice during the morning and afternoon time. The sludge is then discharged to the sludge thickening basin. The frequency of discharge can be increased whenever necessary. After dehydrating by frame filter press, sludge is collected, stored and removed to the designated locations, and then delivered to the municipal industrial waste treatment station for further treatment in accordance with the national requirements.

The responsible departments and user units of the Group strictly comply with the relevant national laws and regulations, and internal policies and procedures when using, delivering and storing hazardous substances, and take necessary measures to prevent environmental pollution. During the production process, cans, wipes and filters contaminated with hazardous substances are handled with stringent process and are stored at designated locations, and then delivered to the municipal industrial waste treatment station by local environmental accredited companies for further treatment in order to prevent any hazardous substances from being improperly handled.

For non-hazardous waste, we have adopted a recycling approach corresponding to the generation process. Waste generated during production such as packaging materials and cardboards are collected by the production units according to different categories and are sent to designated location. Local environmental accredited companies are engaged to handle such waste. We recycle and re-use papers used in office in order to maximize resources utilization rate.

4. Management of noise

We strictly control and manage the sound produced during the operation of production facilities. All production facilities go through acoustic treatment. The engineering department of the Group is responsible for the management, repair and maintenance of production facilities and generators to ensure that the noise produced is within the national standards. We conduct an assessment of the noise level annually. During the reporting period, the test result was in compliance with the national emission standards.

Management of Use of Resources

In order to comply with the "Law of the People's Republic of China on Conserving Energy" and relevant regulations and policies, the Group strives to cultivate the corporate culture of resources saving by constantly reminding our staff that resources are precious and we shall save resources and avoid wastage. To ensure that all staff understand the importance of resources saving, we have implemented several measures to encourage them to develop a habit of saving and make the best use of resources.

1. Energy conservation

We control the use of energy and improve resources usage efficiency through daily management of energy consumption. We use energy-efficient lighting. Lights shall be turned off whenever there is enough daylight. Air conditioners shall be turned off after work, and the use of which will be limited according to seasonal and temperature changes. Doors and windows shall not be stayed open when air conditioners are turned on. Employees are required to check and ensure that their own or their department's electrical appliances and computers are switched off when they leave the workplace.

ENVIRONMENTAL PROTECTION (continued)

Management of Use of Resources (continued)

1. Energy conservation (continued)

During the reporting period, the Group's paint business consumed 3,620 megawatt hours of electricity, 4 tonnes of diesel and 64 tonnes of gasoline. With reference to the guidelines of the Greenhouse Gas Protocol and the regional emission factors and based on the above-mentioned data, we have calculated the greenhouse gas emissions. For total carbon dioxide emission during the reporting period, Scope 1 emissions and Scope 2 emissions were 389 tonnes and 3,167 tonnes respectively.

2. Water conservation

We encourage our staff to make the best use of water resources and reduce wastage. Each production department and office has to check regularly its water facilities, pipes and taps to prevent water wastage. We also enhance our staff's awareness in water conservation. Once damaged pipes or valves or water leakage is found, the staff shall notify the maintenance department promptly for repair. During the reporting period, the Group's paint business consumed 33,155 tonnes of water.

3. Paper conservation

Saving paper in workplace can protect the environment. To avoid wastage of paper, we advocate to create a paperless office and encourage staff to read documents in electronic format, instead of on paper. Staff are required to follow the golden rule of "think before you print" and print only the required documents to save paper. Duplex printing is suggested. The blank sides of unneeded single-sided copies are used for draft printing and waste papers are collected for recycling. We also encourage transmission of files in electronic form. During the reporting period, the Group's paint business consumed 3 tonnes of paper.

The Environment and Natural Resources

We have been devoted to care about and protect nature. In order to promote the concept of "caring and protecting the environment is everyone's responsibility", we hope to engage everyone and joint hands for a better world. We have developed various policies and measures and have been taking action for reducing carbon emissions and the impact of personal live and business activities on the environment. (please refer to the sections headed "Emissions Management" and "Management of Use of Resources" above for details). We hope that every staff member can start from himself/herself and convey the message of protecting the environment to families, friends and business partners so as to build powerful cohesion, and mitigate climate change together.

"Green and environmental protection" is the common concern in the 21st century. With the rapid economic development, environmental problems have become more severe. As a responsible enterprise in the paint industry, we will focus more on the production of water-based and high-solid low-VOC products. Through continuous innovations, the Group puts a lot of resources in purchasing advanced testing equipment and the hiring and training of professional technical personnel. We also intend to form long-term strategic partnership with international enterprises in developing water-borne wood paints and water-based UV coatings as a response to consumers' increasing concern on environmental protection and our determination and dedication to save the environment.

EMPLOYMENT AND LABOUR PRACTICES

Employees are the Group's valuable assets. The Group adheres to the people-oriented principle in its governance. A set of comprehensive talent management mechanism has been established to attract and retain competent talents for sustainable development. We devote to create a non-discriminatory, equal, harmonious and safe workplace and build up a relationship of mutual respect with our employees. The Group encourages our employees to be innovative, flexible and committed when dealing with our customers and provide high quality products and services. To accomplish the above goals, we create favourable conditions to attract, retain and reward talents which include providing commensurate remuneration, personal and career development training, together with other fringe benefits, such as holidays, retirement benefits and other welfares. Besides, we promote the concept of work-life balance and care for the well-being of our employees. We organize activities to enrich their leisure time and, at the same time, to promote team cohesion. We strive to create a zero machine breakdown and no accident workplace.

Talent Selection

The Group has always been committed to the protection of human rights and personal data privacy and the prohibition of discrimination. We follow the principles of fairness, equity and openness to recruit outstanding and appropriate talents. Candidates are not discriminated against because of their races, religions, nationalities, genders, age, marital status and disabilities, etc. In the course of staff recruitment, character, knowledge and expertise, competence and job requirements are adopted as the selection criteria. The Group provides fair opportunities to employees in promotion, performance appraisal, training and career development so as to ensure that all staff can fully develop their talents with the Group and to achieve a win-win situation.

Labour Standards

The Group's human resources policies and management system are in compliance with the relevant labour laws and regulations. We always respect human rights and protect labour rights. Any unethical or unlawful hiring practices are prohibited. Any forms of forced labour are eliminated in our workplace. We oppose to child labour resolutely. During the recruitment process, we must check the identity documents of the applicants and must not hire any applicant under the legal working age. The working hours of staff are in line with the relevant local labour laws and regulations. Staff consent for working overtime is required so as to prevent forced overtime work; and they are compensated in accordance with the requirement of local laws and regulations.

Compensation and Welfare

The Group recruits and retains talents with competitive remuneration packages. We review the remuneration level of different ranks of staff and collect up-to-date remuneration data for our industry regularly in order to establish a fair, reasonable and competitive remuneration system. Staff remuneration are determined by reference to factors such as their knowledge and skills, experiences and education background and with reference to their corresponding work requirements. Basic remuneration packages of employees include fixed wages, bonuses, year-end awards and allowances, etc. We work five days, totally 40 working hours, a week. Overtime works are compensated. Staff with outstanding performance and contributions is awarded with prizes and/or cash bonuses. We provide social security benefits for all employees, and protect their rights of rest days and holidays in accordance with local labour laws and social security laws and regulations. We dismiss employees and compensate them in accordance with national laws and regulations.

In order to enhance the cohesion among employees, foster a sense of belonging, and relieve work pressure, we regularly organize activities, such as Spring Festival party and Mid-Autumn Festival party, etc., for them. We also organized table tennis and basketball competitions on an irregular basis. The Group manages a multi-purpose recreation center with facilities such as badminton courts, billiard room, basketball court, fitness room and lounge for employees' use during leisure time.

EMPLOYMENT AND LABOUR PRACTICES (continued)

Development and Training

In order to align staff career development with long-term corporate development, the Group formulated training policies and procedures. To create an excellent, well-trained and responsible corporate team, the human resources department established comprehensive staff training programs based on the needs of each department on human resources. This not only enhances staff's knowledge and management skills, but also enables the staff to discharge their job duties efficiently, improves performance and efficiency, raises their enthusiasm and builds team spirit. New hires must participate in induction training and pass the assessment. The training topics include corporate culture, business, work-related rules and regulations, organizational structure, welfare system, environmental protection and work safety, etc. (please refer to the section headed "Health and Safety" below for details of work safety). During the reporting period, apart from providing new hires with induction training, we also organized various internal training programs such as training on work safety, knowledge for handling emergency incidents for production, and repair and maintenance staff.

Health and Safety

We care about our employees' health and the safety of their working environment in order to prevent occupational hazards. To comply with the relevant national laws and regulations on safety production, we have established a comprehensive safety management system. We aim at integrating the concept of "protecting lives and properties with zero-accident" into the production process. The Group has set up the safety and environmental protection department which is responsible for the monitoring and management of hazardous factors. In order to provide a safe work environment, the safety and environmental protection department and the production department and various staff conduct several safety checks everyday to ensure timely identification of potential safety hazards, and the implementation of proper measures to eliminate and control the risks.

Training plays an important part in ensuring safe work environment and occupational health. We provide all staff with production safety training, including internal and external training. Before new staff are assigned to jobs, they are required to attend and pass the examination after a "3-level safety training", which refers to department level, team level and production level. We also provide all staff with environmental, occupational health and safety education to help them understand our corporate environmental approach and improve their awareness of environmental protection, occupational health and safety continuously. Any latent safety threats must be reported to the safety and environmental protection department immediately for appropriate action.

The engineering department is responsible for the repair and maintenance of production equipment and is required to perform safety checkup and provide status report to the management daily. If the production equipment does not function properly, repair work has to be conducted immediately to ensure safe production. In order to maintain equipment and facilities in good condition and to control risk and prevent safety incidents from happening, the engineering department conduct regular inspection on production equipment and fire equipment (including fire extinguishers, fire hose, etc.). In case of abnormalities, the engineering department has to conduct repair work immediately and keep proper regular inspection and repair and maintenance record.

Pursuant to the requirements of the "Law of the People's Republic of China on Prevention and Control of Occupational Diseases", we have established and constantly improved the occupational health management system which protects our workers' health, rights, and interests. We provide our workers with protective equipment (such as masks, uniforms, protective shoes, etc.) that meets national standards, and supervise and educate them how to wear and use them properly. Stringent safety work and fire prevention guidelines are also established. Employees are required to perform medical checkup every year and to pass the medical assessment as a prerequisite for continuous employment. We care about employee's health and occupational safety.

During the reporting period, the Group did not involve in any non-compliance incidents relating to employment, health and safety and labour standards that have significant impact on the Group.

OPERATING PRACTICES

Supply Chain Management

We are dedicated to the development of long-term and stable strategic cooperation with leading suppliers. We adopted a strategic procurement-oriented approach in order to achieve co-development with our suppliers on the basis of equality and win-win situation. We have also established stringent procedures and various reporting channels to enable employees, suppliers, customers and other business parties to report any violations of laws or regulations by making use of his/her position. During the reporting period, the Group has not received any reports of serious violations in this respect.

In order to strengthen the supply chain management, we have devised an internal management system which has an assessment system for the shortlisting and renewal of suppliers, and a qualified suppliers' list is formulated. When choosing new suppliers, we will assess several aspects, including suppliers' competency, management system and production facilities. We will choose to cooperate with the best supplier after their new products pass the trial test. There is a segregation of duties for the signing of contracts with suppliers, inspection of raw materials and monitoring. Our suppliers are required to provide recognized certifications, adopt good internal management system, provide stable quality, make on-time delivery, comply with relevant laws and regulations, possess professional skills/quality. As such, we can ascertain that the suppliers selected are competitive and that they are able to provide qualified products and services. We will keep reviewing the supervision and management process of our existing supply chain system with an aim to keep high efficiency in the operation of raw materials sourcing, transportation, logistics, production and waste treatment. We will also control product quality and satisfy the requirements in environmental, social and governance aspects, including business ethics and product standards for protection of consumer's health.

Product Responsibility

We are committed to our philosophy of "quality, consumer and environmental protection first". As such, we satisfy our customers with high quality products and services. With technological advancement and improved living standards, customers are more conscious of product quality. Therefore, we keep improving product quality and implement an effective quality control system. Employees accumulated valuable experience in their positions and are able to provide useful suggestions in this area.

Our Shenzhen plant has adopted the "ISO 9001:2008 quality management system", "IECQ QC 080000:2012 hazardous substances process management system" and "ISO/IEC 17025:2005 laboratory accreditation certificate". We have met the international standards in the processes of selection of raw materials, production and product testing. Over the years, we have obtained a number of honors relating to our products. These reflect our determination in providing our customers with the best service and high quality products.

During the reporting period, the Group did not involve in any non-compliance incidents relating to our products that has significant impact on the Group.

Anti-corruption

The Group advocates the work ethnic on compliance, integrity, honesty and dedication, and strictly regulates the behaviours of directors, management and general staff. All people have to strictly comply with policies and procedures in order to avoid any bribery. We have conducted disciplinary inspection and management work in the production and operation processes to ensure that all people can report incidences like suspected use of one's position for personal gains, briberies, blackmailing, fraud and money laundering in strict confidence via the "Chairman's Mailbox". We are dedicated to anti-corruption and are willing to contribute to the building of an honest and upright society. Before employees are on board, they are required to attend business ethics training. Employees who are in breach of the company's code of conduct are disciplined or dismissed.

During the reporting period, there was no litigation of corruption involving the Group or our employees.

COMMUNITY INVESTMENT

We advocate accountability in our corporate culture. Everyone is accountable to oneself, one's family, one's employer, and society. Therefore, we strive to contribute to the community and is committed to the building of a sustainable and harmonious society. We encourage our staff to help people in need by making donation or participating in volunteer services. We provided subsidies to students in poverty for continuing their education. We also arranged visits to those people in need (e.g. the elderly). During the reporting period, the Group has provided sponsorship to a charity concert organized by the Otic Foundation. The aim of the foundation is to arouse the public's concern on the importance of hearing protection and to provide support to people with hearing disability.

The Group is a responsible taxpayer and offers job opportunities to local people. We help our employees to prepare for their retirement by paying the "five insurances and housing provident fund" for staff in Mainland China and mandatory provident fund for staff in Hong Kong. We follow good practice in our business and operations. We promote environmental-friendly concept actively and strive to develop our business in good order. To some extent, we have contributed to social stability and the building of a harmonious community.

AWARDS AND HONOURS

We have obtained the following major awards and honours in 2017:

Hong Kong

➢ Various products of "*Flower (菊花牌)*" and "*Golden Flower (金菊花牌)*" of China Paint (1932) were awarded as "*Hong Kong Green Labels*".

➢ "*Flower (菊花牌)*" of China Paint (1932) was awarded as "*Hong Kong Top Brand*".

Mainland China

➢ China Paint (Shenzhen), China Paint (Xinfeng), Hubei Giraffe and Xuzhou Giraffe were awarded "*ISO 9001: 2008 Quality Management System Certificates*".

➢ China Paint (Shenzhen), China Paint (Xinfeng), Hubei Giraffe and Xuzhou Giraffe were awarded "*ISO 14001:2004 Environmental Management System Certificates*".

➢ Various products of China Paint (Shenzhen), China Paint (Xinfeng), Hubei Giraffe and Xuzhou Giraffe were awarded "*Certificates for China Compulsory Product Certifications (中國國家強制性產品認證證書)*".

➢ China Paint (Shenzhen) was awarded "*Occupational Health and Safety Management System Certificate*".

➢ China Paint (Shenzhen) was awarded "*GB/T24001-2016/ISO14001:2015 Environmental Management System Certificate*".

➢ China Paint (Shenzhen) was awarded "*IECQ QC 080000:2012 Hazardous Substance Process Management System Certificate*".

➢ China Paint (Shenzhen) was awarded "*ISO/IEC 17025:2005 Laboratory Accreditation Certification*".

➢ Various water-based paint products of China Paint (Shenzhen) and Hubei Giraffe were awarded "*Certificates for China Environmental Labelling Production Certification (中國環境標誌產品認證證書)*".

➢ Various wood coating paint products for interior decoration of China Paint (Shenzhen), China Paint (Xinfeng) and Hubei Giraffe were awarded "*Certificates for China Environmental Labelling Production Certification (中國環境標誌產品認證證書)*".

AWARDS AND HONOURS (continued)

Mainland China (continued)

➢ China Paint (Shenzhen) was awarded "*Top 500 Suppliers for Real Estate Development Enterprises in China 2017 • Composite Artificial Stones (2017中國房地產開發企業500強首選供應商•複合仿石類)*".

➢ China Paint (Shenzhen) was awarded as "*Top 100 in Manufacturing Industry in Guangdong 2017 (2017年廣東製造業100強)*".

➢ China Paint (Shenzhen) was awarded as "*Top 500 Enterprises in Guangdong 2017 (2017年廣東企業500強)*".

➢ China Paint (Shenzhen) was awarded as "*286th out of Top 500 Enterprises in Manufacturing Industry in Guangdong Province 2017 (2017年廣東省製造業企業500強第286位)*".

➢ China Paint (Shenzhen) was awarded as "*Model Enterprise for Innovation in Guangdong Province 2017 (2017廣東省自主創新示範企業)*".

➢ China Paint (Shenzhen) was awarded as "*Top 10 Competitive in the Second Procurement Summit for China Real Estate 2017 (Industrial Coatings Industry) (第二屆中國房地產2017年度採購峰會競爭力十強（建築塗料）*".

VISION AND OUTLOOK

As a good corporate citizen, the Group strives to strike a balance between achieving corporate missions and business objectives and fulfilling social responsibility. We will continue to evaluate our performance on environmental protection, employee care, product and service quality and community investment which are important to the sustainable development of the Group.

On the aspect of environmental protection, the Group will endeavor to comply with the stringent environmental protection laws and regulations, allocate resources and undertake various environmental improvement projects, including improving exhaust air, sewage and waste treatment facilities. Regarding employee's care, we will put employee's satisfaction and production safety as our top priorities. We aim at attracting more talents in the technical and management areas with a competitive remuneration system. As for product and service quality, we will continue to provide customers with high-quality products and to invest in the improvement of product quality in order to conform with the environmental protection requirements. On the aspect of community investment, the Group is committed to fulfilling its social responsibility by participating in charitable activities and promoting the community's sustainable development.

The Group aspires to become a respectable enterprise. Going forward, the Group hopes to enhance its business performance through the implementation of sustainable development strategies and create more meaningful long-term value for the enterprise and its stakeholders.

SUMMARY OF ENVIRONMENTAL DATA AND PERFORMANCE

	Unit	2017
Greenhouse gas emissions:		
Scope 1:		
Total	Tonnes	389.30
Intensity	Tonnes (per production unit – Tonne)	0.01
Scope 2:		
Total	Tonnes	3,167.26
Intensity	Tonnes (per production unit – Tonne)	0.11
Air emissions:		
Nitrogen oxides	Tonnes	30.52
Sulfur oxides	Tonnes	1.82
Particles	Tonnes	3.44
Hazardous waste generated:		
Total	Tonnes	178.42
Intensity	Tonnes (per production unit – Tonne)	0.01
Non-hazardous waste generated:		
Total	Tonnes	9.25
Intensity	Tonnes (per production unit – Tonne)	0.00
Energy and water consumption:		
Electricity:		
Total	Megawatt hours	3,620.42
Intensity	Kilowatt hours (per production unit – Tonne)	129.01
Diesel:		
Total	Tonnes	3.88
Intensity	Tonnes (per production unit – Tonne)	0.00
Gasoline:		
Total	Tonnes	64.32
Intensity	Tonnes (per production unit – Tonne)	0.00
Water:		
Total	Tonnes	33,154.64
Intensity	Tonnes (per production unit – Tonne)	1.18
Packaging materials used:		
Total	Tonnes	4,586.26
Intensity	Tonnes (per production unit – Tonne)	0.16

COMPLIANCE WITH THE "ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE" ISSUED BY THE STOCK EXCHANGE

General Disclosures and Key Performance Indicators ("KPIs")	Reporting Guideline	Page No.
	A. Environment	
Aspect A1	**Emissions**	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	21–23
KPI A1.1	The types of emissions and respective emissions data.	30
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	30
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	30
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	30
KPI A1.5	Description of measures to mitigate emissions and results achieved.	21-23
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	21-23
Aspect A2	**Use of Resources**	
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	23-24
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (KWh in '000s) and intensity (e.g. per unit of production volume, per facility).	30
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	30
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	23-24
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	24
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	30
Aspect A3	**The Environment and Natural Resources**	
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	24
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	24

COMPLIANCE WITH THE "ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE" ISSUED BY THE STOCK EXCHANGE (continued)

General Disclosures and KPIs	Reporting Guideline	Page No.
	B. Social [1]	
Aspect B1	**Employment**	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	25
Aspect B2	**Health and Safety**	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	26
Aspect B3	**Development and Training**	
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	26
Aspect B4	**Labour Standards**	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	25
Aspect B5	**Supply Chain Management**	
General Disclosure	Policies on managing environmental and social risks of the supply chain.	27
Aspect B6	**Product Responsibility**	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	27
Aspect B7	**Anti-corruption**	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	27
Aspect B8	**Community Investment**	
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	28

Note:

1 The Group elected not to disclose the KPIs under "Subject Area B. Social" as set out in Appendix 27 to the Listing Rules which are recommended disclosures only.

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. The Group is principally engaged in the manufacture and sale of paint and coating products and investment holding activities. Details of the activities of the principal subsidiaries are set out in note 1 to the financial statements. Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance can be found in the Chairman's Statement and Management Discussion and Analysis set out on pages 3 to 12 of this annual report. The discussion forms part of this directors' report.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2017 and the state of affairs of the Group at that date are set out in the financial statements on pages 45 to 114.

The Directors have resolved not to declare a final dividend for the year ended 31 December 2017.

MAJOR SUPPLIERS AND CUSTOMERS

In the year under review, purchases from the Group's five largest suppliers accounted for approximately 24% of the total purchases for the year and purchases from the largest supplier included therein amounted to 6%. Sales to the Group's five largest customers accounted for less than 15% of the total sales for the year.

None of the Directors or any of their associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest suppliers.

SUMMARY OF FINANCIAL INFORMATION

The following table summarises the results of our Group for each of the four years ended 31 December 2014, 2015, 2016 and 2017.

The summary of the results of the Group of each of the three years ended 31 December 2014, 2015 and 2016 were extracted from the Prospectus. No financial statements of the Group for the year ended 31 December 2013 have been published.

Results

	Year ended 31 December			
	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**995,958**	937,450	867,997	1,131,305
Profit before tax	**23,600**	73,267	61,631	127,341
Income tax expenses	**(6,585)**	(17,801)	(19,701)	(30,192)
Profit for the year	**17,015**	55,466	41,930	97,149
ATTRIBUTABLE TO:				
Owners of the parent	**17,332**	55,448	42,498	97,274
Non-controlling interest	**(317)**	18	(568)	(125)
	17,015	55,466	41,930	97,149

SUMMARY OF FINANCIAL INFORMATION (continued)

Assets, Liabilities and Non-Controlling Interest

	Year ended 31 December			
	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**1,309,202**	1,201,165	1,210,434	1,296,476
Total liabilities	**(553,426)**	(522,794)	(542,112)	(641,851)
Non-controlling interest	**(3,566)**	(3,618)	(3,843)	(4,596)
	752,210	674,753	664,479	650,029

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year, together with the reasons therefor, are set out in note 31 to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles or the laws of Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing Shareholders.

PURCHASE, SALE OR REDEMPTION OF THE SHARES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Shares during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 32 to the financial statements and in the consolidated statement of changes in equity respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2017, the Company's reserves available for distribution, calculated in accordance with the Companies Law of the Cayman Islands, amounted to approximately HK$94,818,000.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$1,190,142.

DIRECTORS

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

Executive Directors

Tsui Ho Chuen, Philip
Li Guangzhong
Wong Anders

Non-executive Directors

Lam Ting Ball, Paul
Chong Chi Kwan

Independent Non-executive Directors

Chiu Kam Hing, Kathy *(appointed on 9 June 2017)*
Chua Joo Bin *(appointed on 9 June 2017)*
Xia Jun *(appointed on 9 June 2017)*

In accordance with the Articles, Mr. Tsui Ho Chuen, Philip, Mr. Lam Ting Ball, Paul and Mr. Chong Chi Kwan will retire from office at the forthcoming AGM and, being eligible, will offer themselves for re-election.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Directors

Name	Age	Position held	Number of years of service	Business experience
Executive Directors				
Tsui Ho Chuen, Philip	54	Executive Director and Managing Director	33	Qualified solicitor and more than 33 years' experience in the paint and coating industry
Li Guangzhong	48	Executive Director and Sales Director	25	More than 24 years' experience in the paint and coating industry
Wong Anders	45	Executive Director and Finance Director	10	More than 22 years' experience in finance and accounting
Non-executive Directors				
Lam Ting Ball, Paul	76	Non-executive Director and Chairman	45	More than 45 years' experience in management and the paint and coating industry
Chong Chi Kwan	50	Non-executive Director	12	More than 26 years' experience in auditing, finance, accounting and management

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Directors (continued)

Name	Age	Position held	Number of years of service	Business experience
Independent Non-executive Directors				
Chiu Kam Hing, Kathy	68	Independent Non-executive Director	1	More than 29 years' experience in banking experience in Canada and Asia Pacific Region
Chua Joo Bin	65	Independent Non-executive Director	1	More than 41 years' experience in finance and accounting
Xia Jun	62	Independent Non-executive Director	1	Qualified PRC lawyer with more than 28 years' experience in PRC legal practice

Senior management

Name	Age	Position held	Number of years of service	Business experience
Fong Yik Ming, Benedict	56	Chief Chemist	23	More than 31 years' experience in industrial paint and coating products paints formulations, safety and healthy environment, toy safety regulations, quality control and assurance implementation
Cao Hualong	47	General Manager – Production and Operation	3	More than 23 years' experience in the chemical, paint and coatings industry in the PRC
Dai Junjie	44	General Manager – Sales	3	More than 21 years' experience in the paint and coating industry
Lin Shu	64	Senior Assistant to Chairman	20	More than 18 years' experience in the paint and coating industry
Chuck Ricky Chui Hung	70	General Manager – Administration	13	More than 21 years' experience in the administration of production enterprises in the PRC

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Notes:

(1) Mr. Tsui Ho Chuen, Philip is the sole director of CNT Enterprises Limited and a non-executive director of CNT Group Limited. Both CNT Enterprises Limited and CNT Group Limited are the substantial shareholders of the Company. CNT Group Limited is a company listed on the Stock Exchange.

(2) Mr. Lam Ting Ball, Paul is an executive director and the chairman of CNT Group Limited.

(3) Mr. Chong Chi Kwan is an executive director and the managing director of CNT Group Limited.

CHANGE IN DIRECTOR'S INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of the Directors are as follows:

(1) Ms. Chiu Kam Hing, Kathy was appointed as an independent non-executive director of China Resources Phoenix Healthcare Holdings Company Limited, a company listed on the Stock Exchange, with effect from 23 March 2018.

(2) Details of changes in the Directors' remuneration are set out in note 9 to the financial statements.

DIRECTORS' INTERESTS IN SIGNIFICANT TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

There was no transaction, arrangement or contract of significance in relation to the Company's businesses subsisting during or at the end of this financial year in which the Company, its holding company, any of its subsidiaries or fellow subsidiaries, and in which a Director or an entity connected with a Director is or was materially interested either directly or indirectly.

CONTRACTS WITH CONTROLLING SHAREHOLDERS

Save as disclosed in note 38 to the financial statements, there was no contract of significance entered into between the Company or any of its subsidiaries and any controlling Shareholder or any of its subsidiaries, nor there was any contract of significance for the provision of services to the Company or any of its subsidiaries by a controlling Shareholder or any of its subsidiaries during the year ended 31 December 2017 or subsisted as at 31 December 2017.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

None of the Directors has any interests in any businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group that are required to be disclosed pursuant to Rule 8.10 of the Listing Rules.

DIRECTORS' SERVICE CONTRACTS

No Director has a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

The remuneration of the executive Directors are determined by the Remuneration Committee and the remuneration of the non-executive Directors are determined by the Board on the recommendation of the Remuneration Committee, by reference to their duties and responsibilities, performance, experiences, time commitment, market conditions and the corporate goals and objectives as set by the Board.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company, its holding company, any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

PERMITTED INDEMNITY PROVISION AND DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

Pursuant to the Articles, the Directors, the Company Secretary and other officers of the Company shall be indemnified out of the assets and profits of the Company against all losses or liabilities which they or any of them may sustain or incur in or about the execution of their duties in their respective offices, or in relation thereto.

The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors, the Company Secretary and other officers of the Company during the year ended 31 December 2017.

EQUITY-LINKED AGREEMENTS

There was no equity-linked agreement that has been entered into by the Company in this financial year. Nor was there any equity-linked agreement entered into by the Company in the past which still subsisted in this financial year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2017, none of the Directors or chief executives of the Company had any interest or short position in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code, or which were recorded in the register required to be kept by the Company under Section 352 of the SFO. Nor any of the Directors and the chief executives of the Company had any interest in, or had been granted any right to subscribe for the securities of the Company and its associated corporations (within the meaning of Part XV of the SFO) or had exercised any such right during the year under review.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 31 December 2017, the register maintained by the Company under Section 336 of the SFO showed that the following persons (other than the Directors) had interests in the Shares and underlying shares of the Company:

Name	Note	**Capacity**	**Number of Shares**	**Percentage of issued share capital**
CNT Enterprises Limited	1	Beneficial owner	750,000,000	75.00%
CNT Group Limited	1	Interest of controlled corporation	750,000,000	75.00%

Note:

(1) The reference to the 750,000,000 Shares relate to the same block of 750,000,000 Shares beneficially interested by CNT Enterprises Limited.

CNT Enterprises Limited was a wholly-owned subsidiary of CNT Group Limited. CNT Group Limited was deemed under the SFO to be interested in these 750,000,000 Shares which were owned by CNT Enterprises Limited.

Save as disclosed above, the Company has not been notified by any person who had interests or short positions in the Shares or underlying shares of the Company as at 31 December 2017 which were required to be disclosed to the Company under Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

CONTINUING CONNECTED TRANSACTIONS

During the year, the Company and the Group had the following continuing connected transactions.

On 9 June 2017, the Company (on behalf of its subsidiaries) entered into a master lease agreement (the "Master Lease Agreement") with CNT Group Limited (on behalf of its subsidiaries) with respect to the leasing of Hong Kong properties for use as the administrative office and the transhipment hub of the Company in Hong Kong. The amount of rental under the Master Lease Agreement is determined on an arm's length basis and upon normal commercial terms.

CNT Group Limited is a connected person of the Company under the Listing Rules after the Listing. Accordingly, the leasing transactions under the Master Lease Agreement constitute continuing connected transactions of the Company under the Listing Rules (the "Continuing Connected Transactions").

As set out in the Prospectus, the maximum aggregate annual amount payable by the Group in respect of the leasing transactions for each of the year ended 31 December 2017, and for the two years ending 31 December 2018 and 2019 was not to exceed HK$3.576 million, HK$3.755 million and HK$3.943 million respectively.

The aggregate amount paid by the Group in respect of the leasing transactions for the year ended 31 December 2017, which is subject to the annual review requirement under the Listing Rules, was approximately HK$3.538 million (98.9% of the annual cap of HK$3.576 million).

In addition, all the independent non-executive Directors have reviewed the Continuing Connected Transactions for the year ended 31 December 2017 and confirmed that such transactions had been entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms; and (c) according to the respective relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

Ernst & Young, the Company's auditor, was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on *Assurance Engagements 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants.

Based on the work performed, the Company's auditor has confirmed in a letter to the Board that nothing has come to its attention which causes it to believe that:

(i) the Continuing Connected Transactions have not been approved by the Board;

(ii) the Continuing Connected Transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

(iii) the total transaction value of the Continuing Connected Transactions has exceeded the maximum aggregate annual cap amounts in respect of the Continuing Connected Transactions as disclosed in the Prospectus.

A copy of the auditor's letter has been provided by the Company to the Stock Exchange. The Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Based on publicly available information and within the Directors' knowledge, the Company has maintained a sufficient public float as required under the Listing Rules as at the date of this report.

AUDITORS

Ernst & Young will retire and a resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming AGM.

On behalf of the Board
CPM Group Limited

Lam Ting Ball, Paul
Chairman
28 March 2018

Independent Auditor's Report

To the shareholders of CPM Group Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of CPM Group Limited (the "Company") and its subsidiaries (collectively, the "Group") set out on pages 45 to 114, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of 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 a summary of significant accounting policies.

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 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTERS (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of trade and bills receivables	
As at 31 December 2017, the Group recorded trade and bills receivables of HK$736.5 million before provision for impairment of HK$38.4 million. The determination as to whether a receivable is recoverable involved management's judgement, such as their assessment on the financial condition and creditworthiness of each debtor. Disclosures in relation to trade and bills receivables, are included in note 4 – Significant accounting judgements and estimates and note 20 – Trade and bills receivables to the consolidated financial statements.	Our audit procedures included assessing and testing the Group's processes and controls in relation to the monitoring of receivables and the granting of credit terms. We have also checked the correctness of ageing analysis prepared by management, obtained direct confirmations from a sample of debtors and evaluated the financial position of customers with significant overdue balances. Furthermore, we have evaluated the adequacy of the impairment provision made by management as at the end of the reporting period, with reference to the repayment history, subsequent settlement and the existence of any disputes.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

The engagement partner on the audit resulting in this independent auditor's report is Leung Chi Kit.

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong
28 March 2018

Consolidated Statement of Profit or Loss

Year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
REVENUE	6	**995,958**	937,450
Cost of sales		**(688,151)**	(590,088)
Gross profit		**307,807**	347,362
Other income and gains, net	6	**9,593**	12,827
Selling and distribution expenses		**(172,014)**	(148,647)
Administrative expenses		**(100,400)**	(112,227)
Other expenses, net		**(19,827)**	(23,998)
Finance costs	8	**(1,559)**	(2,050)
PROFIT BEFORE TAX	7	**23,600**	73,267
Income tax expenses	11	**(6,585)**	(17,801)
PROFIT FOR THE YEAR		**17,015**	55,466
ATTRIBUTABLE TO:			
Owners of the parent		**17,332**	55,448
Non-controlling interest		**(317)**	18
		17,015	55,466
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	13	**HK1.99 cents**	HK7.39 cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2017

	Note	**2017** **HK$'000**	2016 HK$'000
PROFIT FOR THE YEAR		**17,015**	55,466
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**43,600**	(53,672)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Remeasurement of net pension scheme assets	18	**2,176**	339
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**45,776**	(53,333)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**62,791**	2,133
ATTRIBUTABLE TO:			
Owners of the parent		**62,843**	2,358
Non-controlling interest		**(52)**	(225)
		62,791	2,133

Consolidated Statement of Financial Position

31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**200,883**	188,041
Prepaid land lease payments	15	**19,232**	18,389
Available-for-sale investment	16	**300**	300
Deposits for purchases of properties, plant and equipment	17	**8,972**	8,662
Net pension scheme assets	18	**4,421**	2,372
Deferred tax assets	29	**5,327**	7,470
Total non-current assets		**239,135**	225,234
CURRENT ASSETS			
Inventories	19	**71,682**	60,955
Trade and bills receivables	20	**698,051**	445,513
Prepayments, deposits and other receivables	21	**53,076**	44,702
Due from the Remaining Group	26	**–**	106,555
Structured deposits	22	**–**	98,666
Cash and cash equivalents	23	**247,258**	219,540
Total current assets		**1,070,067**	975,931
CURRENT LIABILITIES			
Trade and bills payables	24	**293,604**	199,635
Other payables and accruals	25	**111,727**	139,797
Due to the Remaining Group	26	**3,166**	19,853
Interest-bearing bank and other borrowings	27	**100,770**	113,344
Tax payable		**15,774**	17,088
Total current liabilities		**525,041**	489,717
NET CURRENT ASSETS		**545,026**	486,214
TOTAL ASSETS LESS CURRENT LIABILITIES		**784,161**	711,448

Consolidated Statement of Financial Position

31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	27	**1,016**	1,388
Deferred tax liabilities	29	**25,154**	29,343
Deferred income	30	**2,215**	2,346
Total non-current liabilities		**28,385**	33,077
Net assets		**755,776**	678,371
EQUITY			
Equity attributable to owners of the parent			
Issued capital	31	**100,000**	–
Reserves	32	**652,210**	674,753
		752,210	674,753
Non-controlling interest		**3,566**	3,618
Total equity		**755,776**	678,371

Tsui Ho Chuen, Philip
Director

Lam Ting Ball, Paul
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2017

		Attributable to owners of the parent											
	Note	Issued capital HK$'000 (note 31)	Merger reserve HK$'000	Capital contribution^ HK$'000	Contributed surplus HK$'000	Leasehold land and building revaluation reserve HK$'000	General reserve HK$'000	Exchange fluctuation reserve HK$'000	Reserve funds** HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interest HK$'000	Total equity HK$'000
At 1 January 2016		–	4,161	2,630	(45,710)	6,489	10,485	17,076	28,866	640,482	664,479	3,843	668,322
Profit for the year		–	–	–	–	–	–	–	–	55,448	55,448	18	55,466
Other comprehensive income/(loss) for the year:													
Remeasurement of net pension scheme assets	18	–	–	–	–	–	–	–	–	339	339	–	339
Exchange differences on translation of foreign operations		–	–	–	–	–	–	(53,429)	–	–	(53,429)	(243)	(53,672)
Total comprehensive income/(loss) for the year		–	–	–	–	–	–	(53,429)	–	55,787	2,358	(225)	2,133
Contribution from the Remaining Group		–	7,916	–	–	–	–	–	–	–	7,916	–	7,916
At 31 December 2016		–	12,077#	2,630#	(45,710)#	6,489#	10,485#	(36,353)#	28,866#	696,269#	674,753	3,618	678,371

Consolidated Statement of Changes in Equity

Year ended 31 December 2017

		Attributable to owners of the parent												
	Note	Issued capital HK$'000 (note 31)	Share premium account HK$'000 (note 31)	Merger reserve HK$'000	Capital contribution^ HK$'000	Contributed surplus HK$'000	Leasehold land and building revaluation reserve HK$'000	General reserve HK$'000	Exchange fluctuation reserve HK$'000	Reserve funds** HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interest HK$'000	Total equity HK$'000
At 1 January 2017		-	-	12,077	2,630	(45,710)	6,489	10,485	(36,353)	28,866	696,269	674,753	3,618	678,371
Profit/(loss) for the year		-	-	-	-	-	-	-	-	-	17,332	17,332	(317)	17,015
Other comprehensive income/(loss) for the year:														
Remeasurement of net pension scheme assets	18	-	-	-	-	-	-	-	-	-	2,176	2,176	-	2,176
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	43,335	-	-	43,335	265	43,600
Total comprehensive income/(loss) for the year		-	-	-	-	-	-	-	43,335	-	19,508	62,843	(52)	62,791
Issue of new shares		-	-	(27,094)	-	27,094	-	-	-	-	-	-	-	-
Issue of new shares pursuant to the Share Offer		25,000	190,000	-	-	-	-	-	-	-	-	215,000	-	215,000
Issue of new shares pursuant to the Capitalisation Issue		75,000	(75,000)	-	-	-	-	-	-	-	-	-	-	-
Share issue expenses		-	(20,386)	-	-	-	-	-	-	-	-	(20,386)	-	(20,386)
2017 special interim dividend declared		-	-	-	-	-	-	-	-	-	(180,000)	(180,000)	-	(180,000)
At 31 December 2017		100,000	94,614#	(15,017)#	2,630#	(18,616)#	6,489#	10,485#	6,982#	28,866#	535,777#	752,210	3,566	755,776

** Pursuant to the relevant laws and regulations for foreign investment enterprises, a portion of the profit of certain subsidiaries of the Group in the People's Republic of China (the "PRC") is required to be transferred to the PRC reserve funds which are restricted as to use. These PRC entities are not required to effect any further transfer when the amounts of the PRC reserve funds reach 50% of their registered capital. The PRC reserve funds can be used to make good the future losses of these PRC entities or to increase their registered capital.

These reserve accounts comprise the consolidated reserves of HK$652,210,000 (2016: HK$674,753,000) in the consolidated statement of financial position.

^ The capital contribution reserve represents equity-settled share option expense related to the Group's business granted by the ultimate holding Company, CNT Group Limited, on behalf of the Group.

Consolidated Statement of Cash Flows

Year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**23,600**	73,267
Adjustments for:			
Finance costs	8	**1,559**	2,050
Bank interest income	6	**(839)**	(2,402)
Depreciation	7	**18,212**	18,174
Amortisation of prepaid land lease payments	7	**513**	524
Recognition of deferred income	6	**(295)**	(301)
Loss on disposal of items of property, plant and equipment	7	**61**	142
Write-off of items of property, plant and equipment	7	**557**	608
Fair value gains net:			
Structured deposits	6	**(762)**	(3,209)
Derivative instrument – transaction not qualifying as hedge	7	**–**	(10)
Write-back of inventories to net realisable value	7	**(2,841)**	(5,731)
Provision for impairment of trade receivables	7	**7,967**	11,694
Net pension benefit expenses	7	**127**	145
		47,859	94,951
Increase in inventories		**(3,518)**	(3,693)
Increase in trade and bills receivables		**(225,467)**	(151,322)
Increase in prepayments, deposits and other receivables		**(5,299)**	(6,771)
Increase in trade and bills payables		**78,038**	91,145
Increase/(decrease) in other payables and accruals		**(35,805)**	11,753
Exchange realignment		**(6,124)**	(1,415)
Cash generated from/(used in) operations		**(150,316)**	34,648
Interest paid		**(1,575)**	(2,135)
Overseas taxes paid		**(10,258)**	(16,418)
Net cash flows from/(used in) operating activities		**(162,149)**	16,095

Consolidated Statement of Cash Flows

Year ended 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(16,261)**	(22,044)
Proceeds from disposal of items of property, plant and equipment		**79**	512
Investments in structured deposits		**(165,055)**	(231,709)
Proceeds from structured deposits		**266,131**	286,393
Interest received		**841**	2,395
Deposits paid for purchases of property, plant and equipment		**(1,266)**	(2,127)
Decrease in restricted time deposits with original maturity of less than three months when acquired		**–**	11,935
Decrease in time deposits with original maturity of more than three months when acquired		**–**	81,569
Decrease in amounts due from the Remaining Group		**–**	10,079
Net cash flows from investing activities		**84,469**	137,003
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**94,730**	109,772
Repayment of bank loans		**(107,324)**	(162,115)
Proceeds from issue of shares		**215,000**	–
Share issue expenses		**(20,386)**	–
Decrease in amounts due to the Remaining Group		**(90,132)**	(56,861)
Capital element of finance lease rental payments		**(370)**	(180)
Net cash flows from/(used in) financing activities		**91,518**	(109,384)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**13,838**	43,714
Cash and cash equivalents at beginning of year		**219,540**	193,051
Effect of foreign exchange rate changes, net		**13,880**	(17,225)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**247,258**	219,540
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	**184,275**	102,196
Non-pledged time deposits with original maturity of less than three months when acquired	23	**62,983**	117,344
Cash and cash equivalents as stated in the consolidated statements of financial position		**247,258**	219,540

1. CORPORATE AND GROUP INFORMATION

CPM Group Limited (the "Company") is an exempted company with limited liability incorporated in the Cayman Islands on 19 September 2016. The registered office of the Company is located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business of the Company is situated at 31st Floor, CNT Tower, 338 Hennessy Road, Wanchai, Hong Kong. The shares of the Company (the "Shares") have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 10 July 2017 (the "Listing Date").

During the year, the Company and its subsidiaries were engaged in the manufacture and sale of paint and coating products, and investment holding.

Pursuant to the reorganisation (the "Reorganisation") of the Group in connection with the listing of the Shares on the Stock Exchange, as explained in the paragraph headed "Reorganisation" in the section headed "History, Development and Reorganisation" in the prospectus (the "Prospectus") of the Company dated 19 June 2017, the Company became the holding company of the Companies now comprising the Group on 8 June 2017.

In the opinion of the directors of the Company (the "Directors"), CNT Group Limited ("CNT Group"), a company incorporated in the Bermuda and listed on the Main Board of the Stock Exchange, is the ultimate holding company of the Company.

The Company and its subsidiaries are hereafter collectively referred to as the "Group"; whereas CNT Group and its subsidiaries, but excluding the Group, are collectively referred to as the "Remaining Group".

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
The China Paint Manufacturing Company (1932) Limited	Hong Kong	Ordinary HK$200,000 Non-voting deferred HK$1,761,300	–	100	Manufacture and sale of paint products and investment holding
CNT Resene (Distribution) Limited	Hong Kong	HK$1	–	100	Sale of paint products
CNT Resene Limited	Hong Kong	HK$2	–	100	Manufacture and sale of paint products and investment holding
CP Industries (BVI) Limited*	British Virgin Islands ("BVI")	US$1,635,512	100	–	Investment holding
Majority Faith Corporation*	BVI	US$1	–	100	Investment holding

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Particulars of the Company's principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
R, J & Thomas Secretaries Limited	Hong Kong	HK$30,000	–	100	Investment holding
中華製漆 (深圳) 有限公司 The China Paint Manufacturing (Shenzhen) Co., Ltd.#*^	PRC/ Mainland China	HK$70,000,000	–	100	Manufacture and sale of paint products
中華製漆 (新豐) 有限公司 The China Paint Mfg. Co., (Xinfeng) Ltd.#*^	PRC/ Mainland China	US$13,000,000	–	100	Manufacture and sale of paint products
長頸鹿製漆 (上海) 有限公司 Giraffe Paint Mfg. Co., (Shanghai) Ltd.#*^	PRC/ Mainland China	US$4,000,000	–	100	Sale of paint products
長頸鹿製漆(徐州)有限公司 Giraffe Paint Mfg. Co., (Xuzhou) Ltd.#*^	PRC/ Mainland China	US$2,000,000	–	100	Manufacture and sale of paint products
湖北長頸鹿製漆有限公司 Hubei Giraffe Paint Mfg. Co., Ltd.##*^	PRC/ Mainland China	RMB40,000,000	–	90.5	Manufacture and sale of paint products

* Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network

\# Wholly-foreign-owned enterprises registered under PRC law

\## Sino-foreign-owned enterprises registered under PRC law

^ The English names represent management's best effort in translating the Chinese names of these entities as no English names of these entities have been registered.

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

2.1 BASIS OF PRESENTATION

Pursuant to the Reorganisation, the Company became the holding company of the companies now comprising the Group on 8 June 2017. Since the companies now comprising the Group were under the common control of the same controlling shareholders before and after the Reorganisation, these financial statements have been prepared using the principles of merger accounting.

2.1 BASIS OF PRESENTATION (continued)

Accordingly, the financial statements have been prepared on a consolidated basis by applying the principles of merger accounting as if the Reorganisation had been completed at the beginning of the year ended 31 December 2017.

The consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year ended 31 December 2017 include the results and cash flows of all companies now comprising the Group from the earliest date presented or since the date when the subsidiaries and/or businesses first came under the common control of the controlling shareholders, where this is a shorter period.

Equity interests in subsidiaries held by parties other than the controlling shareholders, and changes therein, prior to the Reorganisation are presented as non-controlling interests in equity in applying the principles of merger accounting. All intra-group transactions and balances have been eliminated on combination.

2.2 BASIS OF PREPARATION

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 structured deposits, an available-for-sale investment, and net pension scheme assets, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand ("HK$'000") except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries now comprising the Group for the year ended 31 December 2017. As explained in note 2.1 above, the acquisition of subsidiaries and business under common control has been accounted for using merger accounting.

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

a) the contractual arrangement with the other vote holders of the investee;

b) rights arising from other contractual arrangements; and

c) the Group's voting rights and potential voting rights.

2.2 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. Except for the common control combination as mentioned above, the results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interest, even if this results in the non-controlling interest having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on combination.

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 described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets and liabilities.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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*

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

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. Disclosure of the change in liabilities arising from financing activities is provided in note 33(b) to the financial statements.

(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 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 and no additional information is required to be disclosed.

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1]
HKFRS 9	*Financial Instruments*[1]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[1]
HKFRS 16	*Leases*[2]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[2]
Amendments to HKAS 40	*Transfers of Investment Property*[1]
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28[1]
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if they elect to adopt for all three amendments and other criteria are met. The Group will adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt HKFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of HKFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

(a) Classification and measurement

HKFRS 9 introduces, among other things, new requirements for classification and measurement of the Group's financial assets. Available-for-sale investment with gains and losses recorded in other comprehensive income will, instead, be measured at fair value through profit or loss, which will increase volatility in profit or loss.

(b) Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months.

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

HKFRS 15, issued in July 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group plans to adopt the transitional provisions in HKFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2018. In addition, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. The Group currently expects that the transitional adjustment to be made on 1 January 2018 upon initial adoption of HKFRS 15 will not be material. During 2017, the Group has performed a high level assessment on the impact of the adoption of HKFRS 15.

The revenue from certain of the Group's principal activities that might be affected by HKFRS 15 consist of manufacture and sale of paint and coating products, and investment holding. The Group does not expect the adoption of HKFRS 15 will have a significant financial effect on its financial statements upon initial adoption. However, the presentation and disclosure requirements in HKFRS 15 are more detailed than those under the current HKAS 18. The presentation requirements represent a significant change from current practice and will significantly increase the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in HKFRS 15 are new and the Group has assessed that the impact of some of these disclosure requirements will be significant. In particular, the Group expects that the notes to the financial statements will be expanded because of the disclosure of significant judgements made on determining the transaction prices of those contracts that include variable consideration, how the transaction prices have been allocated to the performance obligations, and the assumptions made to estimate the stand-alone selling price of each performance obligation. In addition, as required by HKFRS 15, the Group will disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. It will also disclose information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment.

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HKFRS 16, issued in May 2016, replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt HKFRS 16 from 1 January 2019. The Group is currently assessing the impact of HKFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 36 to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately HK$9,102,000. Upon adoption of HKFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short-term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

Amendments to HKAS 40, issued in April 2017, clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to the changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at the date that it first applies the amendments and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application is only permitted if it is possible without the use of hindsight. The Group expects to adopt the amendments prospectively from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HK(IFRIC)-Int 22, issued in June 2017, provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. Entities may apply the interpretation on a full retrospective basis or on a prospective basis, either from the beginning of the reporting period in which the entity first applies the interpretation or the beginning of the prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group expects to adopt the interpretation prospectively from 1 January 2018. The interpretation is not expected to have any significant impact on the Group's financial statements.

HK(IFRIC)-Int 23, issued in July 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

The Group measures its structured deposits, an available-for-sale investment and net pension scheme assets at fair value at the end of each reporting period. 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group 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 (a);

(vii) a person identified in (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 parent of the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to the write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land and buildings	2% – 4% or over the lease terms, whichever rate is higher
Leasehold improvements	10% – 33% or over the lease terms, whichever rate is higher
Plant and machinery	9% – 25%
Furniture, fixtures and equipment	10% – 33%
Motor vehicles	18% – 25%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

The transitional provisions set out in paragraph 80AA of HKAS 16 *Property, Plant and Equipment* have been adopted for certain of the Group's leasehold land and buildings stated at valuation. As a result, those assets stated at revalued amounts based on revaluations which were reflected in the financial statements for periods ended before 30 September 1995 have not been further revalued after that date.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress mainly represents buildings, leasehold improvements and plant and machinery under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Investments and other financial assets

Initial recognition and measurement

Financial assets of the Group are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purposes of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as other expenses in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale financial investments

Available-for-sale financial investment of the Group is a non-derivative financial asset in an unlisted club membership debenture. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in a separate component of equity until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the separate component of equity to the statement of profit or loss. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (continued)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the statement of profit or loss.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities of the Group are classified, at initial recognition, as financial liabilities at fair value through profit or loss, and loans and borrowings, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other payables and accruals, amounts due to the Remaining Group and interest-bearing bank and other borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (a) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (b) the amount initially recognised less, when appropriate, cumulative amortisation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as interest rate swaps, to hedge its interest rate risk. These derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and is subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of manufacturing overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. When the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(c) rental income, on a time proportion basis over the lease terms.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Pension schemes and other retirement benefits

The Group operates a funded final salary defined benefit pension scheme registered under the Occupational Retirement Schemes Ordinance for those employees who are eligible to participate in the Scheme. The cost of providing benefits under the defined benefit pension scheme is determined using the projected unit credit actuarial valuation method.

Remeasurements arising from defined benefit pension schemes, comprising actuarial gains and losses, the effect of the asset ceiling (excluding amounts included in net interest on the net pension scheme assets) and the return on scheme assets (excluding amounts included in net interest on the net pension scheme assets), are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to retained profits through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss at the earlier of:

- the date of the scheme amendment or curtailment; and

- the date that the Group recognises restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under "administrative expenses" in the consolidated statement of profit or loss:

- service costs comprising current service costs, past service costs, gains and losses on curtailments and non-routine settlements

- net interest expense or income

The Group also operates defined contribution schemes under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the schemes. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. When an employee leaves the employment prior to his/her interest in the Group's employer contributions vesting fully, the relevant amount of forfeited benefits may be refunded to the Group or used to reduce the ongoing contributions payable by the Group. In respect of the Mandatory Provident Fund retirement benefit schemes, the Group's employer contributions vest fully with the employees when contributed into the schemes.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain specific percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividend is recognised as a liability when the dividend is approved by the shareholders in a general meeting. Proposed final dividend is disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries and associates are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Write-down of inventories to net realisable value

The Group's management reviews the condition of inventories of the Group and makes provision for obsolete and slow-moving inventory items. The Group carries out an inventory review on a product-by-product basis at the end of each reporting period and makes provision for obsolete items. Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. The Group's management reassesses the estimation at the end of each reporting period.

Provision for income taxes

Provision for income tax is made based on the taxable income for the period as determined by the Group. The determination of taxable income involves the exercise of judgement on interpretation of the relevant tax rules and regulations. The amounts of income tax and hence profit or loss could be affected by any interpretations and clarifications which the tax authority may issue from time to time.

Impairment of trade and bills receivables

The Group assesses at the end of each reporting period whether there is any objective evidence that a receivable is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

The Group maintains an allowance for the estimated loss arising from the inability of its debtors to make the required payments. The Group makes its estimates based on, inter alia, the ageing of its receivable balances, debtors' creditworthiness, past repayment history and historical write-off experience. If the financial condition of its debtors was to deteriorate so that the actual impairment loss might be higher than expected, the Group would be required to revise the basis of making the allowance.

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

5. OPERATING SEGMENT INFORMATION

For management purpose, the Group has only one reportable operating segment which is the paint products segment engaged in the manufacture and sale of paint products and related services. Since this is the only reportable operating segment of the Group, no further operating segment analysis thereof is presented.

Geographical information

(a) Revenue from external customers

	2017 HK$'000	2016 HK$'000
Hong Kong	**86,162**	80,233
Mainland China	**909,796**	857,217
	995,958	937,450

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

(b) Non-current assets

	2017 HK$'000	2016 HK$'000
Hong Kong	**3,628**	4,256
Mainland China	**225,459**	210,836
	229,087	215,092

The non-current asset information above is based on the locations of the assets and excludes deferred tax assets, financial instruments and post-employment benefit assets.

Information about a major customer

During the years ended 31 December 2017 and 2016, no revenue from any single customer accounted for 10% or more of the total revenue of the Group.

6. REVENUE, OTHER INCOME AND GAINS, NET

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of the Group's revenue, other income and gains, net is as follows:

	Note	**2017** **HK$'000**	2016 HK$'000
Revenue			
Sale of paint products		**995,958**	937,450
Other income			
Bank interest income		**839**	2,402
Government grants*		**4,819**	4,641
Recognition of deferred income	30	**295**	301
Others		**2,878**	2,264
		8,831	9,608
Gains, net			
Fair value gains, net:			
Derivative instrument – transaction not qualifying as hedge		**–**	10
Structured deposits		**762**	3,209
		762	3,219
Total other income and gains, net		**9,593**	12,827

* Government grants have been received from certain government authorities of the PRC in recognition of the Group's efforts in environmental awareness and protection and technological development. There are no unfulfilled conditions or contingencies relating to these grants.

7. PROFIT BEFORE TAX

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

	Notes	2017 HK$'000	2016 HK$'000
Cost of inventories sold		**688,151**	590,088
Depreciation	14	**18,212**	18,174
Amortisation of prepaid land lease payments	15	**513**	524
Minimum lease payments under operating leases in respect of land and buildings		**11,489**	11,215
Auditor's remuneration:			
Audit related services		**2,350**	6,296
Other services		**485**	18
		2,835	6,314
Employee benefit expense (including directors' remuneration (note 9)):			
Wages, salaries, bonuses, allowances and welfare		**153,448**	165,287
Pension scheme contributions (defined contribution schemes)#		**18,984**	15,106
Net pension benefit expenses recognised (defined benefit schemes)	18	**127**	145
		172,559	180,538
Foreign exchange differences, net*		**512**	71
Write-back of inventories to net realisable value@		**(2,841)**	(5,731)
Provision for impairment of trade receivables	20	**7,967**	11,694
Fair value gains, net:			
Structured deposits		**(762)**	(3,209)
Derivative instrument – transaction not qualifying as hedge		**–**	(10)
Loss on disposal of items of property, plant and equipment, net*		**61**	142
Product improvement and development		**36,809**	30,201
Write-off of items of property, plant and equipment*	14	**557**	608

* These balances are included in "Other income and gains, net" for gains and "Other expenses, net" for losses in the consolidated statement of profit or loss.

@ The balance is included in "Cost of sales" in the consolidated statement of profit or loss.

\# At 31 December 2017 and 2016, the Group had no material forfeited contributions available to reduce its contributions to the retirement benefit schemes in future years.

8. FINANCE COSTS

An analysis of finance costs is as follows:

	2017 HK$'000	2016 HK$'000
Interest on bank loans	**1,482**	2,005
Interest on finance leases	**77**	45
	1,559	2,050

9. DIRECTORS' REMUNERATION

Tsui Ho Chuen, Philip was appointed on 19 September 2016, Wong Anders and Li Guangzhong were appointed on 11 November 2016 as executive Directors. Lam Ting Ball, Paul and Chong Chi Kwan were appointed as non-executive Directors on 11 November 2016. Chiu Kam Hing Kathy, Chua Joo Bin and Xia Jun were appointed as independent non-executive Directors on 9 June 2017.

Certain of the Directors received remuneration from the subsidiaries now comprising the Group for their appointment as directors or officers of these subsidiaries.

Directors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2017 HK$'000	2016 HK$'000
Fees	**800**	–
Other emoluments:		
Salaries, allowances and benefits in kind	**9,328**	10,289
Discretionary bonuses	**2,911**	1,509
Pension scheme contributions	**481**	492
	12,720	12,290
	13,520	12,290

(a) Independent non-executive Directors

The fees paid/payable to independent non-executive Directors during the year were as follows:

	2017 HK$'000
Chiu Kam Hing, Kathy	**100**
Chua Joo Bin	**100**
Xia Jun	**100**
	300

9. DIRECTORS' REMUNERATION (continued)

(b) Executive Directors and non-executive Directors

2017	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Executive Directors:					
Tsui Ho Chuen, Philip	100	5,611	1,825	350	7,886
Wong Anders	100	1,820	880	18	2,818
Li Guangzhong	100	1,897	206	113	2,316
	300	9,328	2,911	481	13,020
Non-executive Directors:					
Lam Ting Ball, Paul	100	–	–	–	100
Chong Chi Kwan	100	–	–	–	100
	200	–	–	–	200
	500	9,328	2,911	481	13,220

2016	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Executive Directors:					
Tsui Ho Chuen, Philip	–	5,596	730	350	6,676
Wong Anders	–	1,325	324	18	1,667
Li Guangzhong	–	1,851	205	106	2,162
	–	8,772	1,259	474	10,505
Non-executive Directors:					
Lam Ting Ball, Paul	–	1,031	50	9	1,090
Chong Chi Kwan	–	486	200	9	695
	–	1,517	250	18	1,785
	–	10,289	1,509	492	12,290

There was no arrangement under which a Director waived or agreed to waive any remuneration during the year (2016: Nil).

During the years ended 31 December 2017 and 2016, no remuneration was paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year, included three Directors (2016: two), details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining two (2016: three) highest paid employees who are non-directors for the year are as follows:

	2017 HK$'000	2016 HK$'000
Salaries, allowances and benefits in kind	**5,628**	7,452
Discretionary bonuses	**792**	1,325
Pension scheme contributions	**18**	121
	6,438	8,898

The number of the highest paid employees who are non-directors whose remuneration fell within the following bands is as follows:

	Number of employees	
	2017	2016
HK$2,000,001 to HK$2,500,000	–	1
HK$2,500,001 to HK$3,000,000	–	–
HK$3,000,001 to HK$3,500,000	**2**	1
HK$3,500,001 to HK$4,000,000	–	1
	2	3

During the years ended 31 December 2017 and 2016, no emoluments were paid by the Group to the Directors or any of the highest paid employees who are non-directors as an inducement to join or upon joining the Group or as compensation for loss of office nor has any Director waived or agreed to waive any emoluments.

11. INCOME TAX

Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI.

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the current and prior years.

All subsidiaries of the Group established in Mainland China are subject to the PRC corporate income tax at a standard rate of 25% (2016: 25%) during the year, except for subsidiaries of the Group which qualified as a PRC High and New Technology Enterprise in Mainland China and a lower PRC corporate income tax rate of 15% (2016: 15%) had been applied during the year.

	2017 **HK$'000**	2016 HK$'000
Current – Elsewhere		
Charge for the year	**10,611**	20,283
Overprovision in prior years	**(2,515)**	–
Deferred (note 29)	**(1,511)**	(2,482)
Total tax charge for the year	**6,585**	17,801

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

	2017 **HK$'000**	2016 HK$'000
Profit before tax	**23,600**	73,267
Tax at the statutory tax rate	**3,894**	12,089
Different tax rates for subsidiaries in the PRC, net	**(422)**	(3,111)
Adjustments in respect of current tax of previous periods	**(2,515)**	–
Income not subject to tax	**(2,797)**	(1,933)
Expenses not deductible for tax	**4,658**	8,391
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	**–**	1,819
Tax losses utilised from previous periods	**(933)**	(4,404)
Tax losses not recognised	**4,236**	4,324
Others	**464**	626
Tax charge at the Group's effective tax rate	**6,585**	17,801

12. DIVIDENDS

The Directors have resolved not to declare a final dividend for the year ended 31 December 2017 (2016: Nil).

On 7 June 2017, CP Industries (BVI) Limited, the former holding company of the subsidiaries of the Group prior to the completion of the Reorganisation, declared a special interim dividend of HK$180,000,000 (2016: Nil) to the Remaining Group. The rates for this dividend and the number of shares ranking for this dividend are not presented as such information is not considered meaningful for the purposes of the financial statements.

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent of HK$17,332,000 (2016: HK$55,448,000) and the weighted average number of ordinary shares of 869,863,014 (2016: 750,000,000) in issue during the year, on the assumption that the Reorganisation and the Capitalisation Issue (as defined in note 31(iv)) in connection with the listing of the shares of the Company had been completed on 1 January 2016.

The weighted average number of shares used to calculate the basic earnings per share amount for the year ended 31 December 2017 includes 100 ordinary shares issued on 8 June 2017 and 749,999,900 new shares issued pursuant to the Capitalisation Issue (as further detailed in note 31(iv)) on the assumption that these shares had been in issue throughout the year ended 31 December 2017.

The weighted average number of shares used to calculate the basic earnings per share amount for the year ended 31 December 2016 was based on 750,000,000 ordinary shares, representing the number of shares immediately after the Capitalisation Issue, as if all these shares had been in issue throughout the year ended 31 December 2016.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2017 and 2016 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during these years.

The calculations of basic and diluted earnings per share are based on:

	2017	2016
	HK$'000	HK$'000
Earnings		
Profit attributable to ordinary equity holders of the parent	**17,332**	55,448

	Number of shares	
	2017	2016
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**869,863,014**	750,000,000

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Construction in progress HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2017							
At 31 December 2016 and at 1 January 2017:							
Cost or valuation	220,560	15,800	16,117	144,145	34,881	19,574	451,077
Accumulated depreciation	(95,428)	–	(13,060)	(112,396)	(27,825)	(14,327)	(263,036)
Net carrying amount	125,132	15,800	3,057	31,749	7,056	5,247	188,041
At 1 January 2017, net of accumulated depreciation	125,132	15,800	3,057	31,749	7,056	5,247	188,041
Additions	500	9,436	978	3,030	1,345	988	16,277
Disposals	–	–	–	(24)	(8)	(108)	(140)
Write-off (note 7)	(11)	–	(31)	(420)	(95)	–	(557)
Transfer from deposits for purchases of properties, plant and equipment (note 17)	–	–	–	867	–	707	1,574
Depreciation provided during the year (note 7)	(7,700)	–	(955)	(5,229)	(2,510)	(1,818)	(18,212)
Transfers	26,474	(26,474)	–	–	–	–	–
Exchange realignment	8,861	1,626	193	2,547	480	193	13,900
At 31 December 2017, net of accumulated depreciation	153,256	388	3,242	32,520	6,268	5,209	200,883
At 31 December 2017:							
Cost or valuation	263,854	388	17,795	155,257	36,281	20,516	494,091
Accumulated depreciation	(110,598)	–	(14,553)	(122,737)	(30,013)	(15,307)	(293,208)
Net carrying amount	153,256	388	3,242	32,520	6,268	5,209	200,883

14. PROPERTY, PLANT AND EQUIPMENT (continued)

	Leasehold land and buildings HK$'000	Construction in progress HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2016							
At 1 January 2016:							
Cost or valuation	235,458	–	17,123	155,363	35,733	19,254	462,931
Accumulated depreciation	(93,385)	–	(12,843)	(117,164)	(28,822)	(14,987)	(267,201)
Net carrying amount	142,073	–	4,280	38,199	6,911	4,267	195,730
At 1 January 2016, net of accumulated depreciation	142,073	–	4,280	38,199	6,911	4,267	195,730
Additions	–	16,600	57	902	3,902	2,493	23,954
Disposals	–	–	–	(105)	(78)	(472)	(655)
Write-off (note 7)	–	–	(6)	(483)	(119)	–	(608)
Transfer from deposits for purchases of properties, plant and equipment (note 17)	–	–	–	550	–	640	1,190
Depreciation provided during the year (note 7)	(8,948)	–	(533)	(4,918)	(2,250)	(1,525)	(18,174)
Exchange realignment	(7,993)	(800)	(741)	(2,396)	(1,310)	(156)	(13,396)
At 31 December 2016, net of accumulated depreciation	125,132	15,800	3,057	31,749	7,056	5,247	188,041
At 31 December 2016:							
Cost or valuation	220,560	15,800	16,117	144,145	34,881	19,574	451,077
Accumulated depreciation	(95,428)	–	(13,060)	(112,396)	(27,825)	(14,327)	(263,036)
Net carrying amount	125,132	15,800	3,057	31,749	7,056	5,247	188,041

The net carrying amounts of items of property, plant and equipment held under finance leases included in the total amounts of furniture, fixtures and equipment and motor vehicles at the end of the reporting period were as follows:

	2017 HK$'000	2016 HK$'000
Furniture, fixtures and equipment	**28**	23
Motor vehicles	**1,464**	1,846
	1,492	1,869

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Certain of the Group's leasehold land and buildings situated in Mainland China were revalued at 31 December 1994 by Vigers Appraisal & Consulting Limited, an independent professionally qualified valuer. The leasehold land and buildings situated in Mainland China were revalued based on a combination of the market and the depreciated replacement costs. Since 31 December 1994, no further revaluations of the Group's leasehold land and buildings have been carried out, as the Group has relied upon the exemption granted under the transitional provisions in paragraph 80AA of HKAS 16 from the requirement to carry out future revaluations of its property, plant and equipment which were stated at valuation at that time. Certain leasehold land and buildings of the Group which had been revalued in 1994 were classified as finance leases under paragraph 16 of HKAS 17 as the lease payments could not be allocated reliably between the land and building elements. Accordingly, the entire lease has been classified as a finance lease of the Group's property, plant and equipment.

Had Group's leasehold land and buildings been carried at historical cost less accumulated depreciation and impairment, their total carrying amounts at 31 December 2017 and 2016 would have been nil.

At 31 December 2017, certain of the above land and buildings with aggregate net carrying amounts of HK$8,004,000 (2016: HK$8,034,000) were pledged to secure general banking facilities granted to the Group (note 27).

15. PREPAID LAND LEASE PAYMENTS

	2017	2016
	HK$'000	HK$'000
Carrying amount at 1 January	**18,389**	20,181
Recognised during the year (note 7)	**(513)**	(524)
Exchange realignment	**1,356**	(1,268)
Carrying amount at 31 December	**19,232**	18,389

16. AVAILABLE-FOR-SALE INVESTMENT

	2017	2016
	HK$'000	HK$'000
Unlisted club membership debenture, at fair value	**300**	300

The available-for-sale investment consists of an investment in a debenture which was designated as an available-for-sale financial asset and has no fixed maturity date or coupon rate. The fair value of the unlisted club membership debenture held by the Group was based on quoted market prices. At the end of the reporting period, the Group did not intend to dispose of it in the near future.

17. DEPOSITS FOR PURCHASES OF PROPERTIES, PLANT AND EQUIPMENT

	2017 HK$'000	2016 HK$'000
Carrying amount at 1 January	**8,662**	8,318
Transfer to property, plant and equipment (note 14)	**(1,574)**	(1,190)
Additions	**1,266**	2,127
Exchange realignment	**618**	(593)
Carrying amount at 31 December	**8,972**	8,662

At the end of 31 December 2017 and 2016, the carrying amounts represented deposits paid for the purchases of a parcel of land in Xinfeng, Guangdong Province, the PRC, and machinery and equipment.

18. NET PENSION SCHEME ASSETS

The Group operates a funded defined benefit scheme for all its qualifying employees in Hong Kong. Under the scheme, the employees are entitled to retirement benefits at 70% of their final monthly salaries multiplied by their respective numbers of past service years plus 70% of their final monthly salaries multiplied by their respective numbers of past scheme service years on attainment of a retirement age of 65.

The Group's defined benefit scheme is a final salary plan, which requires contributions to be made to a separately administered fund. The scheme has the legal form of a foundation and it is administrated by an independent trustee with the assets held separately from those of the Group. The trustee is responsible for the determination of the investment strategy of the scheme.

The trustee reviews the level of funding in the scheme by the end of each reporting period. Such a review includes the asset-liability matching strategy and investment risk management policy. The trustee decides the contribution based on the results of the annual review. The investment portfolio targets a mix of 55% to 85% global equities and 15% to 45% in global bonds and deposits.

The scheme is exposed to interest rate risk, the risk of changes in the life expectancy for pensioners and equity market risk.

The most recent actuarial valuations of the scheme assets and the present value of the defined benefit obligations were carried out at 31 December 2017, by Grant Sherman Appraisal Limited, an independent professional actuarial advisor, using the projected unit credit actuarial valuation method.

The principal actuarial assumptions used as at the end of the reporting period are as follows:

	2017	2016
Discount rate	**1.7%**	1.8%
Expected rate of salary increases	**2.5%**	2.5%

The actuarial valuation showed that the market value of scheme assets was HK$9,259,000 (2016: HK$8,065,000), and that the actuarial value of these assets represented 191% (2016: 142%) of the benefits that had accrued to qualifying employees.

18. NET PENSION SCHEME ASSETS (continued)

A quantitative sensitivity analysis for significant assumptions as at the end of the reporting period is shown below:

	Increase in rate	Increase/ (decrease) in net pension scheme assets	Decrease in rate	Increase/ (decrease) in net pension scheme assets
	%	HK$'000	%	HK$'000
2017				
Discount rate	**5**	**27**	**(5)**	**(28)**
Future salary increase	**5**	**(63)**	**(5)**	**62**
2016				
Discount rate	5	42	(5)	(40)
Future salary increase	5	(51)	(5)	51

The sensitivity analysis above has been determined based on a method that extrapolates the impact on net pension scheme assets as a result of reasonable changes in key assumptions occurring at the end of the reporting period. It is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actual assumptions.

The total expenses recognised in the consolidated statement of profit or loss in respect of the scheme are as follows:

	2017	2016
	HK$'000	HK$'000
Current service cost	**172**	179
Interest cost	**(45)**	(34)
Net pension benefit expenses recognised in administrative expenses	**127**	145

18. NET PENSION SCHEME ASSETS (continued)

The movements in the present value of the defined benefit obligations are as follows:

	2017 HK$'000	2016 HK$'000
Carrying amount at 1 January	**5,693**	5,898
Current service cost	**172**	179
Interest cost	**100**	91
Remeasurements:		
– Actuarial gains arising from changes in demographic assumptions	**(83)**	(12)
– Actuarial losses/(gains) arising from changes in financial assumptions	**11**	(106)
– Experience adjustments	**(37)**	(139)
Benefit paid	**(1,018)**	(218)
Carrying amount at 31 December	**4,838**	5,693

The movements in the defined benefit obligations and the fair value of plan assets are as follows:

31 December 2017

		Pension cost credited/(charged) to profit or loss				Remeasurement gains/(losses) in other comprehensive income						
	1 January 2017 HK$'000	Service cost HK$'000	Net interest income/ (expense) HK$'000	Sub-total included in profit or loss HK$'000	Benefit paid HK$'000	Return on scheme assets (excluding amounts included in net interest expense) HK$'000	Employer contribution HK$'000	Actuarial changes arising from changes in demographic assumptions HK$'000	Actuarial changes arising from changes in financial assumptions HK$'000	Experience adjustments HK$'000	Sub-total included in other comprehensive income HK$'000	31 December 2017 HK$'000
Fair value of scheme assets	8,065	–	145	145	(1,018)	1,749	318	–	–	–	2,067	9,259
Defined benefit obligations	(5,693)	(172)	(100)	(272)	1,018	–	–	83	(11)	37	109	(4,838)
Net pension scheme assets	2,372	(172)	45	(127)	–	1,749	318	83	(11)	37	2,176	4,421

18. NET PENSION SCHEME ASSETS (continued)

The movements in the defined benefit obligations and the fair value of plan assets are as follows: (continued)

31 December 2016

		Pension cost credited/(charged) to profit or loss				Remeasurement gains in other comprehensive income					
	1 January 2016 HK$'000	Service cost HK$'000	Net interest income/ (expense) HK$'000	Sub-total included in profit or loss HK$'000	Benefit paid HK$'000	Return on scheme assets (excluding amounts included in net interest expense) HK$'000	Actuarial changes arising from changes in demographic assumptions HK$'000	Actuarial changes arising from changes in financial assumptions HK$'000	Experience adjustments HK$'000	Sub-total included in other comprehensive income HK$'000	31 December 2016 HK$'000
Fair value of scheme assets	8,076	–	125	125	(218)	82	–	–	–	82	8,065
Defined benefit obligations	(5,898)	(179)	(91)	(270)	218	–	12	106	139	257	(5,693)
Net pension scheme assets	2,178	(179)	34	(145)	–	82	12	106	139	339	2,372

The Group does not expect to pay any contribution in the future years.

The major categories of the fair value of the total scheme assets are as follows:

	2017 HK$'000	2016 HK$'000
Equities, quoted in active markets	**7,333**	6,250
Bonds	**1,556**	1,629
Money market instruments	**370**	186
	9,259	8,065

At 31 December 2017, the weighted average duration of the defined benefit obligations at the end of the reporting period was 9 years (2016: 10 years).

19. INVENTORIES

	2017 HK$'000	2016 HK$'000
Raw materials	**42,918**	40,805
Work in progress	**5,373**	5,363
Finished goods	**23,391**	14,787
	71,682	60,955

20. TRADE AND BILLS RECEIVABLES

	2017 HK$'000	2016 HK$'000
Trade and bills receivables	**736,452**	473,796
Impairment	**(38,401)**	(28,283)
	698,051	445,513

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance may require. The Group maintains a defined credit policy and credit periods are usually granted ranging from one to three months to normal customers. The Group seeks to maintain strict control over its receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade and bills receivables relate to a large number of diversified customers and reputable banks, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade and bills receivables are non-interest-bearing.

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

	2017 HK$'000	2016 HK$'000
Within three months	**506,999**	406,710
Over three months and within six months	**61,802**	22,724
Over six months	**129,250**	16,079
	698,051	445,513

The movements in provision for impairment of trade and bills receivables are as follows:

	Note	2017 HK$'000	2016 HK$'000
Carrying amount at 1 January		**28,283**	18,337
Amount written off as uncollectible		**(68)**	(301)
Impairment losses recognised	7	**7,967**	11,694
Exchange realignment		**2,219**	(1,447)
Carrying amount at 31 December		**38,401**	28,283

Included in the above provision for impairment of trade and bills receivables is a provision for individually impaired trade receivables of HK$38,401,000 (2016: HK$28,283,000) with an aggregate carrying amount before provision of HK$38,401,000 (2016: HK$35,613,000).

The individually impaired trade receivables relate to customers that were in financial difficulties or were in default in payment and only a portion of the receivables is expected to be recovered.

20. TRADE AND BILLS RECEIVABLES (continued)

The ageing analysis of the trade and bills receivables that are not individually nor collectively considered to be impaired is as follows:

	2017	2016
	HK$'000	HK$'000
Neither past due nor impaired	**371,286**	296,551
Within three months past due	**173,048**	104,899
Over three months and within six months past due	**89,193**	22,658
Over six months past due	**64,524**	14,075
	698,051	438,183

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017	2016
	HK$'000	HK$'000
Prepayments	**9,989**	9,179
Deposits and other receivables	**43,087**	35,523
	53,076	44,702

None of the above assets is either past due or impaired. The financial assets included in the above balances related to receivables for which there was no recent history of default.

22. STRUCTURED DEPOSITS

Structured deposits were stated at fair value and represented several wealth management products issued by banks. As at 31 December 2016, the aggregate principal of deposits was fully guaranteed by the banks while the rates of return were not guaranteed. The Group designated these structured deposits as investments at fair value through profit or loss on initial recognition. The Group used the structured deposits primarily to enhance the return on investment.

23. CASH AND CASH EQUIVALENTS

	2017 HK$'000	2016 HK$'000
Cash and bank balances	**184,275**	102,196
Time deposits:		
– with original maturity of less than three months when acquired	**62,983**	117,344
	247,258	219,540

At the end of the reporting period, the cash and bank balances and time deposits of the Group denominated in Renminbi ("RMB") amounted to HK$134,357,000 (2016: HK$184,891,000). The RMB is not freely convertible into other currencies, however, under Mainland China'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 banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for periods of between one week and one year depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximate to their fair values.

24. TRADE AND BILLS PAYABLES

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

	2017 HK$'000	2016 HK$'000
Within three months	**289,675**	198,074
Over three months and within six months	**3,622**	1,549
Over six months	**307**	12
	293,604	199,635

Trade payables are unsecured, non-interest-bearing and are normally settled within two months. As at 31 December 2017, there was no bills payable. As at 31 December 2016, bills payable with an aggregate carrying amount of HK$807,000 were secured by certain investment properties owned by the Remaining Group amounting to HK$334,620,000.

25. OTHER PAYABLES AND ACCRUALS

	Note	2017 HK$'000	2016 HK$'000
Deferred income	30	**320**	297
Other payables		**48,693**	43,564
Accruals and receipts in advance		**62,714**	95,936
		111,727	139,797

The other payables are non-interest-bearing and have an average term of three months.

26. BALANCES WITH THE REMAINING GROUP

The balances with the Remaining Group are unsecured, interest-free and repayable on demand. The carrying amounts of these balances approximate to their fair values.

27. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2017			2016		
	Effective interest rate per annum (%)	**Maturity**	**HK$'000**	Effective interest rate per annum (%)	Maturity	HK$'000
Current						
Finance lease payables (note 28)	**2.5-8.8**	**2018**	**382**	2.5	2017	364
Bank loans – secured	**2.2-2.4**	**2018**	**54,000**	1.4-2.4	2017	109,000
Bank loans – unsecured	**2.0-2.2**	**2018**	**43,000**	–	–	–
Import loans – secured	**2.3-2.6**	**2018**	**2,734**	1.5-2.5	2017	3,980
Import loans – unsecured	**2.8**	**2018**	**654**	–	–	–
			100,770			113,344
Non-current						
Finance lease payables (note 28)	**2.5-8.8**	**2019-2021**	**1,016**	2.5	2018-2021	1,388
			101,786			114,732

27. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

	2017 HK$'000	2016 HK$'000
Analysed into:		
Bank loans and import loans repayable:		
Within one year or on demand	**100,388**	112,980
Other borrowings repayable:		
Within one year	**382**	364
In the second year	**394**	374
In the third to fifth years, inclusive	**622**	1,014
	1,398	1,752
	101,786	114,732

Notes:

(a) The Group's bank loans and import loans are secured by the Group's land and buildings with an aggregate net book value at the end of reporting period of HK$8,004,000 (2016: HK$8,034,000) (note 14).

As at 31 December 2016, the Group's bank loans and import loans were also secured by certain investment properties and land and buildings of the Remaining Group situated in Hong Kong. In addition, the ultimate holding company had provided guarantees to certain of the Group's bank borrowings of up to HK$422,500,000 while a subsidiary of the Remaining Group had also provided guarantees on these bank loans of up to HK$170,500,000.

(b) The carrying amounts of the Group's bank and other borrowings which are denominated in the following currencies are as follows:

	2017 HK$'000	2016 HK$'000
United States dollars ("US$")	**2,242**	2,412
HK$	**99,544**	112,320
	101,786	114,732

28. FINANCE LEASE PAYABLES

The Group leases a motor vehicle and certain of its office equipment for its operations. These leases are classified as finance leases and have remaining lease terms ranging from one to four years. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2017	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable:				
Within one year	**440**	440	**382**	364
In the second year	**431**	431	**393**	374
In the third to fifth years, inclusive	**645**	1,075	**623**	1,014
Total minimum finance lease payments	**1,516**	1,946	**1,398**	1,752
Future finance charges	**(118)**	(194)		
Total net finance lease payables	**1,398**	1,752		
Portion classified as current liabilities (note 27)	**(382)**	(364)		
Non-current portion (note 27)	**1,016**	1,388		

29. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

	Revaluation of properties		Withholding taxes		Total	
	2017	2016	**2017**	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At 1 January	**458**	458	**28,885**	31,255	**29,343**	31,713
Deferred tax credited to the statement of profit or loss during the year*	**–**	–	**(4,189)**	(2,370)	**(4,189)**	(2,370)
Gross deferred tax liabilities recognised in the consolidated statement of financial position at 31 December	**458**	458	**24,696**	28,885	**25,154**	29,343

Deferred tax assets

	Depreciation in excess of related depreciation allowance		Accruals		Total	
	2017	2016	**2017**	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At 1 January	**2,977**	2,795	**4,493**	5,059	**7,470**	7,854
Deferred tax credited/(charged) to the statement of profit or loss during the year*	**156**	364	**(2,834)**	(252)	**(2,678)**	112
Exchange realignment	**229**	(182)	**306**	(314)	**535**	(496)
Gross deferred tax assets recognised in the consolidated statement of financial position at 31 December	**3,362**	2,977	**1,965**	4,493	**5,327**	7,470

* Net deferred tax credited to the consolidated statement of profit or loss for the year ended 31 December 2017 amounted to HK$1,511,000 (2016: HK$2,482,000) (note 11).

29. DEFERRED TAX (continued)

The Group has estimated tax losses arising in Hong Kong of HK$299,784,000 (2016: HK$282,242,000), subject to the agreement by the Hong Kong Inland Revenue Department, that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group has estimated tax losses arising in Mainland China of HK$15,260,000 (2016: HK$12,651,000) that will expire in one to five years for offsetting against future taxable profits arising in Mainland China of the company in which the losses arose.

Deferred tax assets have not been recognised in respect of the losses arising in Hong Kong and Mainland China as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits would be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

30. DEFERRED INCOME

	Notes	**2017** **HK$'000**	2016 HK$'000
Carrying amount at 1 January		**2,643**	3,131
Recognised during the year	6	**(295)**	(301)
Exchange realignment		**187**	(187)
Carrying amount at 31 December		**2,535**	2,643
Portion classified as current liabilities	25	**(320)**	(297)
Non-current portion		**2,215**	2,346

As an arrangement of attracting foreign investments in Xuzhou, the PRC, the Group entered into certain agreements (the "Xuzhou Agreements") with the Xuzhou Economic Development Zone Committee ("徐州經濟開發區管委會") (the "Xuzhou Authority", under the municipal government of Xuzhou) on 10 April 2004. Pursuant to the Xuzhou Agreements, the Xuzhou Authority arranged the construction of the plant and office buildings for Giraffe Paint Mfg. Co., (Xuzhou) Ltd., a manufacturing subsidiary of the Group (the "Xuzhou Subsidiary") and also provided the required funding to the Xuzhou Subsidiary for the construction in the form of a loan to the Xuzhou Subsidiary (the "Construction Loan").

30. DEFERRED INCOME (continued)

The construction of the plant and office buildings was completed, and the plant and office buildings were handed over to the Group for the solvent operation in July 2005. On 25 June 2007, the Group entered into certain revised agreements with the Xuzhou Authority to finalise the land premium payable at RMB4,793,000 for the parcel of land on which the plant and office buildings were constructed (the "Xuzhou Land") and waived the same amount of the Construction Loan. The amount was recorded as deferred income and is recognised in the consolidated statement of profit or loss over the weighted average useful life of the buildings and plant and machinery of the Xuzhou Subsidiary whose construction was financed by the Construction Loan.

31. SHARE CAPITAL

Shares

	Note	2017 HK$'000	2016 HK$'000
Authorised:			
8,000,000,000 (2016: 8,000,000,000) ordinary shares of HK$0.10 each	(i)	**800,000**	800,000
Issued and fully paid:			
1,000,000,000 (2016: 1) ordinary shares of HK$0.10 each		**100,000**	–

A summary of the movements in the Company's share capital for the period from 19 September 2016 (date of incorporation) to 31 December 2017 is as follows:

	Notes	Number of ordinary shares in issued	Issued share capital HK$'000	Share premium account HK$'000	Total HK$'000
Issued and fully paid:					
At 19 September 2016 (date of incorporation) and at 31 December 2016	(ii)	1	–	–	–
		1	–	–	–
Issue of new shares	(iii)	99	–	–	–
Issue of new shares pursuant to the Capitalisation Issue	(iv)	749,999,900	75,000	(75,000)	–
Issue of new shares pursuant to the Share Offer	(v)	250,000,000	25,000	190,000	215,000
Share issue expenses		–	–	(20,386)	(20,386)
At 31 December 2017		1,000,000,000	100,000	94,614	194,614

31. SHARE CAPITAL (continued)

Notes:

(i) On 11 November 2016, the authorised share capital of the Company increased to HK$800,000,000 divided into 8,000,000,000 shares of a par value of HK$0.1 each by the creation of 7,996,200,000 new shares ranking pari passu in all respects with the existing shares.

(ii) The Company was incorporated on 19 September 2016 with initial authorised share capital of HK$380,000 divided into 3,800,000 shares of a par value of HK$0.1 each. On the date of incorporation, 1 ordinary share of HK$0.1 was issued and allotted by the Company.

(iii) On 8 June 2017, the Company issued and allotted 99 shares of HK$0.1 each to the immediate holding company of the Company, namely, CNT Enterprises Limited.

(iv) Pursuant to the resolution of the sole shareholder of the Company passed on 9 June 2017, the Company issued and allotted a total of 749,999,900 shares, credited as fully paid at par, to CNT Enterprises Limited on the Listing Date by way of capitalisation of the sum of HK$74,999,990 standing to the credit of the share premium account of the Company (the "Capitalisation Issue"). This Capitalisation Issue was conditional on the share premium account being credited as a result of the issue of new shares to the public in connection with the Company's initial public offering as detailed in note (v) below.

(v) In connection with the listing of the Shares on the Stock Exchange, 250,000,000 new shares were issued at a price of HK$0.86 per share for a total cash consideration, before expenses, of HK$215,000,000. Dealings in the shares on the Stock Exchange commenced on the Listing Date.

32. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 49 and 50 of the financial statements.

33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

i. During the year ended 31 December 2017, the Group completed the acquisition of certain items of property, plant and equipment, the consideration of which was partially settled by deposits previously paid with an aggregate carrying amount of HK$1,574,000 (2016: HK$1,190,000).

ii. During the year ended 31 December 2017, the Group entered into a finance lease arrangement in respect of property, plant and equipment with *a* capital value at the inception of the lease of HK$16,000 (2016: HK$1,910,000).

iii. During the year ended 31 December 2017, certain amounts due from the Remaining Group in aggregate of HK$106,555,000 was re-assigned such that the balances were settled through the amounts due to the Remaining Group.

iv. During the year ended 31 December 2017, the special dividend of HK$180,000,000 declared by the former holding company of the Group was settled through the intercompany balance with the Remaining Group.

v. During the year ended 31 December 2016, the Group completed the restructuring in relation to the disposal of a subsidiary to the Remaining Group with a consideration of HK$5,585,000, which was settled by netting off with the amounts due to the Remaining Group.

vi. During the year ended 31 December 2016, the Group completed the restructuring in relation to the disposal of an associate, with an investment cost of HK$1,000,000 to the Remaining Group with a consideration of HK$2,021,000 which was settled by netting off with the amounts due to the Remaining Group.

(b) Changes in liabilities arising from financing activities

	Interest-bearing bank borrowing HK$'000	Finance lease payables HK$'000	Amount due to the Remaining Group HK$'000
At 1 January 2017	112,980	1,752	19,853
Changes from financing cash flows	(12,594)	(370)	(90,132)
New finance lease	–	16	–
Foreign exchange movement	2	–	–
Re-assignment of amounts due from the Remaining Group	–	–	(106,555)
Settlement of dividend declared	–	–	180,000
At 31 December 2017	100,388	1,398	3,166

34. PLEDGE OF ASSETS

Details of the Group's bank loans and other borrowings, which are secured by certain assets of the Group, are included in note 27.

35. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	2017 HK$'000	2016 HK$'000
Guarantees given to banks in connection with facilities granted to the Remaining Group	–	314,000

As at 31 December 2016, the banking facilities granted to the Remaining Group subject to guarantees given to banks by the Group and a joint guarantee given to a bank by the Group and the ultimate holding company were utilised to the extent of approximately HK$42,402,000.

36. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years.

At 31 December 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017 HK$'000	2016 HK$'000
Within one year	4,961	1,291
In the second to fifth years, inclusive	4,141	76
	9,102	1,367

37. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 36 above, the Group had the following capital commitments at the end of the reporting period:

	2017 HK$'000	2016 HK$'000
Contracted, but not provided for:		
Purchases of land use rights*	1,875	1,744
Construction and purchases of items of property, plant and equipment	22,123	9,825
	23,998	11,569

* On 21 January 2008, the Group entered into an agreement with the government of Xinfeng, Guangdong Province, the PRC to purchase a parcel of land located in Xinfeng at a consideration of RMB8,220,000, of which RMB6,658,000 (2016: RMB6,658,000) had been paid by the Group as at 31 December 2017.

38. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	Notes	2017 HK$'000	2016 HK$'000
Rental expenses paid to the Remaining Group	(i)	**3,538**	5,219
Advertising expenses paid to the Remaining Group	(ii)	**2,900**	3,619

(i) The Group leased certain office premises from the Remaining Group at rates mutually agreed between the parties.

(ii) Advertising fee was charged by the Remaining Group for the provision of advertising services at mutually agreed fees.

(b) The transaction in respect of item (a)(i) above is also a continuing connected transaction of the Company as defined under Chapter 14A of the Listing Rules. Further details of such transactions are disclosed in the section headed "Continuing Connected Transactions" in the Report of the Directors. The transaction referred to in item a(ii) above was a continuing connected transaction exempted from reporting, annual review and independent shareholders' approval under Chapter 14A of the Listing Rules.

(c) During the year ended 31 December 2016, the Remaining Group had given guarantees to certain banks in respect of the bank loans granted to the Group (note 27). The Remaining Group received no consideration for providing these guarantees.

(d) Commitments with companies of the Remaining Group are as follows:

On 9 June 2017, the Company (on behalf of its subsidiaries) entered into a master lease agreement with the Remaining Group with respect to the leasing of Hong Kong properties with a lease term ending 31 December 2019. The annual rental payable excluding building management fees and government rent and rates under the master lease agreement is HK$3,755,000 and HK$3,943,000 for 2018 and 2019, respectively.

(e) Compensation of key management personnel of the Group

	2017 HK$'000	2016 HK$'000
Short term employment benefits	**17,062**	14,773
Post-employment benefits	**766**	765
Total compensation paid to key management personnel	**17,828**	15,538

Further details of Directors' remuneration are included in note 9 to the financial statements.

39. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

31 December 2017

Financial assets

	Loans and receivables HK$'000	Available-for-sale financial asset HK$'000	Total HK$'000
Available-for-sale investment	–	300	300
Trade and bills receivables	698,051	–	698,051
Financial assets included in prepayments, deposits and other receivables	43,035	–	43,035
Cash and cash equivalents	247,258	–	247,258
	988,344	300	988,644

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade payables	293,604
Financial liabilities included in other payables and accruals	48,693
Due to the Remaining Group	3,166
Interest-bearing bank and other borrowings	101,786
	447,249

39. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

31 December 2016

Financial assets

	Financial assets designated upon initial recognition at fair value through profit or loss HK$'000	Loans and receivables HK$'000	Available-for-sale financial asset HK$'000	Total HK$'000
Available-for-sale investment	–	–	300	300
Trade and bills receivables	–	445,513	–	445,513
Financial assets included in prepayments, deposits and other receivables	–	35,038	–	35,038
Due from the Remaining Group	–	106,555	–	106,555
Structured deposits	98,666	–	–	98,666
Cash and cash equivalents	–	219,540	–	219,540
	98,666	806,646	300	905,612

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade and bills payables	199,635
Financial liabilities included in other payables and accruals	46,914
Due to the Remaining Group	19,853
Interest-bearing bank and other borrowings	114,732
	381,134

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, and interest-bearing bank and other borrowings, and balances with the Remaining Group approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department which reports directly to the senior management is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The audit committee reviews the results of the fair value measurement of financial instruments periodically for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair value of the unlisted club membership debenture is based on quoted market prices.

The fair values of structured deposits were determined in accordance with a discounted cash flow analysis with reference to the expected return of structured deposits.

The Group entered into a derivative financial instrument with a financial institution with high credit rating. The fair value of the derivative financial instrument was based on the mark-to-market value quoted by the financial institution.

Below is a summary of significant unobservable inputs to the valuation of structured deposits together with a quantitative sensitivity analysis as at 31 December 2016:

Financial instrument	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Structured deposits	Discount cash flow method	Expected rate of return	2.3% to 4.0%	5% increase (decrease) in the expected rate of return would result in increase (decrease) in fair value by HK$245,000 (HK$137,000)
		Discount rate	2.3% to 3.2%	5% increase (decrease) rate in discount rate would result in decrease (increase) in fair value by HK$71,000 (HK$68,000)

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Assets measured at fair value:				
At 31 December 2017				
Available-for-sale investment	**–**	**300**	**–**	**300**
At 31 December 2016				
Structured deposits	–	–	98,666	98,666
Available-for-sale investment	–	300	–	300

The movements in fair value measurements in Level 3 during the year are as follows:

	2017 **HK$'000**	2016 HK$'000
At 1 January	**98,666**	157,224
Purchases	**165,055**	231,709
Disposals	**(266,130)**	(286,393)
Net gains recognised in the consolidated statement of profit or loss	**762**	3,209
Exchange realignment	**1,647**	(7,083)
At 31 December	**–**	98,666

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2016: Nil).

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank and other borrowings, and cash and cash equivalents. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial assets and liabilities, such as structured deposits, trade and bills receivables, deposits and other receivables, an available-for-sale investment, balances with Remaining Group, trade and bills payables, other payables and accruals, which arise directly from its operations.

The Group also entered into derivative transactions. The purpose was to manage the interest rate risk arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group's policies for managing each of these risks are summarised below. The Group's accounting policies in relation to derivatives are set out in note 3 to the financial statements.

Interest rate risk

The Group is exposed to interest rate risk due to changes in interest rates of interest-bearing financial assets and liabilities. Interest-bearing financial assets are mainly deposits with banks which are mostly short term in nature whereas interest-bearing financing liabilities are mainly bank borrowings with primarily floating interest rates. The Group is therefore exposed to interest rate risk. The Group's policy is to obtain the most favourable interest rates available.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on deposits with banks and floating rate borrowings). There is no impact on the Group's equity, except on the retained profits.

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax** HK$'000
2017		
HK$	**50**	**(15)**
RMB	**50**	**354**
HK$	**(50)**	**15**
RMB	**(50)**	**(354)**
2016		
HK$	50	(460)
RMB	50	337
HK$	(50)	460
RMB	(50)	(337)

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group has transactional currency exposures. Those exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. The Group's main operating subsidiaries are located in Hong Kong and Mainland China and the Group's sales and purchases were mainly conducted in HK$ and RMB. The Group also has significant investments in Mainland China and its consolidated statement of financial position, with a portion of its bank deposits, trade receivables and trade payables denominated in currencies other than the functional currencies of the operating subsidiaries, can be affected by movements in the exchange rate between HK$ and RMB.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in RMB rate	**Increase/ (decrease) in profit before tax**
	%	HK$'000
2017		
If HK$ weakens against RMB	**5**	**5,595**
If HK$ strengthens against RMB	**(5)**	**(5,595)**
2016		
If HK$ weakens against RMB	5	873
If HK$ strengthens against RMB	(5)	(873)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures and cash collateral may be required. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, structured deposits, amounts due from the Remaining Group and deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank borrowings. The Group's policy is to regularly monitor the current and expected liquidity requirements, to ensure that it maintains sufficient reserves of cash and available banking facilities to meet its liquidity requirements in the short and longer terms.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	On demand or no fixed terms HK$'000	Less than one year HK$'000	One to five years HK$'000	Total HK$'000
2017				
Due to the Remaining Group	**3,166**	**–**	**–**	**3,166**
Trade payables	**–**	**293,604**	**–**	**293,604**
Financial liabilities included in other payables and accruals	**–**	**48,693**	**–**	**48,693**
Interest-bearing bank and other borrowings	**–**	**100,736**	**–**	**100,736**
Finance lease payables	**–**	**440**	**1,076**	**1,516**
	3,166	**443,473**	**1,076**	**447,715**

	On demand or no fixed terms HK$'000	Less than one year HK$'000	One to five years HK$'000	Total HK$'000
2016				
Due to the Remaining Group	19,853	–	–	19,853
Trade and bills payables	–	199,635	–	199,635
Financial liabilities included in other payables and accruals	–	46,914	–	46,914
Interest-bearing bank and other borrowings	–	112,980	–	112,980
Finance lease payables	–	440	1,506	1,946
Guarantees given to banks in connection with facilities granted to the Remaining Group (note 35)	42,402	–	–	42,402
	62,255	359,969	1,506	423,730

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 31 December 2016.

The Group monitors capital using a gearing ratio, which is bank and other borrowings divided by the adjusted capital, being equity attributable to owners of the parent less leasehold land and building revaluation reserve. The gearing ratios as at the end of the reporting periods were as follows:

	2017 **HK$'000**	2016 HK$'000
Bank and other borrowings	**101,786**	114,732
Equity attributable to owners of the parent	**752,210**	674,753
Less: Leasehold land and building revaluation reserve	**(6,489)**	(6,489)
Adjusted capital	**745,721**	668,264
Gearing ratio	**13.6%**	17.2%

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2017	2016
	HK$'000	HK$'000
NON-CURRENT ASSET		
Investment in a subsidiary	**27,094**	–
CURRENT ASSETS		
Prepayments	**409**	3,265
Due from subsidiaries	**77,141**	–
Cash and cash equivalents	**92,586**	–
	170,136	3,265
CURRENT LIABILITIES		
Other payables and accruals	**1,290**	2,208
Due to fellow subsidiaries	**–**	14,019
Due to a subsidiary	**1,122**	–
Total current liabilities	**2,412**	16,227
NET CURRENT ASSETS/(LIABILITIES)	**167,724**	(12,962)
Net assets/(liabilities)	**194,818**	(12,962)
EQUITY		
Issued capital	**100,000**	–
Reserves (note)	**94,818**	(12,962)
Total equity	**194,818**	(12,962)

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows:

	Note	Issued share capital HK$'000	Share premium account HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
Issued and fully paid at 19 September 2016 (date of incorporation)	31	–	–	–	–	–
Loss for the year		–	–	–	(12,962)	(12,962)
At 31 December 2016 and 1 January 2017		–	–	–	(12,962)	(12,962)
Loss for the year		–	–	–	(13,928)	(13,928)
Issue of new shares	31	–	–	27,094	–	27,094
Issue of new shares pursuant to the Capitalisation Issue	31	75,000	(75,000)	–	–	–
Issue of new shares pursuant to the Share Offer	31	25,000	190,000	–	–	215,000
Share issue expenses		–	(20,386)	–	–	(20,386)
At 31 December 2017		100,000	94,614	27,094	(26,890)	194,818

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2018.

Glossary

AC Chairlady	The chairlady of the Audit Committee
AC or Audit Committee	The audit committee of the Board
AGM	Annual general meeting of the Company
Articles	The articles of association of the Company
Board	The board of directors of the Company
CG Code	Corporate Governance Code contained in Appendix 14 to the Listing Rules
Chairman	The chairman of the Board
China Paint (1932)	The China Paint Manufacturing Company (1932) Limited, a wholly-owned subsidiary of the Company
China Paint (Shenzhen)	The China Paint Manufacturing (Shenzhen) Co., Ltd. (中華製漆(深圳)有限公司), a wholly-owned subsidiary of the Company
China Paint (Xinfeng)	The China Paint Mfg. Co., (Xinfeng) Ltd. (中華製漆(新豐)有限公司), a wholly-owned subsidiary of the Company
Company	CPM Group Limited
Company Secretary	The company secretary of the Company
Director(s)	The director(s) of the Company
Group	The Company and its subsidiaries
Hong Kong	The Hong Kong Special Administrative Region of the PRC
Hubei Giraffe	Hubei Giraffe Paint Mfg. Co., Ltd. (湖北長頸鹿製漆有限公司), a non wholly-owned subsidiary of the Company
Listing Date	10 July 2017, being the date on which dealings in the Shares were first commenced on the Stock Exchange
Listing Rules	Rules Governing the Listing of Securities on the Stock Exchange
Managing Director	The managing director of the Company
Memorandum and Articles	The memorandum and articles of association of the Company
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules

Glossary

NC Chairlady	The chairlady of the Nomination Committee
NC or Nomination Committee	The nomination committee of the Board
PRC	People's Republic of China
Prospectus	The prospectus issued by the Company on 19 June 2017
RC Chairlady	The chairlady of the Remuneration Committee
RC or Remuneration Committee	The remuneration committee of the Board
Remaining Group	CNT Group Limited and its subsidiaries, but excluding the Group
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Share(s)	Ordinary share(s) of HK$0.10 each in the capital of the Company
Shareholder(s)	Shareholder(s) of the Company
Stock Exchange	The Stock Exchange of Hong Kong Limited
substantial shareholder(s)	has the meaning as defined in the Listing Rules
Xuzhou Giraffe	Giraffe Paint Mfg. Co., (Xuzhou) Ltd. (長頸鹿製漆（徐州）有限公司), a wholly-owned subsidiary of the Company

中漆集團有限公司
CPM GROUP LIMITED