CNT GROUP LIMITED
北海集團有限公司

(Incorporated in Bermuda with limited liability)
(Stock Code: 701)

Annual Report 2018

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

Tsui Ho Chuen, Philip
Chan Wa Shek
Zhang Yulin
Hung Ting Ho, Richard

Independent Non-executive Directors

Wu Hong Cho
Danny T Wong
Zhang Xiaojing

AUDIT COMMITTEE

Wu Hong Cho *(AC Chairman)*
Danny T Wong
Chan Wa Shek

REMUNERATION COMMITTEE

Wu Hong Cho *(RC Chairman)*
Lam Ting Ball, Paul
Danny T Wong

COMPANY SECRETARY

Fok Pik Yi, Carol

AUDITORS

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

SHARE REGISTRARS

Hong Kong

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

Bermuda

Conyers Corporate Services (Bermuda) Limited
Clarendon House, 2 Church Street
Hamilton HM 11, Bermuda

PRINCIPAL BANKERS

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

REGISTERED OFFICE

Clarendon House, 2 Church Street
Hamilton HM 11, Bermuda

PRINCIPAL OFFICE

Unit E, 28th Floor, CNT Tower, 338 Hennessy Road
Wanchai, Hong Kong

WEBSITE

www.cntgroup.com.hk

Chairman's Statement

In 2018, the growth of the China's economy was slow with the growth of gross domestic product ("GDP") decreased by 1.5%, as compared with 2017. The slow economic growth was primarily due to the sluggish economic condition in the domestic economy in Mainland China as well as the trade tension between China and the United States starting from the second half of 2018. The dim prospects for the growth of the export business in Mainland China discouraged the investments in the PRC manufacturing sector. The real estate market in Mainland China did not perform well in 2018, which was primarily due to government policies on home prices and the less-than-expected increase in the domestic consumption power of general population in Mainland China. Like other manufacturing industries in Mainland China, the paint and coating industry in Mainland China was also affected by general economic conditions in Mainland China as well as certain industry-specific factors, such as the decline in the PRC manufacturing sector, the PRC real property market as well as the environmental protection laws and regulations in Mainland China. According to the National Bureau of Statistics of China, the sales volume of paint and coating products in Mainland China in 2018 decreased by 9.4% as compared to the sales volume in 2017. Such unsatisfactory results were mainly caused by the decrease in the retail sales of construction and decorative paint and coating products by 22.4% and the decrease in the total domestic retail sales of furniture goods (including the paint and coating products for furniture manufacturing purpose) by 19.9%.

RESULTS

Loss attributable to the shareholders of the Company for the year ended 31 December 2018 amounted to approximately HK$25.09 million when compared with a profit attributable to the shareholders of the Company of approximately HK$37.52 million for the year ended 31 December 2017, representing a decrease in profit of HK$62.61 million when compared with last year.

Revenue for the year amounted to approximately HK$831.94 million, representing a decrease of 32.3% when compared with last year. Gross profit decreased by approximately HK$169.02 million, representing a decrease of 48.6% when compared with last year.

PROSPECTS

According to the publicly available information, China's economy is expected to encounter additional downward pressure in 2019 due to weaker domestic demand and the effect by the recent trade tension between China and the United States on exports. The International Monetary Fund predicted that the GDP growth rate in Mainland China will be around 6.2% in 2019. During the opening of the National People's Congress in early March 2019, the Chinese Premier Mr. Li Keqiang also mentioned that the PRC government would set a low economic growth target for 2019 in a range of 6.0% to 6.5%.

Despite the economic uncertainties in Mainland China due to impacts from the unfavorable macroeconomic conditions and the political trade tension, the Group remains prudently optimistic about the China's economy and prospect. In the shadow of political trade tension between China and the United States, the Group expects that the Chinese government will continue to boost up the domestic consumptions in offsetting the drop from exports to overseas, which facilitate one of the main drivers of the economic growth in Mainland China. The Group will enhance its internal risk control and management system and boost operation efficiency in order to respond to the volatile market environment and stabilise business performance with the target to restore the profitability of the Group.

PROSPECTS (continued)

Looking forward, the business environment remains challenging in 2019, the Group shall fortify its business foundation and adopt an ever-improving operation model with flexibility and creative thinking. Riding on the advantages of the Group's diversified operation portfolio and the brand influence of its operation, the Group will maintain balanced and stable cash flow to support the healthy development of the overall business.

While maintaining its existing core business of paint operation through CPM Group Limited ("CPM" and together with CPM's subsidiaries, the "CPM Group"), a non-wholly owned subsidiary of the Company, the Group continues to invest in iron and steel trading business as well as property investment business in order to diversify and broaden its investment portfolio.

BUSINESS REVIEW

Paint Products

CPM Group's 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. CPM Group's 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.

Industrial paint and coating products, architectural paint and coating products and general paint and coating and ancillary products accounted for 46.2% (2017: 55.8%), 32.3% (2017: 20.9%) and 21.5% (2017: 23.3%) of total revenue of paint business in 2018, respectively. The CPM Group continues to focus on Mainland China market which contributed approximately 92.4% (2017: 91.3%) to the total revenue of its business in 2018.

Significant Decrease in Revenue

The decrease in 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 48.7%, 4.1% and 43.0% respectively. The decrease in revenue of the CPM Group during the year ended 31 December 2018 was primarily due to the sluggish demand in the retail wood coating market, which is the primary market of the CPM Group's paint and coating products. The demand was generally and adversely affected by the decrease in the number of completed residential units and commercial premises (which suppressed the demand for interior decoration paint and coating products during the year ended 31 December 2018), changes in consumers' preference on on-site home or office decoration (which has an adverse impact on the demand in the retailed wood coating market) and the stringent environmental measures in Mainland China. Moreover, the CPM Group's situation was further affected by the resignation of sale personnels who were responsible for marketing and the promotion of the CPM Group's business in the Eastern China Market. During the year, the CPM Group was operating in a challenging environment with all these factors simultaneously affecting the demand for its paint and coating products and cost of sales.

Furthermore, the decrease in such demand has further intensified the price competition, which had a negative impact on the sales volume of the principal paint and coating products of the CPM Group. Recently, certain domestic and foreign paint and coating manufacturers are setting up new plants to increase their capacity to capture the potential growth in paint and coating market in Mainland China, however, due to the slow economic growth in Mainland China and the decrease in the demand of the paint and coating products in Mainland China, these manufacturers failed to release their production capacity, which has led to an increase in supply and a negative impact on bargaining power of various paint and coating product manufacturers in 2018. In addition, under such adverse situation, some of the small and medium size paint and coating manufacturers had closed down or sold in 2018 and the clearance sale of these factories, at relatively lower price, had further lowered the profit margin of paint and coating products in 2018. In particular, there were disposal of paint and coating factories in Eastern China. The demand for solvent-based paint and coating products was also adversely affected by the increasingly stringent regulations on the use and storage of solvent-based paint and coating products in the target markets of the CPM Group in Mainland China.

BUSINESS REVIEW (continued)

Paint Products (continued)

Significant Decrease in Revenue (continued)

On the other hand, the CPM Group's revenue was generated from different sale channels, including distributors, direct sales, cash and credit sales to other customers and showroom sales. The CPM Group's customers include distributors, manufacturers and renovation contractors for property and infrastructure projects. In the past, the CPM Group's revenue which was generated from distributors in Mainland China and Hong Kong was more than 60%. However, due to the unfavorable macroeconomic conditions, the CPM Group recorded a decrease in the sales to distributors in Mainland China and Hong Kong, which affected the CPM Group's sales volume and profitability for the year. The decrease in sales to distributors was primarily due to the reduction in the size of their business in Mainland China and Hong Kong. In addition, the profit margin of distributors continues to be shrunken and is under pressure from increasing costs, such as purchase costs, labour wages and rental expenses of stores, and they are not able to transfer the increasing costs to end customers.

Unexpected Soar in Raw Materials Costs

The raw materials used by the CPM 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 are generally correlated with the price of crude oil. The crude oil price had continued to soar and reached the year-high level in October 2018. The increase in crude oil price has led to the increase in the prices of solvent and resin, which are the principal raw materials of the CPM Group. The CPM Group's profit for the year was snatched away by the increasing price of raw materials. The overall percentage of raw material costs contributing to the revenue increased by 5.2 percentage point from 60.4% to 65.6%.

Gross Profit and Gross Profit Margin of Paint Products

The gross profit margin decreased by 6.4 percentage point to 24.5% during the year under review. The decrease in the gross profit margin was mainly due to the decrease in the amount of revenue and the increase in the cost of sales as a result of the increase in the raw materials prices and fixed production overheads incurred by the CPM Group even though there was a decrease in the production and sales volume of the CPM Group's paint and coating products.

BUSINESS REVIEW (continued)

Paint Products (continued)

Profitability Analysis

The year of 2018 was an extraordinarily challenging year for the CPM Group. The unsatisfactory performance of the CPM Group was principally affected by the following factors:

(1) Revenue from sales – The decrease in revenue was the result of a combination of the impact from (i) the downturn in macroeconomic environment in Mainland China; (ii) a decrease in the sales to distributors in Mainland China and Hong Kong; (iii) loss of market share in Eastern China market; (iv) changes in end-user preferences; and (v) certain demand of paint and coating products in Mainland China was shifted to some small-and-medium paint and coating manufacturers which have been closed down and their remaining products were then sold at lower prices in the market. Regarding the negative sale performance, the CPM Group's revenue for the year ended 31 December 2018 decreased significantly, which led to a significant decrease in the gross profit.

(2) Cost of raw materials – As mentioned above, the persistently high crude oil price in 2018 led to relative prices of solvent and resin increased significantly. As a result, the CPM Group's gross profit for the year was snatched away by the increasing price of raw materials.

(3) Other expenses, net (Impairment of trade receivables) – In 2018, the CPM Group adopted the expected credit loss model, taking into account forward-looking information in addition to historical credit loss experience under HKFRS 9, which led to a significant impact on the financial performance of the CPM Group for the year ended 31 December 2018.

Prior to 1 January 2018, an impairment loss was recognised only on an incurred basis when there was objective evidence of impairment. At 31 December 2017, the overdue trade debtors were not impaired and was related to a number of independent customers for whom there was no recent history of default.

(4) Staff costs – In response to the unfavorable market conditions, the CPM Group decided to integrate the production facilities in Mainland China and to streamline the workforces and personnel. The CPM Group then reorganised the production plants in Mainland China to rationalise the production process and to improve production efficiencies. In addition, sales teams and administrative staff were reorganised to increase the efficiency. As a result, one-off redundancy compensation for certain employees in Mainland China was recognised as staff costs during the year.

(5) Finance costs – The CPM Group's finance cost increased for the year ended 31 December 2018. Borrowing funds were used to acquire Zhongshan factory and for operating working capital during the year.

(6) Renminbi exchange rate – The appreciation in Renminbi in the first half of 2018 had an adverse financial impact on the CPM Group because there was loss making for the CPM Group for the year ended 31 December 2018.

BUSINESS REVIEW (continued)

Paint Products (continued)

Profitability Analysis (continued)

The segment loss for the year amounted to approximately HK$157.15 million, a significant decrease of approximately HK$178.80 when compared with 2017. The significant decrease in segment profit in 2018 was due to the significant decrease in the revenue and the gross profit margin of the paint products which was primarily due to the reasons stated above.

In view of the stringent safety and environmental laws and regulations implemented in recent year by the Chinese government and respective local authorities, CPM has established an "Environment, Health and Safety" team at its 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 inevitable increase the operating costs for the compliance. However, CPM considers that such stringent requirements implemented by the Chinese government would accelerate the healthy development of the paint and coating industry in Mainland China with emphasis on production safety and environmental protection.

The demand for paint and coating products of the CPM Group 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 the calendar year. As a result, sales of paint and coating products of the CPM Group will generally increase during the second and the fourth quarters of the calendar year.

Business Initiatives

In view of the substantial decrease of revenue, gross profit and gross profit margin for the year ended 31 December 2018, starting from the second quarter of 2018, the CPM Group is in the process of formulating and implementing various business revamp measures and initiatives to improve the business operation and to reduce the costs of the CPM Group. These business initiatives include the following:

(1) Stabilising the Business Performance in the Short Term

In the short term, the CPM Group aims to stabilise business performance with the target to restore the profitability of the CPM Group. Starting from the second quarter of 2018, the CPM Group has implemented stringent cost control measures with the focus on reducing the fixed production overheads (such as staff costs and consumable items) and administrative expenses (such as reduction of headcount (re: increase redundancy costs in staff cost) and consumable items) and improving the operational efficiency, both at the production and the administrative levels (such as staff costs and consumable items).

The operating expenses of the CPM Group for the year ended 31 December 2018 did not decrease in line with the drop in the CPM Group's revenue for the year ended 31 December 2018. This development, which was primarily due to the huge redundancy costs incurred, continuous investment in brand building, adversely affected the profitability of the CPM Group. Hence, cost reduction is the primary objective of the CPM Group in 2019. In this regard, the CPM Group has undertaken an in-depth review of the components of the production cost and administrative cost and has identified the potential cost saving aspects. Whilst the impact of such cost saving measures has yet to be reflected in the income statement of the CPM Group, it has slowed down the cash outflow from operation during the last quarter of 2018.

BUSINESS REVIEW (continued)

Paint Products (continued)

Business Initiatives (continued)

(2) Price Increase for Paint and Coating Products

The CPM Group continues to be diligent in offsetting inflation costs across implementing stringent cost control measures, and improving in the procurement and sourcing process to increase efficiency. Regardless of these efforts, the CPM Group must increase the pricing to ensure that the CPM Group can continue to deliver exceptional technical support and solutions to its customers. In the second half of 2018, the CPM Group increased the selling prices of most paint and coating products for twice. Definitely, the CPM Group must increase the selling prices in 2019 if the price of raw materials will extensively increase again in 2019, in order to share the pressure of inflation to end-users.

(3) Improvement in the Procurement and Sourcing Process

The CPM Group continues to reduce the number of suppliers for the purpose of achieving economies of scale and reducing the purchase price (or increasing the bulk purchase discount) and saving transportation time and cost. This improvement is expected to be implemented with the integration of production facilities of the CPM Group. Through the improvement in the procurement and sourcing process, the Directors of CPM (the "CPM Directors") expect that the CPM Group would have relatively strong bargaining power to reduce the price of raw materials required.

(4) Enhancing the Competitiveness of the CPM Group's Products by Adjusting the Product Mix and Production Distribution Channels

The CPM Directors are well aware that the implementation of the stringent cost control measures will not be sufficient to turn around the performance of the CPM Group. It is crucial to increase the sales of paint and coating products, and the more important issue is that the increase must be sustainable in light of the latest industry trends and consumers' preference.

In this regard, the CPM Group will focus on solvent-based and water-based paint and coating products. The CPM Group is competing in the paint and coating markets in both Hong Kong and Mainland China that require fast adaptation to continuous changes in end-users' preference and to develop more product lines for targeting the mass market. Consumers require quick reaction and price competitiveness on products, which entails efficient time to market through the CPM Group's product development and supply chain processes. Therefore, the CPM Group aims to simplify the sales channels and gain access to various industrial manufacturers, including but not limited to furniture industry, automotive industry and wind power industry.

The CPM Group also aims to develop more Low Volatile Organic Compounds paint and coating products to address consumers' preferences and to achieve the highest environmental protection standards, and to create value to shareholders of CPM.

BUSINESS REVIEW (continued)

Paint Products (continued)

Business Initiatives (continued)

(5) Integration of the Production Facilities in Mainland China

Most of the revenue of the CPM Group is generated from sales to customers in the Southern China. In this connection, the CPM Group decides to strengthen its production activities in Shenzhen, Zhongshan and Xinfeng, Guangdong Province, the PRC. The CPM Directors believe that through the increased production activities at these production facilities, the production cost and the lead-time for production will decrease, in order to meet the demand from the newly targeted customers in the construction and manufacturing industries in Guangdong Province, the PRC. In particular, the CPM Group will continue to enhance the production activities at the production facilities of the CPM Group in Shenzhen, so that such production facilities will become the principal production hub and the product research and development base of the CPM Group.

Subject to market conditions, the CPM Group plans to construct a new production plant for the production of water-based paint and coating products in Zhongshan, Guangdong Province, the PRC.

Through the above integration, the scale of the production activities and the nature of paint and coating products which are currently produced at the production facilities in Xuzhou, Jiangsu Province, the PRC and Ezhou, Hubei Province, the PRC will be lowered, so as to maximise the use of these facilities for the benefit of the CPM Group. The under-utilised production facility in Xuzhou has been leased to third parties for rental income. For customers who are located in this region and currently served by the CPM Group through the under-utilised production facility in Xuzhou, the CPM Group explored production cooperation with those selected paint and coating manufacturers on an Original Equipment Manufacturer (OEM) basis.

BUSINESS REVIEW (continued)

Property Investment

Over past decades, we have acquired certain investment properties, including residential, industrial and commercial premises in Hong Kong and Mainland China, with the aim to generate stable recurring income and cash flows for long term investment purposes.

As at 31 December 2018, the Group held an investment property portfolio consisting of 13 (2017: 11) properties with Gross Floor Area ("GFA") of 367,187 square feet ("sq.ft.") (2017: 317,566 sq.ft.), including residential, commercial and industrial premises in Hong Kong and Mainland China, with the aim to generate stable recurring income and cash flows for long term investment purposes. Revenue for the year amounted to approximately HK$22.37 million when compared with that of approximately HK$33.72 million last year. The decrease in revenue was mainly due to the non-renewed tenants upon termination of respective tenancy agreements. Segment profit amounted to approximately HK$106.99 million when compared with that of approximately HK$52.27 million last year. The increase in segment profit for the year was mainly due to the increase in the net fair value gains on the investment properties of approximately HK$62.97 million. The net fair value gains of the Group's investment properties at the year end was approximately HK$90.77 million while the net fair value gains at the last year was approximately HK$27.80 million. This reflected the general market conditions of the residential, commercial and industrial investment property market in Hong Kong and Mainland China during the year.

As at 31 December 2018, the aggregate market value of investment properties held by the Group amounted to approximately HK$799.98 million (2017: HK$683.92 million), representing an increase of approximately 17.0% when compared to 2017. Such increase was mainly due to the increase in the net fair value of the Group's investment property portfolio for 2018 of approximately HK$90.77 million, transfer from prepaid land premium and property, plant and equipment of HK$28.75 million, transfer from deposits for properties, plant and equipment, and investment properties of HK$4.94 million and the exchange realignment upon the depreciation of Renminbi assets.

The average occupancy rate for 2018 dropped to about 80.3% when compared with that of 90.0% in 2017. The decrease in average occupancy rate was mainly due to the non-renewed tenants upon termination of respective tenancy agreements in the Sai Kung Property. The recorded gross rental income (including inter-group rental income) was then dropped to approximately HK$28.04 million in 2018, as compared to approximately HK$39.30 million in 2017.

Our business model is designed to balance short-term capital needs and long-term financial strength. While we strategically hold selected properties for investment for stable recurring rental income and capital appreciation, we also sell certain properties for investment to fund our business, operations and expansion plans. This allows us to generally fund our operations through cash flows stemming from rental income, while allowing us to benefit from additional capital from the sale of these properties for our overall operations. We are also able to enjoy potential capital appreciation on our properties for investment over the long term to take advantage of prime locations of our properties.

BUSINESS REVIEW (continued)

Property Investment (continued)

Proposed Disposal and Proposed Acquisition

In September 2018, a share exchange agreement (the "Share Exchange Agreement") was entered into among Tatpo Corporation Limited ("Tatpo"), a wholly-owned subsidiary of the Company, Jetco (H.K.) Limited ("Jetco") and Mr. Tang Shing Bor ("Mr. Tang"), pursuant to which, Tatpo shall (i) dispose of the entire issued share capital of Ocean Wide Assets Limited ("Ocean Wide"), a wholly-owned subsidiary of the Company, and the Ocean Wide shareholder's loan to Jetco ("Proposed Disposal"); and (ii) acquire the entire issued share capital of Nigon Hong Kong Limited ("Nigon"), a wholly-owned subsidiary of Jetco, and the Nigon shareholder's loan from Jetco ("Proposed Acquisition").

On 20 March 2019, Tatpo, Jetco and Mr. Tang entered into a supplemental deed to amend the terms and conditions of the Share Exchange Agreement. Details were set out in the announcement of the Company dated 20 March 2019.

Background of the Wan Chai Property

Nigon is the registered and beneficial owner of a land situated in the Remaining Portion of Inland Lot Nos. 3983 and 3984 including the messuages, erections and buildings thereon, No. 11 Morrison Hill Road, Hong Kong (the "Wan Chai Property"). The Wan Chai Property comprises a 24-storey building with GFA of approximately 24,283 sq.ft.. Nigon is ultimately owned by Mr. Tang. The Wan Chai Property is currently used as a hotel under the name "Minimal Hotel • Urban (簡悅酒店•銅鑼灣)".

Transaction Structure Before and After Completion of the Proposed Share Exchange

Pursuant to the proposed transaction, Mr. Tang has proposed to acquire the entire issued share capital of Ocean Wide and Ocean Wide shareholder's loan for consideration at HK$900.00 million, which is proposed to be settled by set-off against the consideration for the Group's purchase of all issued shares of Nigon and Nigon shareholder's loan at consideration of HK$530.00 million, and cash payment of the remaining balance of the purchase price. Based on the valuation of the properties, the management expects that the Group will receive cash consideration of around HK$370.00 million upon completion of the transactions, in addition to the ownership in the Wan Chai Property, primarily due to (a) the difference in the appraised value of the Sai Kung Property (as hereinafter defined) and the Wan Chai Property and (b) Mr. Tang is willing to pay a premium over the appraised value of the Sai Kung Property (as hereinafter defined) because he has acquired lands and buildings next to the Sai Kung Property (as hereinafter defined). The completion date will be 31 May 2019 (the "Completion").

Nigon is the sole shareholder of Lead Creation Development Limited ("Lead Creation"), which is a company incorporated in Hong Kong with limited liability and is principally engaged in hotel operation. Lead Creation is currently holding a hotel licence issued under the Hotel and Guesthouse Accommodation Ordinance (Chapter 349 of the Laws of Hong Kong) to operate, keep, manage or otherwise have control of the Wan Chai Property as a hotel and is responsible for ensuring that the Wan Chai Property complies with the licensing conditions and satisfies with the various codes of practices and requirements that is qualified to be operated as a hotel. On 30 November 2018, Nigon disposed of the entire issued share capital of Lead Creation to Mr. Tang pursuant to the terms under the Share Exchange Agreement. To the best of the Director's knowledge, information and belief, the Wan Chai Property has become the only major assets held by Nigon since then.

BUSINESS REVIEW (continued)

Property Investment (continued)

Proposed Disposal and Proposed Acquisition (continued)

Transaction Structure Before and After Completion of the Proposed Share Exchange (continued)

The Group does not intend to engage in hotel operation business and does not want to take up the statutory responsibility to operate, keep, manage or control the Wan Chai Property. It intends to focus on its investment property business so as to merely act as a landlord of the Wan Chai Property. As such, the Group takes the view that by acquiring Nigon (being the registered owner of the Wan Chai Property) without Lead Creation (being the holder of a hotel licence) will be the best way to achieve its purpose of acting merely as a landlord and to reflect its intention of focusing on its current business.

Upon Completion, the Wan Chai Property will be held by the Group as part of its investment property portfolio and will be leased back by Nigon (which will become a wholly-owned subsidiary of the Group upon Completion) as landlord to Tang's Living Guesthouse (Morrison Hill Road) Limited ("Tang's Living") as tenant for a term of 3 years with an option to renew the lease for two further terms each of 3 years at the then market rent pursuant to the Leaseback Agreement. Tang's Living must give Nigon not less than 3 months prior notice in writing of its desire to exercise such option to renew before expiry of the relevant term.

As Lead Creation is currently held by Mr. Tang and that the Wan Chai Property will be leased back to Tang's Living upon Completion, the Board takes the view that the operation of the Wan Chai Property will not be interrupted during the terms of the Leaseback Agreement. In the event that the Leaseback Agreement has been terminated or expired, the Company intends to market the Wan Chai Property to other hotel operators who have requisite licences to operate the Wan Chai Property as a hotel. Depends on the market condition and the combination of circumstances at the time, the Company may also apply for the hotel licence issued under the Hotel and Guesthouse Accommodation Ordinance (Chapter 349 of the Laws of Hong Kong) if it is to the interest of the Group and the shareholders of the Company. As the Company will be informed at least 3 months prior to the expiry of the tenancy, the Company believes that it will be able to secure a new tenant or to acquire the necessary hotel licence before the termination of the tenancy without causing any material disruption to the operation of the Wan Chai Property.

BUSINESS REVIEW (continued)

Property Investment (continued)

Proposed Disposal and Proposed Acquisition (continued)

Background of the Sai Kung Property

Ocean Wide is an investment holding company and an indirect wholly-owned subsidiary of the Company. Ocean Wide has no business activity other than being the sole shareholder of Conley Investment Limited ("Conley").

Conley is the registered and beneficial owner of a land situated in Lot No. 963 in D.D. 215 and the extension thereto and Lot No. 991 in D.D. 215 in Sai Kung, New Territories, Hong Kong including the messuages, erections and buildings (the "Sai Kung Property").

The Sai Kung Property is a land with GFA of approximately 143,252 sq. ft.. The Sai Kung Property comprises two 4-storey industrial buildings and is currently leased to subsidiaries of the CPM Group and other independent third parties. The Sai Kung Property was built by members of the Group between 1988 to 1990 for industrial purpose. Since 1993, with the relocation of the paint and coating production lines to Mainland China by the subsidiaries of the CPM Group, the Sai Kung Property has been treated as an investment property of the Group. In order to secure a re-development opportunity for the purpose of achieving a high investment return or enhancing the property portfolios of the Group, the Group submitted a planning application under Section 16 of Town Planning Ordinance (Chapter 131 of the laws of Hong Kong) to seek the Town Planning Board's approval for a proposed residential development on the Sai Kung Property in May 2016. On 2 March 2018, the Town Planning Board has approved the application with conditions. The approved plot ratio is 2.036 with a maximum total GFA of about 80,288 sq. ft..

Immediately prior to the Completion, Ocean Wide is held as to 100% by the Group. After completion of the Proposed Disposal, the entire issued share capital of Ocean Wide will be held by Jetco and the Group will cease to have any interest in Ocean Wide, Conley and the Sai Kung Property.

Reasons for and Benefits of the Proposed Disposal and the Proposed Acquisition

As property investment business is one of the core businesses of the Group, the Board reviews the existing investment portfolio from time to time and explores other business opportunities to enhance the value of the Company and return to the shareholders of the Company. After the Town Planning Board has approved the proposed residential development on the Sai Kung Property in March 2018, the Group has performed a detailed cost-benefits analysis and noted that the valuation of the Sai Kung Property on a redevelopment basis as at 31 July 2018 is estimated to be approximately HK$708.00 million (having taken into account a land premium payable to the government of approximately HK$466.00 million), and if the Group would re-develop the Sai Kung Property by itself, the re-development project would require a substantial amount of redevelopment costs of approximately HK$682.00 million (having taking into account a land premium payable to the government of approximately HK$466.00 million) and at least 48 months to complete the project, during which, the Group may encounter various uncertainties, including the fluctuation in the global and local economic and property market and the surge in the bank loan interests. In the first quarter of 2018, Mr. Tang proposed to the Group to acquire the Sai Kung Property in exchange for the Wan Chai Property. Based on the information in public domain, Mr. Tang is the owner of the industrial properties surrounding the Sai Kung Property.

BUSINESS REVIEW (continued)

Property Investment (continued)

Proposed Disposal and Proposed Acquisition (continued)

Reasons for and Benefits of the Proposed Disposal and the Proposed Acquisition (continued)

After taking into account the valuation of the Sai Kung Property on a redevelopment basis, the redevelopment costs and the length of time involved in a redevelopment project and comparing the consideration of HK$900.00 million with the preliminary estimated market value on the Sai Kung Property as at 31 July 2018, and the consolidated net assets value of the Ocean Wide Group as at 31 December 2018, the Board considers that the consideration of HK$900.00 million is (a) HK$485.00 million higher than the preliminary estimated market value of the Sai Kung Property of HK$415.00 million valued as at 31 July 2018; and (b) HK$533.88 million higher than the consolidated net asset value of the Ocean Wide Group as at 31 December 2018. As such, the Board considers that it will receive a higher investment return by entering the Share Exchange Agreement which can be used for enhancing the investment property portfolio of the Group and that the Proposed Disposal is fair and reasonable for the Company and its shareholders as a whole.

The Directors expect that the Group would record a gain from the Proposed Disposal of approximately HK$491.58 million before tax and transaction costs and an increase in the net assets of the Group by approximately HK$491.58 million. Such gain is determined with reference to the management accounts of Ocean Wide Group for the year ended 31 December 2018. Subject to completion of audit, the actual amount of the gain on the Proposed Disposal to be recognised by the Group will be based on the actual net asset value of Ocean Wide as of the Completion Date and therefore may vary from the amount mentioned above.

In light of the above, the Board considers that the Proposed Disposal and the Proposed Acquisition provide an opportunity for the Group to realise the Sai Kung Property, being part of its strategic investment in light of the current favourable commercial property environment in Hong Kong in exchange for a whole block of hotel situated in urban area as part of the Group's investment property portfolio which is expected to bring in steady recurrent income at a gross yield of approximately 3.0% per annum. As the Group had no intention to engage in hospitality business and will not consider to acquire Lead Creation, the Board considers that the Proposed Acquisition is fair and reasonable for the Company and its shareholders as a whole.

Further, the Proposed Disposal and the Proposed Acquisition may be potentially accretive to the net asset value of the Group as a whole and the net proceeds in the amount of HK$370.00 million can further strengthen the cash position of the Group and will allow the Group to acquire additional residential and/or commercial premises in Hong Kong and/or the PRC in order to enhance its investment property portfolio for the purpose of strengthening the recurring income and cash flows for long term investment properties.

The Directors consider that the terms of the Share Exchange Agreement, which are determined after arm's length negotiations between Tatpo and Jetco, are on normal commercial terms which are fair and reasonable, and the entering into of the Share Exchange Agreement is in the interests of the Group and the shareholders of the Company as a whole.

BUSINESS REVIEW (continued)

Property Investment (continued)

Proposed Columbarium Project in Yuen Long, Hong Kong

The review application under Section 17 of Town Planning Ordinance ("TPO") for seeking the Town Planning Board's ("TPB") approval for a proposed columbarium on our existing land located in Au Tau, Yuen Long, Hong Kong (the "Appeal Site") was rejected in December 2014. We had lodged an appeal to the Appeal Board Panel (Town Planning) ("ABP") under Section 17B of TPO in February 2015 and was granted the planning permission in November 2017.

The permission shall be valid for 4 years from the date of decision, and after the said date, the permission shall cease to have effect unless before the said date, the development permitted is commenced or the permission is renewed. The ABP also imposed approval conditions with the permission. Extracts of material conditions are as follows:

(1) The maximum number of niches within the Appeal Site should not exceed 20,000.

(2) The submission of an implementation programme with phasing proposals (with niche sales not exceeding 3,000 niches per year) to tie in with the completion of the traffic improvement measures and the submission of a traffic review report at the end of each phase to the satisfaction of the Commissioner for Transport, the Commissioner of Police or of the TPB.

(3) We shall not proceed to the niche sales in the next phase unless the traffic management measures have been implemented to the satisfaction of the Commissioner for Transport, the Commissioner of Police or of the TPB.

(4) Submission of relevant updated assessments/reports/plans/measures within 6 months from the date of decision to the satisfaction of all relevant government departments and parties affected, including but not limited to Transport Department, the Police, Planning Department, Pok Oi Hospital, Hospital Authority and Town Planning Board.

(5) The in-situ presentation of Pun Uk in its entirely, including feng shui pond in front of Pun Uk to the satisfaction of the Director of Leisure and Cultural Services or of the TPB.

(6) The Appeal Site involves various private lots in D.D. 115 which are of agricultural or building status held under Block Government Lease or Tai Po New Grant, and adjoining government land. We need to apply to Lands Department for a land exchange. It is noted that we have included a land exchange to effect the proposed development. Such application will be considered by Lands Department acting in the capacity as a landlord at its sole discretion and there is no guarantee that the land exchange, including the granting of additional government land, for the proposed development will be approved. In the event that land exchange is approved, it would be subject to such terms and conditions, including, among other things, the payment of premium and administrative fee, as may be imposed by Lands Department at its sole discretion.

We have appointed respective professionals and submitted relevant assessments/reports/plans/measures to relevant government bodies/parties for comments.

BUSINESS REVIEW (continued)

Property Investment (continued)

Acquisition of Residential Premises in Zhongshan, the PRC

In May 2017, we had entered into an agreement with an independent property developer for the acquisition of five residential premises in Zhongshan, Guangdong Province, the PRC during its pre-sale period at the consideration of approximately RMB4.38 million, which was financed by internal resources of the Group. The properties were handed over to us in late 2018. We intend to lease out the properties to earn rental income for long term investment purposes.

Acquisition of Parking Spaces in Qingpu District, Shanghai, the PRC

In March 2019, we had entered into agreements with an independent property developer for the acquisition of ten parking spaces at a commercial premise in Shanghai, the PRC at the consideration of RMB2.80 million, which was financed by internal resources of the Group. The parking spaces are expected to be handed over to us in mid-2019. We intend to lease out the parking spaces to earn rental income for long term investment purposes.

Looking ahead, the Federal Reserve has taken a cautious approach towards raising interest rates and is expected not to increase the interest rate in 2019. Furthermore, as set out in the "Outline Development Plan for Guangdong-Hong Kong-Macao Greater Bay Area", the Chinese government clearly supports the development of Hong Kong as an international metropolis with enhanced competitiveness. It enables Hong Kong to grow from strength to strength amid its integration into the overall development of the country. In addition, the current low mortgage rate environment in Hong Kong should be conducive to sustainable development of the local property market.

In Mainland China, the Chinese government directive that "housing should be for living in, not for speculation" is expected to remain unchanged. However, the demand for home-ownership and improved living conditions is still eager for middle class family especially for those with increasing disposable income. The Group will continue to look for investment properties in the first-tier cities, as well as second-tier cities with high growth potential. We believe that the demand in real estate will remain growing and therefore we will continue to pay attention to the commercial and residential property markets in Mainland China as well as Hong Kong and consider the feasibility of acquiring additional properties in order to diversify and broaden the investment portfolio of the Group.

BUSINESS REVIEW (continued)

Iron and Steel Trading and Related Investments

The iron and steel industry is one of the major industrial sectors for Mainland China economy. The iron and steel products can be classified into two subclasses, namely, ferrous metals and non-ferrous metals. The Group is currently trading in ferrous metals and specialises in tinplate trading.

Despite of the sluggish economic condition in the domestic economy in Mainland China, the sales for tinplate products in 2018 just decreased slightly by 3.1% when compared with last year. As a result of severe price competition, the profit margin became thinner at about 2.7% for 2018. The recent trade tension between China and the United States brought an adverse effect to the export of tinplate products from Mainland China. The Group will take this opportunity to increase the market share in the domestic market in Mainland China.

Looking ahead, we strive to stay competitive in the market and increase our customers' base in Mainland China and position for profitable growth.

Equity Investments Designated at Fair Value Through Other Comprehensive Income

We have an effective interest of 12.2% in the cemetery project (the "Cemetery") situated in Sihui, Guangdong Province, the PRC. The Cemetery is operated under the name of "Fortune Wealth Memorial Park". Its principal activities are the development, construction, management and operation of a cemetery. The main types of products of the cemetery are outdoor grave lots, ordinary columbarium niches and luxury columbarium niches.

The Cemetery comprises a site of 518 mu, of which 100 mu have been substantially completed and remaining 418 mu have commenced design work, and an adjacent site of 4,482 mu, which has been reserved, making up a total of 5,000 mu.

In the development aspect, the Cemetery has obtained the land use rights certificates of approximately 248.2 mu of land. The Cemetery will liaise with the local authorities for land resumption in respect of the remaining 269.8 mu. For the area encompassing the land resumption, about 150 mu will be designated for road access and greenbelts. As for the balance of 119.8 mu, The Cemetery shall intensively follow-up with the local authorities to allocate land quota for the grant of land use rights.

On the sale aspects, the Cemetery has full license for sale not only in Mainland China, but also includes overseas Chinese as well as residents of Hong Kong, Macau and Taiwan. The Cemetery will review its sales and marketing strategy and will take more proactive steps in its brand building and customer services.

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.

RESULTS

The Group recorded a loss attributable to the shareholders of the Company of approximately HK$25.09 million for the year when compared with a profit attributable to the shareholders of approximately HK$37.52 million last year. Revenue for the year amounted to approximately HK$831.94 million, representing a decrease of approximately 32.3% when compared with that of last year. Gross profit for the year amounted to approximately HK$178.45 million, representing a decrease of approximately 48.6% when compared with that of last year. The gross profit margin decreased by 6.8 percentage point ("pp") from 28.3% in 2017 to 21.5% in 2018.

SEGMENT INFORMATION

Business Segments

Paint Products

Paint operation continued to contribute the largest revenue to the Group with revenue of approximately HK$617.25 million, accounting for approximately 74.2% of the Group's total revenue. Segment revenue for the year decreased by 38.0% when compared with that of last year. The gross profit margin decreased by 6.4 pp from 30.9% in 2017 to 24.5% in 2018. The decrease in gross profit margin was mainly due to the significant increase in the costs of major raw materials. Segment loss for the year amounted to approximately HK$157.15 million, representing a significant decrease of approximately 825.9% when compared with 2017.

In consideration of the prevailing market volatilities, the Group will continue to closely monitor market conditions, adopt a prudent approach in the procurement of raw materials, and exercise strict control over the overheads, in order to maintain the gross profit margin of our paint products.

Property Investment

Property investment operation reported revenue of approximately HK$22.37 million, accounting for approximately 2.7% of the Group's total revenue. Segment profit for the year increased to approximately HK$106.99 million when compared with that of approximately HK$52.27 million last year. The significant increase in segment profit was mainly due to the increase in the net fair value gains of the investment properties of approximately HK$62.97 million when compared with last year.

Iron and Steel Trading and Related Investments

Iron and steel operation reported revenue of approximately HK$192.32 million, accounting for approximately 23.1% of the Group's total revenue. Revenue for the year decreased by approximately 3.1% when compared with that of last year, as the demand on tinplate products in Mainland China decreased slightly during the year. Segment loss for the year amounted to approximately HK$6.67 million when compared with segment profit of approximately HK$3.55 million last year. The decrease in segment profit for the year was mainly due to the share of loss from an associate for 2018 amounted to approximately HK$6.10 million, when compared with share of profit of approximately HK$1.65 million in 2017. The gross profit margin decreased from 3.0% in 2017 to 2.7% in 2018 was mainly due to the increase in purchase cost of tinplates.

Geographical Segments

All of the Group's businesses are mainly operated in Mainland China and Hong Kong. Revenue from operations in Mainland China and Hong Kong amounted to approximately HK$768.68 million (2017: HK$1,111.91 million) and approximately HK$63.26 million (2017: HK$116.15 million) respectively.

LIQUIDITY AND FINANCIAL INFORMATION

The Group's business operation was generally financed by its internal funding and bank borrowings. The cash and cash equivalents amounted to approximately HK$295.87 million as at 31 December 2018 when compared with approximately HK$382.77 million as at 31 December 2017. Bank and other borrowings amounted to approximately HK$270.77 million as at 31 December 2018 when compared with approximately HK$133.55 million as at 31 December 2017. 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 2018, approximately HK$270.12 million (99.7%) was payable within one year, approximately HK$0.42 million (0.2%) was payable in the second year and approximately HK$0.23 million (0.1%) 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 22.3% as at 31 December 2018 compared with 10.2% as at 31 December 2017.

Liquidity ratio of the Group which was expressed as a percentage of current assets to current liabilities was 1.52 times as at 31 December 2018 compared with 2.14 times as at 31 December 2017.

For the year under review, the inventory turnover days[1] were 44 days which was higher than that of 33 days in 2017. The trade and bills receivables turnover days[2] were decreased from 215 days in 2017 to 210 days in 2018.

Equity, Net Asset Value and Shareholders' Funds

Shareholders' funds of the Group as at 31 December 2018 was approximately HK$1,490.72 million compared with approximately HK$1,569.49 million as at 31 December 2017. Adjusted capital of the Group, being shareholders' funds less the unrealised leasehold land and building revaluation reserve and investment property revaluation reserve, as at 31 December 2018 was approximately HK$1,212.57 million compared with approximately HK$1,308.48 million as at 31 December 2017. Net assets value per share as at 31 December 2018 was HK$0.86 compared with HK$0.93 as at 31 December 2017. Shareholders' funds per share as at 31 December 2018 was HK$0.78 compared with HK$0.82 as at 31 December 2017.

Contingent Liabilities

At 31 December 2018, the banking facilities granted to various subsidiaries subject to guarantees given to banks by the Company were utilised to the extent of approximately HK$67.18 million compared with HK$42.64 million as at 31 December 2017.

Pledge of Assets

Certain property, plant and equipment, investment properties and cash deposits with aggregate net book value of HK$380.05 million as at 31 December 2018 (31 December 2017: HK$596.66 million) and the shares of subsidiary were pledged as collaterals for bank and other borrowings and bills payable. At 31 December 2018, total outstanding secured bank and other borrowings amounted to HK$169.21 million compared with HK$89.90 million as at 31 December 2017 and bills payable amounted to HK$16.85 million compared with HK$11.10 million as at 31 December 2017.

1 The calculation of inventory turnover days is based on the closing balance 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 closing balance of trade and bills receivables divided by the revenue and multiplied by 365 days.

TREASURY MANAGEMENT

Funding and Treasury Policy

The Group adopts a prudent approach on its funding and treasury policy, which aims at maintaining an optimal financial position for the Group and minimizing 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 dollar, Renminbi and United States dollar. The Group's results can be affected by movements in the exchange rate between Hong Kong dollar, Renminbi and United States dollar. The Group did not have any hedging instrument to hedge the foreign currency exposure as at 31 December 2018. 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$31.18 million (2017: HK$22.69 million) on the acquisition of property, plant and equipment, investment properties, construction of warehouses and intangible assets. In addition, the Group acquired leasehold land and buildings through acquisition of subsidiaries during the year amounted to HK$106.74 million (2017: Nil).

HUMAN RESOURCES

Headcount as at 31 December 2018 was 886 (31 December 2017: 1,039). Staff costs (excluding directors' emoluments) amounted to HK$166.44 million for the year as compared with HK$172.36 million last year. The Group has a comprehensive and competitive staff remuneration and benefits system which is based on the performance of individual employees. In addition, the Group also provides a staff option scheme.

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, the United States 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 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. 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 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.

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 Hong Kong and Mainland China could have an adverse effect on the Group's financial position. The Group has specialised 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 work 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.

UPDATE ON DERIVATIVE ACTION

As at the date of this report, the derivative action initiated by Chinaculture.com Limited against certain directors of the Company and the Company is still ongoing. The Company is named as a nominal defendant in such derivative action.

EVENTS AFTER THE REPORTING DATE

There is no significant subsequent event after 31 December 2018.

Corporate Governance Report

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. During the year ended 31 December 2018, the Company has applied the principles and complied with the code provisions as set out in the CG Code, except the following:

(1) The non-executive Directors and the independent non-executive Directors are not appointed for a specific term. According to the Bye-laws, they are subject to the requirement to retire by rotation at least once every three years. The Board considers that the requirement has the same effect of accomplishing the same objective as a specific term of appointment.

(2) The Company does not have a nomination committee as the role and the function of such committee are performed by the full Board. The Board collectively reviews the structure, size and composition (including the skills, knowledge and experience) of the Board and the appointment of any new Director. Also, the Board as a whole is responsible for approving the succession plan for the Directors, including the Chairman and the Managing Director.

THE BOARD

During the year and up to the date of this report, the Board comprises the following members:

Executive Directors

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

Non-executive Directors

Tsui Ho Chuen, Philip
Chan Wa Shek
Zhang Yulin
Hung Ting Ho, Richard

Independent Non-executive Directors

Wu Hong Cho
Danny T Wong
Zhang Xiaojing

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 48 to 50.

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 BOARD (continued)

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 independence pursuant to Rule 3.13 of the Listing Rules and the Company considers that all independent non-executive Directors are independent.

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 regular Board meetings and general meeting of the Company during the year is set out below:

Directors	Number of regular Board meetings attended/held	Number of general meeting attended/held
Executive Directors		
Lam Ting Ball, Paul	4/4	1/1
Chong Chi Kwan	4/4	1/1
Non-executive Directors		
Tsui Ho Chuen, Philip	4/4	1/1
Chan Wa Shek	4/4	1/1
Zhang Yulin	1/4	0/1
Hung Ting Ho, Richard	4/4	1/1
Independent Non-executive Directors		
Wu Hong Cho	4/4	1/1
Danny T Wong	4/4	1/1
Zhang Xiaojing	1/4	0/1

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 executive Directors when considering new Director appointments. The Company has a nomination policy and 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 Bye-laws.

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 Board has reviewed its structure, size and composition during the year and is of the view that the current Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's businesses.

DIRECTORS' TRAINING

Every Director must always know his 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 year, the Directors participated in the following training:

Directors	Type of training
Executive Directors	
Lam Ting Ball, Paul	A,C
Chong Chi Kwan	A,B,C
Non-executive Directors	
Tsui Ho Chuen, Philip	A,C
Chan Wa Shek	A,C
Zhang Yulin	A,C
Hung Ting Ho, Richard	A,B,C
Independent Non-executive Directors	
Wu Hong Cho	A,B,C
Danny T Wong	A,B,C
Zhang Xiaojing	A,C

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: 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 and the Remuneration Committee with defined terms of reference (available on the website of the Company at www.cntgroup.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.

BOARD COMMITTEES (continued)

Audit Committee

During the year, the Audit Committee consisted of three non-executive Directors (the majority of whom are independent): Mr. Wu Hong Cho (AC Chairman), Mr. Danny T Wong and Mr. Chan Wa Shek.

The Audit Committee met twice during the year to review with the Company's external auditors the reporting of financial and other information to the Shareholders (including the 2017 annual results and the 2018 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 the scope and extent of the agreed-upon procedures engagement with respect to the unaudited consolidated financial statements of the Group for the six months ended 30 June 2018. 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 meetings attended/held
Wu Hong Cho *(AC Chairman)*	2/2
Danny T Wong	2/2
Chan Wa Shek	2/2

Remuneration Committee

During the year, the Remuneration Committee comprised two independent non-executive Directors and one executive Director: Mr. Wu Hong Cho (RC Chairman), Mr. Lam Ting Ball, Paul and Mr. Danny T Wong.

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 own remuneration. Senior management of the Company comprises all the executive Directors only. Details of their remuneration are set out in note 8 to the financial statements. During the year, the Remuneration Committee held one meeting to review and approve the remuneration policy and the remuneration packages of the Directors. The attendance record of each committee member is set out below:

Directors	Number of committee meeting attended/held
Wu Hong Cho *(RC Chairman)*	1/1
Lam Ting Ball, Paul	1/1
Danny T Wong	1/1

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 year 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-compliances efficiently.

Through the Company's outsourced internal auditors, 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 year, the Company appointed the outsourced internal auditors. The outsourced internal auditors of the Company review the major operational, financial and compliance controls and risk management functions of the Group on a continuing basis and aim to cover all major operations of the Group on a rotational basis. The outsourced internal auditors of the Company present their 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 year and up to the date of the 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 enquiry 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 during the year ended 31 December 2018.

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 2018, the remuneration of the Company's external auditors, Ernst & Young, is set out below:

Services rendered to the Group	**Remuneration**
	HK$
Audit services	5,090,000
Non-audit services	516,400
	5,606,400

The non-audit services rendered by the Company's external auditors to the Group included performance of agreed-upon procedures of the Group's 2018 interim financial statements, the preliminary results announcement for the year ended 31 December 2018, the audit examination of the statement on details of contributions of the Group's occupational retirement schemes and performance of a view on continuing connected transactions for the year ended 31 December 2018.

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 2018, 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 57 to 61.

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.

The 2018 AGM provided an opportunity for communication between the Shareholders and the Board, at which the chairmen of the Board, the Audit Committee and the Remuneration Committee had attended to answer questions from the Shareholders. Details of the procedures for conducting a poll were explained at the commencement of the meeting. In accordance with the Listing Rules, the votes of Shareholders at the meeting were taken by poll and the poll results were announced at the meeting and published on the websites of each of the Company and Hong Kong Exchanges and Clearing Limited after the meeting. A separate resolution was proposed at the meeting on each substantial issue, including the re-election of Directors.

SHAREHOLDERS' RIGHTS

Convening a special general meeting

Pursuant to bye-law 58 of the Bye-laws, a special 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 a special 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 special general meeting, the Shareholder(s) may do so in accordance with the provisions of the Companies Act.

Corporate Governance Report

SHAREHOLDERS' RIGHTS (continued)

Putting forward proposals at general meetings

Shareholders may submit a requisition to move a resolution at a general meeting pursuant to the Companies Act. The number of Shareholders necessary for a requisition shall be: (a) any number of Shareholders representing not less than one-twentieth (5%) of the total voting rights of all Shareholders having at the date of the requisition a right to vote at the meeting; or (b) not less than one hundred (100) Shareholders holding the Shares.

The requisition specifying the proposal, duly signed by the Shareholders concerned, together with a statement of not more than one thousand (1,000) words with respect to the matter referred to in the proposal must be deposited at the registered office of the Company. The Company would take appropriate actions and make necessary arrangements, and the Shareholders concerned would be responsible for the expenses incurred in giving effect thereto in accordance with the Companies Act.

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 office in Hong Kong at Unit E, 28th Floor, CNT Tower, 338 Hennessy Road, Wanchai, Hong Kong or by fax at (852) 2792 7341.

CONSTITUTIONAL DOCUMENTS

There was no change in the Company's constitutional documents during the year.

On behalf of the Board
CNT Group Limited

Lam Ting Ball, Paul
Chairman
Hong Kong, 28 March 2019

Environmental, Social and Governance Report

ABOUT THIS REPORT

The purpose of this environmental, social and governance report ("ESG Report") is not only to enhance stakeholders' understanding of the sustainable development strategies, management approach 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 or 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, the Group always strives to achieve a balance between its operations and the environment. With the continuous enhancement and optimisation of various initiatives in the areas of operations management, business strategies and environmental protection, talent development and community investments, etc., the Group endeavors to contribute to the sustainable development of the planet, humanity and its businesses.

Reporting Scope and Reporting Period

The ESG Report, which covers mainly the Group's principal activities including trading of iron and steel products and related investments and property investment (excluding 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". The reporting period covers the financial year ended 31 December 2018.

Reporting Guide

The ESG Report was prepared in accordance with the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 to the Listing Rules.

CPM Group Limited is a non-wholly owned subsidiary of the Company and a company listed on the Stock Exchange. The environmental, social and governance report covering the business of the manufacture and sale of paint and coating products has been separately prepared by CPM Group Limited. Therefore, the business of CPM Group Limited and its subsidiaries has not been addressed in the ESG report.

STAKEHOLDERS' ENGAGEMENT

The Group is committed to maintaining the sustainable development of its business and providing support to environmental protection and the communities in which it operates. The Group maintains a close tie with its stakeholders, including government/regulatory organisations, shareholders/investors, employees, customers, suppliers, community, etc. and strives to balance their opinions and interests through constructive communications in order to determine the directions of its sustainable development. The Group assesses and determines its environmental, social and governance risks, and ensures that the relevant risk management and internal control systems are operating properly and effectively. The following table shows the management's response to the stakeholders' expectations and requests:

Stakeholders	Expectations and requests	Management response
Government/ regulatory organisations	➤ Compliance with laws and regulations ➤ Fulfill tax obligations	➤ Uphold integrity and compliance in operations ➤ Pay tax on time, and in return contributing to society ➤ Establish a comprehensive and effective internal control system
Shareholders/investors	➤ Return on investment ➤ Information transparency ➤ Corporate governance system	➤ Management possesses relevant experience and professional knowledge in business sustainability ➤ Ensure transparency and valid communications are published in websites of the Stock Exchange and the Company ➤ Continuous improvement to the internal control system and focus on risk management
Employees	➤ Labour rights ➤ Career development ➤ Compensation and welfare ➤ Health and workplace safety	➤ Set up contractual obligations to protect labour rights ➤ Encourage employees to participate in continuous education and professional trainings to enhance competency ➤ Establish a fair, reasonable and competitive remuneration scheme ➤ Pay attention to occupational health and workplace safety
Customers	➤ High-quality products and customer services ➤ Timely delivery ➤ Reasonable price/rent	➤ Provide high quality products and services continuously in order to maintain customer satisfaction ➤ Establish an effective, efficient and green supply chain system ➤ Formulate comprehensive quality assurance process and recall procedures ➤ Ensure proper contractual obligations are in place
Suppliers	➤ Stable demand ➤ Good relationship with the Company ➤ Corporate reputation	➤ Ensure proper contractual obligations are in place ➤ Establish policies and procedures regarding supply chain management ➤ Establish and maintain long-term co-operating relationship with quality suppliers ➤ Stringent selection of suppliers
Community	➤ Environmental protection ➤ Community involvement ➤ Economic development	➤ Pay attention to the problem of climate change ➤ Encourage employees to actively participate in charitable activities and voluntary services ➤ Ensure good and stable financial performance and business growth

MATERIALITY MATRIX

During the reporting period, the Group has evaluated a number of environmental, social and operation related issues, and assessed their importance to stakeholders and the Group through various channels. This assessment helps to ensure that the Group's business objectives and development direction are in line with the expectations and requirement of its stakeholders. The Group's and its stakeholders' matters of concern are presented in the following materiality matrix:

Materiality Matrix

Importance to Stakeholders	Low	Medium	High
High	◆ Anti-discrimination measures ◆ Protecting labour rights	◆ Talent management ◆ Staff training and promotion opportunities ◆ Staff compensation and welfare	➢ Customers' satisfaction level ➢ Product and customer service quality ➢ Product safety ➢ Suppliers management ◆ Occupational health and workplace safety
Medium	➢ Community involvement	➢ Anti-corruption measures ◇ Air and greenhouse gas emissions	➢ Operational compliance ➢ Customers' data and privacy security measures
Low	◆ Preventive measures for child and forced labour ◇ Utilisation of water resources ◇ Generation of non-hazardous wastes	◇ Energy conservation measures	

Importance to the Group

◇ Environmental ◆ Employee ➢ Operation

ENVIRONMENTAL PROTECTION

Emissions Management

The Group has always been committed to assessing and reporting its carbon footprint to the public. As the Group mainly operates its business in an office setting, the major environmental impacts are the greenhouse gas and air emissions generated by electricity consumption in office and the fuel consumption of office vehicles. The Group's operating initiatives is to reduce the emission of carbon dioxide generated in its business activities. Therefore, the Group focuses on carrying out various energy saving measures to minimise the impact on the environment resulted from emissions. Waste management mainly involves the domestic wastes collection and the waste papers recycling. The Group does not produce any hazardous waste and air pollutant in its course of business and the impact of waste water discharges on the environment is not significant.

During the reporting period, there was no violation or non-compliance incident relating to emissions that had significant impact on the Group.

Management of Use of Resources

In terms of resources management, the Group believes that operation and environmental protection are closely related. To minimise the adverse impact of its products, operations and services on the environment, the Group continuously and timely identifies issues arisen from its business activities. Hence, the Group is committed to promoting its corporate culture on resources conservation by constantly reminding employees that resources are precious; and implemented various measures to encourage staff to build a habit of conservation and make the best use of resources.

1. **Energy Conservation**

   The Group focuses on eliminating excessive use of resources, and hence numerous electricity conservation policies have been introduced and implemented for energy saving and to raise the electricity efficiency of electrical appliances. The Group encourages employees to change their habit of using electrical appliances. The control measures of the Group include the use of energy-saving lightings, photocopiers and printers with energy efficiency labels; switching off office equipment, such as computers, photocopiers, printers, air-conditioners after work and/or when they are idle.

2. **Water Conservation**

   The Group does not face any water supply control problem as it is provided by the government to the office building. The Group recognises the scarcity of resources the environment could offer and always encourages employees to cherish water usage, such as reducing unnecessary water consumption in toilet and pantries, and not using drinking water for any other purpose.

3. **Paper Conservation**

   Various measures have been introduced and implemented to avoid or reduce wastage of paper. The Group encourages employees to distribute files in electronic format and to make photocopy and/or print documents on both side of the papers, so as to minimise the unnecessary photocopying and printing. The Group also encourages employees to fully utilise papers by reusing one-side used papers and collect the double-sided wasted papers for recycling. During the reporting period, the Group's business consumed approximately 0.78 tonnes of paper (2017: 0.46 tonnes (restated)). The increase in paper consumption was mainly due to substantial projects handled by the Group during the reporting period.

ENVIRONMENTAL PROTECTION (continued)

The Environment and Natural Resources

The impact of the Group's business activities on the environment mainly attributed to the resources consumption in office including electricity, water and paper, and fuel consumed by office vehicles. Hence, the Group focused on the environmental education and advocacy among employees. Various resource saving measures have been implemented to raise the employees' awareness on resource conservation. The Group also encourages employees to make full use of resources in order to maximise their effectiveness and to avoid wastage (please refer to the section headed "Management of Use of Resources" for details).

During the reporting period, there was no non-compliance incident in relation to environmental protection that have a significant impact on the Group.

EMPLOYMENT AND LABOUR PRACTICES

Employees are the core assets of the Group for establishing the Group's foundation of success and long-term development. The Group is committed to providing an equitable, non-discriminatory, harmonious, safe and diversified working environment with mutual respect, trust and teamwork. The Group encourages creativity, flexibility and commitment to accomplish its corporate mission.

Talent Selection

The Group is a fair opportunity employer and has established and implemented fair treatment policy. The appropriate candidates would be selected based on their education background, relevant working experiences, knowledge, competence and skills, desirable personal traits, physical fitness and development potential. Impartial opportunities are provided for employment to all individuals, regardless of their ethnic group, religion, nationality, gender, age, marital status or disability. The policy applies to all phases of the employment relationship, including but not limited to, hiring, promotion and terminating employees. The Group works closely with employees with an aim to achieve win-win situation.

Labour Standards

The Group cherishes human rights and prohibits any unethical hiring practices, including child and forced labour, by conducting background checks and reference checks in its hiring process. During the reporting period, the Group did not hire any applicant under the legal working age in order to comply with the local laws and regulations in respect of child and forced labour. Consent shall be obtained from employees for working overtime so as to prevent forced overtime work, and they are compensated as appropriate in accordance with the applicable laws and regulations.

EMPLOYMENT AND LABOUR PRACTICES (continued)

Compensation and Welfare

The Group attracts and retains outstanding talents with competitive remuneration packages and regularly review remuneration level of different ranks of staff. The Group benchmarks the up-to-date remuneration data in the industry and strive to establish a fair, reasonable and competitive remuneration scheme.

The Group pays attention to employees' health and has established policies and procedures with work-life balance on mind. The Group adopts a five-day work week to allow employees to spend more time with their family and to participate in social activities. Other benefits include medical insurance, dental subsidy, festivals red packets, maternity subsidy, messing allowance, etc. To comply with the local labour laws and regulations, the Group provides social security benefits for all employees. The employees in Mainland China participate in the "Five Insurances and Housing Provident Fund" and the employees in Hong Kong participate in the "Mandatory Provident Fund Scheme". The Group also protects its employees' rights of rest days and holidays. Bonuses, year-end awards, salaries increment and/or promotion are fairly assessed based on a number of criteria, including but not limited to working experience, seniority, knowledge, skills, performance, contribution, etc. within the regular performance appraisal. The Group handles dismissal of employees and compensate them in accordance with the applicable laws and regulations. In order to enhance the cohesion between employees and help them to build up sense of belongings, the Group organised festival activities, such as Chinese New Year lunch.

Development and Training

An excellent corporate team is vital to the Group's sustainable and long-term business development. Therefore, the Group has established a long-term talents development training strategy and encourages staff to continue study and lifelong learning. New employees are provided with on-the-job training. The human resources department works together with the supervisors of each department to introduce the corporate culture, industry knowledge and job duties to new employees. Continuing training enhances the employees' professional knowledge and job skills to enable them to discharge their job duties efficiently and with integrity.

Health and Safety

As the operations of the Group are mainly carried out in an office setting and no labour intensive work is involved, the occupational health and safety risks are relatively low. That being said, the Group recognises that one of its core values is to protect and promote the health, workplace safety and well-being of the individual in the working environment. The Group has been continuously taking care of employees' health and workplace safety as our priority, which creates a comfortable and hassle-free environment to its employees.

The Group has adopted a comprehensive preventive approach on staff health and workplace safety, including illness and injury prevention. The Group has clear evacuation procedures to enable employees to take sensible and immediate action in case of fire. All employees of the Group shall give their unconditional support to build and maintain a healthy and smoke-free working environment. Smoking is absolutely prohibited in the office areas, toilets or staircase.

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

OPERATING PRACTICES

Supply Chain Management

The Group conveys its concern on environmental issues and expects its suppliers and business partners to implement the similar practices. The Group also serves to maintain long-term, stable and strategic cooperative relationships with leading suppliers, and co-develop with its suppliers on the basis of equality and win-win situation. In order to establish an effective, efficient and green supply chain system, the Group selects suppliers and service providers with good credit history, reputable, high quality product or service, proven track records of environmental compliance and sound commitment to social responsibility. The Group conducts regular performance reviews of its suppliers and service providers with an aim to effectively control its product and service quality.

Product and Service Responsibility

1. Trading of iron and steel products

Customers are always the Group's priority. The Group is committed to providing its customers with good quality products and customer services. In order to strengthen the product quality control, to maintain its credibility, and to protect the customer rights and interests, the Group follows stringent procedures in vendor management, and monitor and manage closely the product quality level and the suppliers' performance. In addition, the Group established a sound customer service system. Customer service representatives are responsible for promptly handling customer recalls and complaints matters.

2. Property investment

Tenants' satisfaction is vital to the Group's sustainable development and business growth in the long run. The Group is dedicated in providing high quality and professional services with the highest degree of integrity to its customers, and the Group always seeks to exceed its customers' expectation. The Group has formulated policies and procedures in achieving this aim. The Group values opinions from its tenants and offers proactive customer service.

The Group handles customers' and tenants' personal information with caution in accordance with the requirements under the Personal Data (Privacy) Ordinance in Hong Kong. For any confidential information obtained through business relationships, all employees are strictly prohibited to disclose any information to third parties without authority unless there is a legal or professional right or duty to do so. Employees are subject to disciplinary punishment in case of violations.

During the reporting period, there was no violation or non-compliance incident relating to product and service responsibility that had significant impact on the Group nor any complaints concerning breaches of customer or tenant privacy and loss of data.

OPERATING PRACTICES (continued)

Anti-corruption

Maintaining an ethical working environment is one of the Group's core values. The Group has adopted a zero-tolerance approach for all kinds of corruption, bribery and extortion situation. Therefore, the Group has established and implemented different policies and procedures, and job instructions to require directors, management and general staff to be honest, conducting business with high integrity and to follow the requirements in business ethics and culture in order to avoid any bribery. The Group has established and implemented whistle-blowing channel to ensure that the whistleblower can report incidences, such as abuse of power for personal gains, briberies, blackmailing, fraud and money laundering, in strict confidence. The Group is dedicated to anti-corruption and is willing to contribute to building a clean society.

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

COMMUNITY INVESTMENT

The Group is a responsible taxpayer and offers job opportunities to local people. The Group helps its employees to prepare and plan for their retirement by paying the "Five Insurances and Housing Provident Fund" for the employees in Mainland China and the "Mandatory Provident Fund" for the employees in Hong Kong. The Group runs its business with good practices, actively promote green energy-saving and environmental-friendly concepts, and achieve a good development order; and to some certain extent, the Group has contributed to social stability and building a harmonious community.

VISION OUTLOOK

As a good corporate citizen, the Group strives to strike a balance between achieving corporate missions and business objectives, and fulfilling social responsibility. The Group will continue to evaluate its 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 optimise measures to enhance employees' awareness in environmental protection and reduce the carbon emissions. Regarding employees' care, the Group will put its satisfaction and occupational health and workplace safety as top priority. The Group aims at attracting more talents with a competitive remuneration scheme. As for product and service quality, the Group always provides customers and tenants with high-quality products and services by continuously taking into account its customers' and tenants' opinions and feedback in making its operational decisions. 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 serves to enhance its business performance through the implementation of sustainable development strategies and generate more meaningful long-term value for the enterprise and its stakeholders.

SUMMARY OF ENVIRONMENTAL DATA AND PERFORMANCE

	Unit	Notes	2018	2017 (Restated) #
Greenhouse gas emissions:				
Scope 1:		1		
Total	Tonnes		**18.35**	10.80
Intensity	Tonnes (per no. of employee)		**0.73**	0.45
Scope 2:		2		
Total	Tonnes		**2.60**	1.84
Intensity	Tonnes (per no. of employee)		**0.10**	0.08
Air emissions:		1		
Nitrogen oxides	Tonnes		**1.56**	0.92
Sulfur oxides	Tonnes		**0.12**	0.07
Particles	Tonnes		**0.17**	0.10
Energy and water consumption:				
Electricity:		2		
Total	Kilowatt hours ("kWh")		**3,289.00**	2,331.00
Intensity	kWh (per no. of employee)		**131.56**	97.13
Petrol:		1		
Total	Tonnes		**5.91**	3.48
Intensity	Tonnes (per no. of employee)		**0.24**	0.15

Notes:

1 Scope 1 refers to the Group's business direct greenhouse gas ("GHG") emissions, including combustion of petrol. The increase in Scope 1 emission and air emissions in 2018 was mainly due to the increased petrol consumption by approximately 54.31%. Due to several substantial projects during the reporting period, the number of meetings held in the Group's office increased and the frequency of using company vehicles to pick up and drop off guests was increased accordingly. In addition, as the Hong Kong-Zhuhai-Macao Bridge opened to public in October 2018, the Group has started to pick up and drop off guests between Mainland China and Hong Kong office for the projects. Hence, the petrol used on shuttle service has increased, resulting in an increase in Scope 1 GHG emissions.

2 Scope 2 refers to the Group's business indirect GHG emissions, including consumption of purchased electricity. The increase in Scope 2 emission was due to the increase in electricity consumption by approximately 41.10% in 2018. Such increase was due to frequent and lengthy meetings held at conference room regarding a substantial project and led to increased electricity consumption during the reporting period.

Last year's figures were restated for comparative purpose.

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

General Disclosures and Key Performance Indicators ("KPIs")	Reporting Guide	Page No.
	A. Environmental	
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.	36
KPI A1.1	The types of emissions and respective emissions data.	41
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	41
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	N/A [1]
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	36
KPI A1.5	Description of measures to mitigate emissions and results achieved.	36
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	36
Aspect A2	**Use of Resources**	
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	36-37
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000) and intensity (e.g. per unit of production volume, per facility)	41
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	N/A [2]
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	36
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	36
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	N/A [1]
Aspect A3	**The Environment and Natural Resources**	
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources	37
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	37

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

General Disclosures and Key Performance Indicators ("KPIs")	Reporting Guide	Page No.
	B. Social [3]	
Aspect B1	**Employment and Labour Practices**	
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.	37-38
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.	38
Aspect B3	**Development and Training**	
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	38
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.	37-38
Aspect B5	**Supply Chain Management**	
General Disclosure	Policies on managing environmental and social risks of the supply chain.	39
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.	39

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

General Disclosures and Key Performance Indicators ("KPIs")	Reporting Guide	Page No.
	B. Social [3] (continued)	
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.	40
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.	40

Notes:

1 The ESG Report mainly covers the Group's principal activities in the trading of iron and steel products and related investment and property investment which do not involve any production process. Goods are delivered directly from suppliers to customers. No packaging material is used, and hence no solid waste or hazardous waste is generated from handling damaged goods.

2 The Group's water consumption mainly comes from its leased office, and no record of water consumption by the Group's leased unit is available from the property management company.

3 The Group elected not to disclosure 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 2018.

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 products, property investment (including the investment properties for rental income potential or for sale, and the proposed columbarium development in Hong Kong), iron and steel trading and investment holding activities. Details of the activities of the principal subsidiaries and associates are set out in notes 1 and 18 the financial statements respectively. 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 23 of this annual report. The discussion forms part of this directors' report.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2018 and the state of affairs of the Group at that date are set out in the financial statements on pages 62 to 175.

The Directors have resolved to recommend the payment of a final dividend of HK1.0 cent per Share to the Shareholders by way of distribution out of the contributed surplus. The final dividend, if approved by the Shareholders at the forthcoming AGM, will be paid on Tuesday, 25 June 2019 to the Shareholders whose names appear on the Company's register of members on Thursday, 13 June 2019.

MAJOR SUPPLIERS AND CUSTOMERS

In the year under review, purchases from the Group's five largest suppliers accounted for approximately 32% of the total purchases for the year and purchases from the largest supplier included therein amounted to 13%. Sales to the Group's five largest customers accounted for less than 30% 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.

Report of the Directors

SUMMARY OF FINANCIAL INFORMATION

The following table summarises the published results, assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate. This summary does not form part of the audited financial statements.

	Year ended 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
Revenue	**831,939**	1,228,065	1,164,549	1,102,813	1,473,181
Operating profit/(loss)	**(75,564)**	55,039	109,390	118,835	182,527
Share of profits and losses of associates, net	**(4,365)**	3,214	2,263	(3,954)	1,049
Profit/(loss) before tax	**(79,929)**	58,253	111,653	114,881	183,576
Income tax credit/(expenses)	**19,641**	(11,335)	(23,969)	(29,095)	(33,539)
Profit/(loss) for the year	**(60,288)**	46,918	87,684	85,786	150,037
ATTRIBUTABLE TO:					
Owners of the parent	**(25,091)**	37,516	87,666	86,354	149,192
Non-controlling interests	**(35,197)**	9,402	18	(568)	845
	(60,288)	46,918	87,684	85,786	150,037
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
Total assets	**2,297,187**	2,390,271	2,083,422	2,020,613	1,971,573
Total liabilities	**(661,102)**	(629,168)	(602,168)	(550,733)	(627,738)
Non-controlling interests	**(145,370)**	(191,618)	(3,618)	(3,843)	(4,596)
	1,490,715	1,569,485	1,477,636	1,466,037	1,339,239

PROPERTY, PLANT AND EQUIPMENT

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

INVESTMENT PROPERTIES

Details of movements in the investment properties of the Group during the year are set out in note 14 to the financial statements. Further details of the Group's investment properties are set out on pages 176 to 178.

PROPERTIES UNDER DEVELOPMENT

Details of movements in the properties under development of the Group during the year are set out in note 15 to the financial statements. Further details of the Group's properties under development are set out on page 179.

SHARE CAPITAL

Details of movements in the Company's share capital during the year, together with the reasons therefor, are set out in note 32 to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Bye-laws or the laws of Bermuda, 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 34 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

The distributable reserves of the Company as at 31 December 2018, calculated under The Companies Act, amount to HK$548,407,000. In addition, the Company's share premium account may be distributed in the form of fully paid bonus shares.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$352,000.

Report of the Directors

DIRECTORS

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

Executive Directors

Lam Ting Ball, Paul
Chong Chi Kwan

Non-executive Directors

Tsui Ho Chuen, Philip
Chan Wa Shek
Zhang Yulin
Hung Ting Ho, Richard

Independent Non-executive Directors

Wu Hong Cho
Danny T Wong
Zhang Xiaojing

In accordance with the Bye-laws, Mr. Chong Chi Kwan, having held office for three years since his last re-election, will offer himself for re-election at the forthcoming AGM. Mr. Tsui Ho Chuen, Philip, Mr. Chan Wa Shek and Mr. Hung Ting Ho, Richard 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				
Lam Ting Ball, Paul	77	Chairman	46	More than 46 years' experience in the paint industry
Chong Chi Kwan	51	Managing Director	13	More than 27 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
Non-executive Directors				
Tsui Ho Chuen, Philip	55	Non-executive Director	34	Qualified solicitor
Chan Wa Shek CBE, ISO	88	Non-executive Director	12	Former Commissioner of Correctional Services of Hong Kong
Zhang Yulin	55	Non-executive Director	12	More than 22 years' experience in finance and management
Hung Ting Ho, Richard	65	Non-executive Director	14	More than 40 years' experience in business and financial management
Independent Non-executive Directors				
Wu Hong Cho	73	Independent Non-executive Director	2	Practicing solicitor in Hong Kong with more than 11 years' experience in private practice
Danny T Wong	73	Independent Non-executive Director	15	More than 44 years' experience in finance, accounting and management
Zhang Xiaojing	64	Independent Non-executive Director	6	More than 36 years' experience in engineering and management

Senior management

The businesses of the Group are under the direct responsibility of two executive Directors, namely, Mr. Lam Ting Ball, Paul and Mr. Chong Chi Kwan, who are regarded as the senior management of the Company.

Notes:

(1) Mr. Lam Ting Ball, Paul is the chairman and a non-executive director of CPM Group Limited, a non-wholly owned subsidiary of the Company and a company listed on the Stock Exchange.

(2) Mr. Tsui Ho Chuen, Philip is the sole director and shareholder of Prime Surplus Limited, a substantial shareholder of the Company. He is also the managing director and an executive director of CPM Group Limited.

(3) Mr. Chong Chi Kwan is a non-executive director of CPM Group Limited.

(4) Mr. Zhang Yulin is a director and an employee of Broadsino Investment Company Limited, which is interested in 5.15% of the total number of Shares in issue of the Company.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Notes: (continued):

(5) Mr. Hung Ting Ho, Richard was a non-executive Director from 29 June 2002 to 5 June 2013 and has been appointed as a non-executive Director since 4 July 2016. Mr. Hung is an executive director and a joint managing director of Chuang's Consortium International Limited and a director of Profit Stability Investments Limited, a wholly-owned subsidiary of Chuang's Consortium International Limited. Chuang's Consortium International Limited, through Profit Stability Investments Limited, held an indirect interest of 60.71% in the equity of Chuang's China Investments Limited which in turn held 100% equity interest in Chinaculture.com Limited, a substantial shareholder of the Company. Mr. Hung was the former chairman and an executive director of Midas International Holdings Limited (now known as "Magnus Concordia Group Limited"), which was a subsidiary of Chuang's Consortium International Limited. Both Chuang's Consortium International Limited and Magnus Concordia Group Limited are companies listed on the Stock Exchange.

(6) Mr. Wu Hong Cho was an executive Director from July 1992 to January 2000 and has been appointed as an independent non-executive Director since 19 July 2017.

CHANGE IN DIRECTORS' INFORMATION

There is no change in the information of the Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules except the changes in the Directors' remuneration which are set out in note 8 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.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Mr. Hung Ting Ho, Richard, a non-executive Director, holds directorship in Chuang's Consortium International Limited, a company listed on the Stock Exchange, and directorships in certain private companies (the "Private Companies"). Chuang's Consortium International Limited and the Private Companies engage in the businesses of property development and investment in Hong Kong and the PRC. As the above-mentioned businesses are managed by separate companies with independent management and the properties owned by Chuang's Consortium International Limited and the Private Companies are of different types and/or in different locations from those of the Group, the Group is capable of operating its businesses independently of, and at arm's length from, the businesses of the above-mentioned companies. Save as disclosed above, 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

Save as disclosed in the section headed "Share Options" below, 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 Bye-laws, 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 throughout the year.

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, save as disclosed in the section headed "Share Options" below.

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

As at 31 December 2018, the interests of the Directors in the Shares and underlying shares of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the SFO were as follows:

		Number of Shares					
Name	**Capacity**	**Personal interests**	**Family interests**	**Corporate interests**	**Other interests**	**Total**	**Percentage of the total number of Shares in issue**
Tsui Ho Chuen, Philip	Interest of controlled corporation	–	–	498,053,620 (Note)	–	498,053,620	26.16%

Note: The 498,053,620 Shares were beneficially owned by Prime Surplus Limited. Mr. Tsui Ho Chuen, Philip is the sole director and shareholder of Prime Surplus Limited.

Save as disclosed above, as at 31 December 2018, 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.

SHARE OPTIONS

The Company's existing Share Option Scheme was adopted on 28 June 2012. Its key terms are summarised below:

(i) The purpose of the Share Option Scheme is to provide the Company with a flexible and effective means to recognise and acknowledge the contributions which the participants of the Share Option Scheme have made or will make to the Group and to provide the participants with an opportunity to have a personal stake in the Company and a direct economic interest with a view to providing rewards, motivations or incentives to the participants for recognition of their contributions to the Group and to utilise their performance and efficiency and to make contributions for the benefit of the Group, retaining the existing employees and recruiting additional human resources that are valuable to the Group for attaining the long-term development and growth of the Group, and building of common objectives of the Group and the participants for the betterment of business and profitability of the Group.

(ii) The participants of the Share Option Scheme include any employee, proposed employee, director, supplier, customer and securities holder of the Company, its subsidiaries or any entity in which the Group holds an equity interest; any person or entity that provides research, development or other technological support to such companies; any adviser or consultant to any area of business or business development of such companies; and any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group.

SHARE OPTIONS (continued)

(iii) The total number of Shares available for issue under the Share Option Scheme is 188,840,569 which represents 9.92% of the total number of Shares in issue as at the date of this report.

(iv) The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other schemes of the Company (including the exercised, cancelled and outstanding options) to each participant in any 12-month period must not exceed 1% of the total number of Shares in issue for the time being unless it is separately approved by the Shareholders in general meeting.

(v) An option may be exercised in accordance with the terms of the Share Option Scheme at any time during the period for the exercise of an option to be notified by the Board to the grantee and such period shall be determined by the Board in its discretion, but in any event such period shall not be more than 10 years from the date of grant.

(vi) The subscription price of a Share in respect of any option granted shall be determined by the Board at its absolute discretion provided that it shall not be less than the highest of: (a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (b) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant; and (c) the nominal value of the Shares.

(vii) The Share Option Scheme remains in force until 27 June 2022.

No share option has so far been granted under the Share Option Scheme since its adoption.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 31 December 2018, the register maintained by the Company under Section 336 of the SFO and the public information showed that the following persons (other than the Directors) had interests in the Shares and underlying shares of the Company:

Name	Notes	**Capacity**	**Number of Shares**	**Number of underlying shares** (unlisted and physically settled equity derivative)	**Percentage of the total number of Shares in issue**
10% or more of the total Shares in issue					
Prime Surplus Limited	1	Beneficial owner	498,053,620	–	26.16%
Ho Mei Po, Mabel	2	Interest of spouse	498,053,620	–	26.16%
Chinaculture.com Limited	3	Beneficial owner	364,689,655	–	19.16%
Chuang's China Investments Limited	3	Interest of controlled corporation	364,689,655	–	19.16%
Profit Stability Investments Limited	3	Interest of controlled corporations	364,689,655	–	19.16%
Chuang's Consortium International Limited	3	Interest of controlled corporations	364,689,655	–	19.16%
Evergain Holdings Limited	3	Interest of controlled corporations	364,689,655	–	19.16%
Chong Shaw Swee, Alan	3	Interest of controlled corporations	364,689,655	–	19.16%
Chong Ho Pik Yu	3	Interest of spouse	364,689,655	–	19.16%
Below 10% of the total Shares in issue					
Broadsino Investment Company Limited	4	Beneficial owner	98,000,000	–	5.15%
Rapid Growth Ltd.	5	Trustee	–	98,000,000	5.15%
Polygold Holdings Limited	5	Interest of controlled corporation	–	98,000,000	5.15%
Xie Jian Ming	5	Interest of controlled corporations	–	98,000,000	5.15%

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO (continued)

Notes:

(1) The 498,053,620 Shares were beneficially owned by Prime Surplus Limited. This interest is duplicated in the interests of Mr. Tsui Ho Chuen, Philip as disclosed in the section headed "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" above.

(2) Ms. Ho Mei Po, Mabel is the wife of Mr. Tsui Ho Chuen, Philip and was taken to be interested in 498,053,620 Shares in which her spouse was interested under the SFO.

(3) The references to the 364,689,655 Shares relate to the same block of 364,689,655 Shares beneficially interested by Chinaculture.com Limited.

Chinaculture.com Limited was a wholly-owned subsidiary of Chuang's China Investments Limited, which in turn was a 60.71% owned subsidiary of Profit Stability Investments Limited. Chuang's Consortium International Limited held 100% equity interest in Profit Stability Investments Limited. Evergain Holdings Limited was interested in 46.49% of the issued share capital of Chuang's Consortium International Limited. Mr. Chong Shaw Swee, Alan was interested in 100% of the issued share capital of Evergain Holdings Limited. Mrs. Chong Ho Pik Yu is the wife of Mr. Chong Shaw Swee, Alan.

Chuang's China Investments Limited, Profit Stability Investments Limited, Chuang's Consortium International Limited, Evergain Holdings Limited, Mr. Chong Shaw Swee, Alan and Mrs. Chong Ho Pik Yu were all deemed under the SFO to be interested in these 364,689,655 Shares which were owned by Chinaculture.com Limited.

(4) These Shares were beneficially owned by Broadsino Investment Company Limited. Pursuant to an option granted by Rapid Growth Ltd., Broadsino Investment Company Limited has a right to sell all or part of these Shares to Rapid Growth Ltd. exercisable at any time during the term of the option.

(5) The references to the interests in 98,000,000 underlying shares of the Company relate to the same block of 98,000,000 underlying shares of the Company interested by Rapid Growth Ltd. by virtue of an option granted by Rapid Growth Ltd. to Broadsino Investment Company Limited as disclosed in note (4) above.

Rapid Growth Ltd. was a wholly-owned subsidiary of Polygold Holdings Limited, which in turn was wholly owned by Mr. Xie Jian Ming.

Polygold Holdings Limited and Mr. Xie Jian Ming were all deemed under the SFO to be interested in these 98,000,000 underlying shares of the Company which were taken to be interested by Rapid Growth Ltd..

Save as disclosed above, the Company has not been notified by any person (other than the Directors) who had interests or short positions in the Shares or underlying shares of the Company as at 31 December 2018 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.

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 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
CNT Group Limited

Lam Ting Ball, Paul
Chairman
Hong Kong, 28 March 2019

EY 安永

To the shareholders of CNT Group Limited
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of CNT Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 62 to 175, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements section* of our report. We 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 Matters	How our audit addressed the Key Audit Matters
Expected credit losses ("ECL") for trade receivables	
As at 31 December 2018, the Group recorded trade receivables of HK$542.9 million before loss allowance of HK$92.0 million. The Group has adopted HKFRS 9 on its mandatory effective date of 1 January 2018. The key change arising from the adoption of HKFRS 9 is that the Group's loss allowance on trade receivables is now estimated based on an expected credit loss model rather than an incurred loss model. Significant management judgement and estimation were required in assessing the ECL for the trade receivables, with reference to the grouping of various customer segments, ageing profile of the trade receivable balances, and past repayment history of customers and forecast economic conditions. Disclosures in relation to trade receivables are included in note 3 – Significant accounting judgments and estimates and note 23 – Trade and bills receivables to the financial statements.	Our audit procedures included understanding and assessing the Group's policy on determining the loss allowance in accordance with the requirements of HKFRS 9, including an evaluation of management judgements on (i) the level of disaggregation of categories for collective assessment; and (ii) the use of available credit risk information, including historical and forward-looking information. We have reviewed management's assumptions used to determine the ECL through testing of the underlying information on the ageing reports generated by the Group's financial reporting system and assessing the repayment history of the debtors as well as the forward-looking factors with reference to the related publicly available information. We also assessed the related disclosures in the consolidated financial statements.
Fair value of investment properties	
As at 31 December 2018, investment properties measured at fair values amounted to approximately HK$800.0 million, with a corresponding fair value gain of HK$90.8 million recognised in profit or loss. The valuation process is inherently subjective and dependent on a number of estimates. The Group has engaged an independent professional valuer to perform the valuation of the investment properties. Disclosures in relation to the investment properties are included in note 3 – Significant accounting judgments and estimates and note 14 – Investment properties to the financial statements.	As part of our audit procedures, we have considered the objectivity, independence and competence of the valuer. We have assessed the valuation methodology adopted and the assumptions used by the valuer, and performed market value benchmarking against comparable properties. Our internal valuation experts were also involved to assist us in evaluating the methodologies adopted and the assumptions used by the valuer for valuation of investment properties held by the Group. We also assessed the related disclosures in the consolidated financial statements.

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, in accordance with section 90 of the Bermuda Companies Act 1981, 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 2019

Consolidated Statement of Profit or Loss

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
REVENUE	5	**831,939**	1,228,065
Cost of sales		**(653,486)**	(880,595)
Gross profit		**178,453**	347,470
Other income and gains, net	5	**18,273**	14,459
Selling and distribution expenses		**(167,943)**	(171,292)
Administrative expenses		**(138,385)**	(134,658)
Other expenses, net		**(49,912)**	(26,494)
Fair value gains on investment properties, net	14	**90,773**	27,799
Finance costs	7	**(6,823)**	(2,245)
Share of profits and losses of associates, net		**(4,365)**	3,214
PROFIT/(LOSS) BEFORE TAX	6	**(79,929)**	58,253
Income tax credit/(expense)	10	**19,641**	(11,335)
PROFIT/(LOSS) FOR THE YEAR		**(60,288)**	46,918
ATTRIBUTABLE TO:			
Owners of the parent		**(25,091)**	37,516
Non-controlling interests		**(35,197)**	9,402
		(60,288)	46,918
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic and diluted		**HK(1.32) cents**	HK1.97 cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
PROFIT/(LOSS) FOR THE YEAR		**(60,288)**	46,918
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(42,610)**	54,883
Share of other comprehensive income of an associate		**166**	295
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods		**(42,444)**	55,178
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Changes in fair value of equity investments designated at fair value through other comprehensive income		**15,628**	–
Gain on property revaluation		**18,746**	–
Income tax effect		**(1,601)**	–
		17,145	–
Remeasurement of net pension scheme assets	21	**(687)**	2,176
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods		**32,086**	2,176
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**(10,358)**	57,354
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**(70,646)**	104,272
ATTRIBUTABLE TO:			
Owners of the parent		**(28,981)**	87,403
Non-controlling interests		**(41,665)**	16,869
		(70,646)	104,272

Consolidated Statement of Financial Position

31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**292,731**	276,075
Investment properties	14	**799,978**	683,923
Properties under development	15	**28,000**	28,000
Prepaid land lease payments	16	**85,571**	19,232
Intangible assets	17	**805**	–
Interests in associates	18	**9,599**	15,360
Equity investments designated at fair value through other comprehensive income	19	**91,710**	–
Available-for-sale investments	19	**–**	92,083
Deposits for purchases of properties, plant and equipment, and investment properties	20	**12,269**	14,228
Net pension scheme assets	21	**3,687**	4,421
Deferred tax assets	30	**19,327**	5,617
Total non-current assets		**1,343,677**	1,138,939
CURRENT ASSETS			
Inventories	22	**79,079**	79,930
Trade and bills receivables	23	**479,025**	724,086
Prepayments, deposits and other receivables	24	**92,724**	60,044
Tax recoverable		**1,761**	1,233
Pledged deposits	25	**5,055**	3,269
Cash and cash equivalents	25	**295,866**	382,770
Total current assets		**953,510**	1,251,332
CURRENT LIABILITIES			
Trade and bills payables	26	**226,374**	304,705
Other payables and accruals	27	**115,367**	126,500
Due to an associate	18	**2,800**	2,800
Interest-bearing bank and other borrowings	28	**270,121**	132,525
Tax payable		**12,574**	16,892
Total current liabilities		**627,236**	583,422
NET CURRENT ASSETS		**326,274**	667,910
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,669,951**	1,806,849

Consolidated Statement of Financial Position

31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,669,951**	1,806,849
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	28	**646**	1,026
Deferred tax liabilities	30	**31,412**	42,505
Deferred income	31	**1,808**	2,215
Total non-current liabilities		**33,866**	45,746
Net assets		**1,636,085**	1,761,103
EQUITY			
Equity attributable to owners of the parent			
Issued capital	32	**190,369**	190,369
Reserves	34	**1,300,346**	1,379,116
		1,490,715	1,569,485
Non-controlling interests		**145,370**	191,618
Total equity		**1,636,085**	1,761,103

Lam Ting Ball, Paul
Director

Chong Chi Kwan
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2018

		Attributable to owners of the parent											
	Notes	Issued share capital HK$'000 (note 32)	Share premium account HK$'000	Contributed surplus HK$'000	Leasehold land and building revaluation reserve HK$'000	Investment property 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 interests HK$'000	Total equity HK$'000
At 1 January 2017		190,369	88,970	265,925	249,069	13,557	10,144	(47,804)	30,822	676,584	1,477,636	3,618	1,481,254
Profit for the year		–	–	–	–	–	–	–	–	37,516	37,516	9,402	46,918
Other comprehensive income for the year:													
Remeasurement of net pension scheme assets	21	–	–	–	–	–	–	–	–	2,176	2,176	–	2,176
Share of other comprehensive income of an associate		–	–	–	–	–	–	223	72	–	295	–	295
Exchange differences on translation of foreign operations		–	–	–	–	–	–	47,416	–	–	47,416	7,467	54,883
Total comprehensive income for the year		–	–	–	–	–	–	47,639	72	39,692	87,403	16,869	104,272
Deemed partial disposal of interest in a subsidiary	37	–	–	11,427	(1,622)	–	(2,621)	4,263	(7,217)	19,253	23,483	171,131	194,614
Final 2016 dividend declared and paid	11	–	–	(19,037)	–	–	–	–	–	–	(19,037)	–	(19,037)
At 31 December 2017		190,369	88,970#	258,315#	247,447#	13,557#	7,523#	4,098#	23,677#	735,529#	1,569,485	191,618	1,761,103

Consolidated Statement of Changes in Equity

Year ended 31 December 2018

	Notes	Attributable to owners of the parent												
		Issued share capital HK$'000 (note 32)	Share premium account HK$'000	Contributed surplus HK$'000	Leasehold land and building revaluation reserve HK$'000	Investment property revaluation reserve* HK$'000	General reserve HK$'000	Exchange fluctuation reserve HK$'000	Fair value reserve (non-recycling) HK$'000	Reserve funds** HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 31 December 2017		190,369	88,970	258,315	247,447	13,557	7,523	4,098	-	23,677	735,529	1,569,485	191,618	1,761,103
Effect of adoption of HKFRS 9	2.2	-	-	-	-	-	-	-	(155,297)	-	124,545	(30,752)	(4,583)	(35,335)
At 1 January 2018 (restated)		190,369	88,970	258,315	247,447	13,557	7,523	4,098	(155,297)	23,677	860,074	1,538,733	187,035	1,725,768
Loss for the year		-	-	-	-	-	-	-	-	-	(25,091)	(25,091)	(35,197)	(60,288)
Other comprehensive income/(loss) for the year:														
Change in fair value of equity investments designated at fair value through other comprehensive income		-	-	-	-	-	-	-	15,628	-	-	15,628	-	15,628
Gain on property revaluation, net of tax		-	-	-	17,145	-	-	-	-	-	-	17,145	-	17,145
Remeasurement of net pension scheme assets	21	-	-	-	-	-	-	-	-	-	(687)	(687)	-	(687)
Share of other comprehensive income of an associate		-	-	-	-	-	-	94	-	72	-	166	-	166
Exchange differences on translation of foreign operations		-	-	-	-	-	-	(36,142)	-	-	-	(36,142)	(6,468)	(42,610)
Total comprehensive income/(loss) for the year		-	-	-	17,145	-	-	(36,048)	15,628	72	(25,778)	(28,981)	(41,665)	(70,646)
Final 2017 dividend declared and paid	11	-	-	(19,037)	-	-	-	-	-	-	-	(19,037)	-	(19,037)
At 31 December 2018		190,369	88,970#	239,278#	264,592#	13,557#	7,523#	(31,950)#	(139,669)#	23,749#	834,296#	1,490,715	145,370	1,636,085

* The investment property revaluation reserve represents the attributable revaluation surplus in respect of the leasehold land and buildings which were reclassified as investment properties prior to 1 January 2000. This revaluation reserve arose when the properties were classified as land and buildings, and therefore is not available to offset subsequent revaluation deficits arising on the investment properties. The revaluation reserve is transferred to retained profits only upon the disposal or retirement of the relevant assets and such transfer is not made in the consolidated statement of profit or loss.

** Pursuant to the relevant laws and regulations for foreign investment enterprises, a portion of the profits of certain subsidiaries and an associate of the Group established 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$1,300,346,000 (2017: HK$1,379,116,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**(79,929)**	58,253
Adjustments for:			
Finance costs	7	**6,823**	2,245
Share of profits and losses of associates, net		**4,365**	(3,214)
Bank interest income	5	**(1,961)**	(1,352)
Depreciation	6	**22,068**	20,795
Amortisation of intangible assets	6	**459**	–
Amortisation of prepaid land lease payments	6	**1,364**	513
Recognition of deferred income	5	**(305)**	(295)
Loss on disposal of items of property, plant and equipment, net	6	**25**	61
Write-off of items of property, plant and equipment	6	**297**	558
Fair value gains on investment properties, net	14	**(90,773)**	(27,799)
Fair value gains on structured deposits	5	**–**	(762)
Dividend income from an equity investment designated at fair value through other comprehensive income/an available-for-sale investment	5	**(240)**	(240)
Impairment of trade receivables	6	**31,704**	7,967
Impairment of an available-for-sale investment	6	**–**	4,000
Write-down/(write-back) of inventories to net realisable value	6	**342**	(2,841)
Net pension benefit expenses	21	**47**	127
		(105,714)	58,016
Decrease/(increase) in inventories		**(3,566)**	7,952
Decrease/(increase) in trade and bills receivables		**158,514**	(199,123)
Increase in prepayments, deposits and other receivables		**(33,790)**	(11,989)
Increase/(decrease) in trade and bills payables		**(64,681)**	73,552
Decrease in other payables and accruals		**(15,979)**	(29,038)
Exchange realignment		**9,908**	(6,727)
Cash used in operations		**(55,308)**	(107,357)
Interest paid		**(6,533)**	(2,163)
Interest element of finance lease rental payments		**(59)**	(78)
Overseas taxes paid		**(5,941)**	(8,479)
Hong Kong profits tax paid		**(1,552)**	(6,340)
Net cash flows used in operating activities		**(69,393)**	(124,417)

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(24,977)**	(16,282)
Proceeds from disposal of items of property, plant and equipment		**364**	79
Additions to investment properties	14	**(747)**	–
Investments in structured deposits		**–**	(165,055)
Proceeds from structured deposits		**–**	266,131
Acquisition of assets through acquisition of subsidiaries	36	**(99,471)**	–
Interest received		**1,975**	1,346
Dividend received from an associate		**1,563**	–
Dividend received from an equity investment designated at fair value through other comprehensive income/available-for-sale investment		**240**	240
Deposits paid for purchases of properties, plant and equipment, and investment properties	20	**(5,084)**	(6,389)
Decrease/(increase) in pledged time deposits with original maturity of less than three months when acquired		**(1,569)**	961
Increase in time deposits with original maturity of more than three months when acquired		**(439)**	(1,962)
Net cash flows from/(used in) investing activities		**(128,145)**	79,069
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceed from issue of new shares of a subsidiary	37	**–**	198,441
New bank loans		**309,425**	178,574
Repayment of bank loans		**(168,728)**	(210,581)
Dividend paid		**(19,037)**	(19,037)
Capital element of finance lease rental payments		**(401)**	(384)
Net cash flows from financing activities		**121,259**	147,013
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(76,279)**	101,665
Cash and cash equivalents at beginning of year		**382,770**	266,377
Effect of foreign exchange rate changes, net		**(10,625)**	14,728
CASH AND CASH EQUIVALENTS AT END OF YEAR		**295,866**	382,770
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	25	**253,407**	257,169
Non-pledged time deposits with original maturity of less than three months when acquired	25	**42,459**	125,601
Cash and cash equivalents as stated in the consolidated statement of financial position and the consolidated statement of cash flows		**295,866**	382,770

1. CORPORATE AND GROUP INFORMATION

CNT Group Limited is a limited liability company incorporated in Bermuda. The principal place of business of the Company is located at Unit E, 28th Floor, CNT Tower, 338 Hennessy Road, Wanchai, Hong Kong.

During the year, the Company and its subsidiaries (the "Group") were involved in the following principal activities:

- manufacture and sale of paint products
- trading of iron and steel products and related investments
- property investment (including the investment in properties for rental income potential or for sale, and the proposed columbarium development in Hong Kong)

The subsidiaries of the Company were also involved in investment holding activities.

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	–	75	Manufacture and sale of paint products and investment holding
The China Paint Manufacturing (Shenzhen) Co., Ltd.#*	PRC/ Mainland China	HK$70,000,000	–	75	Manufacture and sale of paint products
The China Paint Mfg. Co., (Xinfeng) Ltd.#*	PRC/ Mainland China	US$13,000,000	–	75	Manufacture and sale of paint products
AVANZAR Media Limited*	Hong Kong	HK$2	–	100	Investment holding
China Molybdenum & Vanadium Development Limited	Hong Kong	HK$1,000	–	75	Investment holding
China Utilities Limited*	British Virgin Islands ("BVI")	US$1	–	100	Investment holding
CNT Enterprises Limited*	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
CNT Finance Company Limited	Hong Kong	HK$2	–	100	Fund management
CNT Investments (BVI) Limited*	BVI	US$159,705	100	–	Investment holding
CNT Iron And Steel Limited*	BVI	US$1,566,804	100	–	Investment holding
CNT Iron And Steel Trading Company Limited	Hong Kong	HK$2	–	100	Trading of iron and steel products and investment holding
CNT-Jialing Investments Limited	Hong Kong	HK$10,000,000	–	100	Property investment
CNT Management and Secretaries Limited*	Hong Kong	HK$2	–	100	Provision of management and consultant services and investment holding
CNT Property Limited	Hong Kong	HK$100,000	–	100	Property investment
CNT Resene (Distribution) Limited	Hong Kong	HK$1	–	75	Sale of paint products
CNT Resene Limited	Hong Kong	HK$2	–	75	Manufacture and sale of paint products and investment holding
CNT (BVI) Limited*	BVI	US$1	100	–	Investment holding
Conley Investment Limited	Hong Kong	HK$2	–	100	Property investment
CP Industries (BVI) Limited*	BVI	US$1,635,512	–	75	Investment holding
CPM Group Limited	Cayman Islands	HK$100,000,000	–	75	Investment holding
Dongola Holdings Limited*	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
Fan Ball Development Limited	Hong Kong	HK$10,000	–	100	Property investment and investment holding
Giraffe Paint Mfg. Co., (Shanghai) Ltd.#*	PRC/ Mainland China	US$4,000,000	–	75	Sale of paint products
Giraffe Paint Mfg. Co., (Xuzhou) Ltd.#*	PRC/ Mainland China	US$2,000,000	–	75	Manufacture and sale of paint products and property investment
Hubei Giraffe Paint Mfg. Co., Ltd.##*	PRC/ Mainland China	RMB40,000,000	–	67.9	Manufacture and sale of paint products
Joyous Cheer Limited	Hong Kong	HK$1	–	100	Proposed columbarium development
Majority Faith Corporation*	BVI	US$1	–	75	Investment holding
Profit Source Limited	Hong Kong	HK$2	–	100	Securities investment and investment holding
Rainbow Path Enterprises Limited*	Hong Kong	HK$1,000	–	100	Investment holding
Rich Union Properties Limited	Hong Kong	HK$2	–	100	Investment holding
R, J & Thomas Secretaries Limited	Hong Kong	HK$30,000	–	75	Investment holding
Tatpo Corporation Limited*	Liberia	US$20,872	100	–	Investment holding
Top Dreamer Limited*	BVI	US$1	–	75	Investment holding
Venture Decade Limited*	BVI	US$1	–	100	Investment holding
廣州市維美雲石有限公司#*	PRC/ Mainland China	HK$50,975,000	–	100	Property investment

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
海諾威特種塗料(新豐)有限公司#*	PRC/ Mainland China	RMB5,000,000	–	100	Property investment
北海鋼鐵(深圳)有限公司#*	PRC/ Mainland China	RMB10,000,000	–	100	Trading of iron and steel products
深圳北海裕聯投資咨詢有限公司#*	PRC/ Mainland China	RMB6,000,000	–	100	Investment holding
中山市永成化工有限公司#*	PRC/ Mainland China	RMB64,901,999	–	75	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 equity joint venture registered under PRC law

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 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 investment properties, equity investments 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.

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2018. 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.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from 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 interests, even if this results in the non-controlling interests 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 consolidation.

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 or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

Except for the amendments to HKFRS 4 and *Annual Improvements 2014-2016 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) Amendments to HKFRS 2 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 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. The amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

With the exception of hedge accounting, which the Group has applied prospectively, the Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECLs").

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

		HKAS 39 Measurement		Re-		Re-	HKFRS 9 Measurement	
		Category	Amount	classification	ECL	measurement	Amount	Category
	Notes		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	
Financial assets								
Equity investments designated at fair value through other comprehensive income		N/A	–	92,083	–	(12,514)	79,569	FVOCI[1]
From: Available-for-sale investments	(i)			92,083	–	–		
Available-for-sale investments		AFS[2]	92,083	(92,083)	–	–	–	N/A
To: Equity investment designated at fair value through other comprehensive income	(i)			(92,083)	–	–	–	
Trade and bills receivables	(ii)	L&R[3]	724,086	–	(25,356)	–	698,730	AC[4]
Financial assets included in prepayments, deposits and other receivables		L&R	49,873	–	(700)	–	49,173	AC
Pledged deposits		L&R	3,269	–	–	–	3,269	AC
Cash and cash equivalents		L&R	382,770	–	–	–	382,770	AC
			1,252,081	–	(26,056)	(12,514)	1,213,511	

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) (continued)

Classification and measurement (continued)

	HKAS 39 Measurement		Re-classification	ECL	Re-measurement	HKFRS 9 Measurement	
	Category	Amount				Amount	Category
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	
Financial liabilities							
Trade and bills payables	AC	304,705	–	–	–	304,705	AC
Financial liabilities included in other payables and accruals	AC	59,748	–	–	–	59,748	AC
Interest-bearing bank and other borrowings	AC	133,551	–	–	–	133,551	AC
Due to an associate	AC	2,800	–	–	–	2,800	AC
		500,804	–	–	–	500,804	

1 FVOCI: Financial assets at fair value through other comprehensive income
2 AFS: Available-for-sale investments
3 L&R: Loans and receivables
4 AC: Financial assets or financial liabilities at amortised cost

Notes:

(i) The Group has elected the option to irrevocably designate all of its previous available-for-sale investments which were measured at cost less impairment as equity investments designated at fair value through other comprehensive income. Such measurement has measured at fair value as at 1 January 2018 with fair value changes recognised in the fair value reserve (non-recycling) of the Statement of Changes in Equity.

(ii) The gross carrying amounts of the trade and bills receivables under the column "HKAS 39 Measurement – Amount" represent the amounts after adjustments for the adoption of HKFRS 15 but before the measurement of ECLs.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) (continued)

Impairment

The following table reconciles the aggregate opening impairment allowances under HKAS 39 to the ECL allowances under HKFRS 9. Further details are disclosed in notes 23 and 24 to the financial statements.

	Impairment allowances under HKAS 39 at 31 December 2017 HK$'000	Re-measurement HK$'000	ECL allowances under HKFRS 9 at 1 January 2018 HK$'000
Trade receivables	38,401	25,356	63,757
Financial assets included in prepayments, deposits and other receivables	1,366	700	2,066
	39,767	26,056	65,823

Impact on reserves and retained profits

The impact of transition to HKFRS 9 on reserves and retained profits is as follows:

	Retained profits HK$'000	Fair value reserve (non-recycling) HK$'000	Non-controlling interests HK$'000
Balance as at 31 December 2017 under HKAS 39	735,529	–	191,618
Remeasurement of equity investments designated at fair value through other comprehensive income previously classified as available-for-sale investments measured at cost less impairment under HKAS 39	142,783	(155,297)	–
Recognition of expected credit losses for trade receivables under HKFRS 9	(19,964)	–	(5,392)
Recognition of expected credit losses for financial assets included in prepayments, deposits and other receivables under HKFRS 9	(700)	–	–
Deferred tax in relation to the above	2,426	–	809
Balance as at 1 January 2018 under HKFRS 9	860,074	(155,297)	187,035

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(c) HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 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 disclosures are included in note 5 to the financial statements. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the financial statements.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The cumulative effect of the initial application of HKFRS 15 was recognised as an adjustment to the opening balance of retained profits as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 11, HKAS 18 and related interpretations.

The impact arising from the adoption of HKFRS 15 on the Group are summarised as follows:

Classification of consideration received from customers in advance

Before the adoption of HKFRS 15, the Group recognised consideration received from customers in advance as receipts in advance included in other payables and accruals. Under HKFRS 15, the amount is classified as contract liabilities which is also included in other payables and accruals.

Therefore, upon adoption of HKFRS 15, the Group reclassified HK$2,489,000 from receipts in advance to contract liabilities as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018.

As at 31 December 2018, under HKFRS 15, HK$2,409,000 was reclassified from other payables to contract liabilities in relation to the consideration received from customers in advance for the sales of industrial products.

The Group has assessed its performance obligations under its arrangements pursuant to HKFRS 15 and has concluded that the adoption of HKFRS 15 does not have a significant impact and thus, no adjustment was made to the opening balance of retained profits at 1 January 2018.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(d) Amendments to HKAS 40 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 have had no impact on the financial position or performance of the Group.

(e) HK(IFRIC)-Int 22 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. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

2.3 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 3	*Definition of a Business*[2]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

2.3 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.

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020.

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.

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

HKFRS 16 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 will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. As at 31 December 2018, the Group has non-cancellable operating lease commitments of approximately HK$1,120,000 as disclosed in note 40(b). The Group currently is still assessing whether, upon adoption of HKFRS 16, certain amounts included therein will need to be recognised as new right-of-use assets and lease liabilities. Further detailed analysis, however, will be needed to determine the amount of new right-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.

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

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

HK(IFRIC)-Int 23 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's interests in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates.

Fair value measurement

The Group measures its investment properties, equity investments, structured deposits 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.

2.4 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, net pension scheme assets, financial assets and investment properties), 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, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued 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.

2.4 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.

2.4 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 or valuation 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 or valuation 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is dealt with as movements in the leasehold land and building revaluation reserve. For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the statement of profit or loss.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Patents and licences

Purchased patents and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 1 to 3 years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Properties under development

Properties under development are stated at the lower of cost and net realisable value. Cost includes all development expenditure, capitalised interest and other direct costs attributable to such properties.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 (policies under HKFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade and bills receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade and bills receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) (continued)

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

The Group measures debt investments at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

Financial assets at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) (continued)

Subsequent measurement (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. 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.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018) (continued)

Subsequent measurement (continued)

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.

Available-for-sale financial investments

Available-for-sale financial investments of the Group are non-derivative financial assets in unlisted equity investments. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are one year past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018) (continued)

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018) (continued)

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

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

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss (policies under HKFRS 9 applicable from 1 January 2018)

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 incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKFRS 9. 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 as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in HKFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in the statement of profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018) (continued)

Subsequent measurement (continued)

Financial liabilities at fair value through profit or loss (policies under HKAS 39 applicable before 1 January 2018)

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 (policies under HKFRS 9 applicable from 1 January 2018)

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 contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018) (continued)

Subsequent measurement (continued)

Financial guarantee contracts (policies under HKAS 39 applicable before 1 January 2018)

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: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Derecognition of financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

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 (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

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.

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 statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

2.4 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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.

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. Where 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (applicable from 1 January 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

Sale of industrial products (paint products and iron and steel products)

Revenue from the sale of industrial products is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the industrial products.

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms.

Other income

Interest income is recognised 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.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (applicable before 1 January 2018)

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) rental income, on a time proportion basis over the lease terms;

(c) 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

(d) commission income, in the period in which the related services are rendered.

Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the binomial option pricing model or other appropriate pricing models.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense it recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options, if any, is reflected as additional share dilution in the computation of earnings per share.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other 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; and

- 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other employee benefits (continued)

Pension schemes and other retirement benefits (continued)

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.

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.

Dividend

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 of association and bye-laws 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).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

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.

3. 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.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

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.

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type and customer type and rating).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 23 to the financial statements.

Estimation of fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location (or subject to different leases or other contracts), adjusted to reflect those differences;

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the dates of the transactions that occurred at those prices; and

(c) the income capitalisation method based on the capitalisation of existing rental income and reversionary market rental income, supported by the market rentals expected by investors for similar properties in the neighbourhood and by the market yield derived from analysing the sales transactions of similar properties.

The carrying amount of investment properties at 31 December 2018 was HK$799,978,000 (2017: HK$683,923,000). Further details, including the key assumptions used for fair value measurement, are given in note 14 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Fair value of unlisted equity investments

The unlisted equity investments have been valued based on a market-based valuation technique as detailed in note 19 to the financial statements. The valuation requires the Group to determine the comparable public companies (peers) and select the price multiple. In addition, the Group makes estimates about the discount for illiquidity and size differences. The Group classifies the fair value of these investments as Level 2 and 3. The fair value of the unlisted equity investments at 31 December 2018 was HK$91,710,000 (1 January 2018: HK$79,569,000). Further details are included in note 19 to the financial statements.

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.

Provision and 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 taxes are 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.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

(a) the paint products segment engages in the manufacture and sale of paint products;

(b) the property investment segment comprises:

  (i) the investment in residential, commercial and industrial premises for their rental income potential; and

  (ii) the development and sale of properties;

(c) the iron and steel trading segment comprises the trading of iron and steel products and related investments; and

(d) the others segment comprises, principally, investment holding.

The chief operating decision-maker regularly reviews the operating results of the Group's operating segments separately for the purpose of resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit/loss before tax except that interest income, fair value gains on structured deposits, finance costs, as well as head office and corporate expenses are excluded from such measurement.

In the context of fine tuning our resources allocation and performance assessment in 2018, the definition of segment assets and segment liabilities was adjusted retrospectively beginning in 2017, and includes cash and cash equivalents, pledged deposits, deferred tax assets or liabilities, net pension scheme assets, tax recoverable or payable and interest-bearing bank and other borrowings. Accordingly, segment assets and segment liabilities in 2017 have been adjusted and the adjustments affected all segments.

Segment assets exclude unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted on mutually agreed terms.

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2018	Paint products HK$'000	Property investment HK$'000	Iron and steel trading HK$'000	Others HK$'000	Total HK$'000
Segment revenue					
Sales to external customers	617,254	22,368	192,317	–	831,939
Intersegment sales	–	5,676	–	–	5,676
Other revenue and gains	13,027	91,285	871	1,902	107,085
	630,281	119,329	193,188	1,902	944,700
Reconciliation:					
Elimination of intersegment sales					(5,676)
Total					939,024
Segment results	(157,149)	106,993	(6,666)	(2,153)	(58,975)
Reconciliation:					
Elimination of intersegment results					(523)
Interest income					1,961
Finance costs					(6,823)
Corporate and other unallocated expenses					(15,569)
Loss before tax					(79,929)
Segment assets	1,069,178	907,775	117,107	91,771	2,185,831
Reconciliation:					
Elimination of intersegment receivables					(946)
Corporate and other unallocated assets					112,302
Total assets					2,297,187
Segment liabilities	496,699	69,199	72,647	613	639,158
Reconciliation:					
Elimination of intersegment payables					(946)
Corporate and other unallocated liabilities					22,890
Total liabilities					661,102

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2018	Paint products HK$'000	Property investment HK$'000	Iron and steel trading HK$'000	Others HK$'000	Total HK$'000
Other segment information					
Share of profits and losses of associates	–	(1,731)	6,096	–	4,365
Interests in associates	–	2,694	6,905	–	9,599
Amortisation of intangible assets	459	–	–	–	459
Amortisation of prepaid land lease payments	1,364	–	–	–	1,364
Depreciation	19,547	2,402	26	–	21,975
Corporate and other unallocated depreciation					93
					22,068
Capital expenditure	28,843	2,326	8	–	31,177
Acquisition of leasehold land and buildings through acquisition of subsidiaries	106,735	–	–	–	106,735
Corporate and other unallocated capital expenditure					5
					137,917*
Fair value gains on investment properties	–	(90,773)	–	–	(90,773)
Impairment of trade receivables	30,055	–	1,649	–	31,704
Write-down of inventories to net realisable value	342	–	–	–	342

* Capital expenditure consists of additions to property, plant and equipment, investment properties, intangible assets and deposits for purchases of properties, plant and equipment and investment properties.

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2017	Paint products HK$'000	Property investment HK$'000	Iron and steel trading HK$'000	Others HK$'000	Total HK$'000
Segment revenue					
Sales to external customers	995,958	33,718	198,389	–	1,228,065
Intersegment sales	–	5,583	–	2,900	8,483
Other revenue and gains	7,627	27,722	751	4,044	40,144
	1,003,585	67,023	199,140	6,944	1,276,692
Reconciliation:					
Elimination of intersegment sales					(8,483)
Total					1,268,209
Segment results	21,648	52,273	3,552	(229)	77,244
Reconciliation:					
Elimination of intersegment results					(605)
Interest income					1,352
Fair value gains on structured deposits					762
Finance costs					(2,245)
Corporate and other unallocated expenses					(18,255)
Profit before tax					58,253
Segment assets	1,309,202	819,445	76,978	93,657	2,299,282
Reconciliation:					
Elimination of intersegment receivables					(1,011)
Corporate and other unallocated assets					92,000
Total assets					2,390,271
Segment liabilities	550,260	35,473	20,161	261	606,155
Reconciliation:					
Elimination of intersegment payables					(1,011)
Corporate and other unallocated liabilities					24,024
Total liabilities					629,168

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2017	Paint products HK$'000	Property investment HK$'000	Iron and steel trading HK$'000	Others HK$'000	Total HK$'000
Other segment information					
Share of profits and losses of associates	–	(1,565)	(1,649)	–	(3,214)
Interests in associates	–	2,525	12,835	–	15,360
Amortisation of prepaid land lease payments	513	–	–	–	513
Depreciation	18,212	2,457	26	3	20,698
Corporate and other unallocated depreciation					97
					20,795
Capital expenditure	17,542	5,131	–	–	22,673
Corporate and other unallocated capital expenditure					13
					22,686**
Fair value gains on investment properties, net	–	(27,799)	–	–	(27,799)
Impairment of an available-for-sale investment	–	–	–	4,000	4,000
Impairment of trade receivables	7,967	–	–	–	7,967
Write-back of inventories to net realisable value	(2,841)	–	–	–	(2,841)

** Capital expenditure consists of additions to property, plant and equipment, investment properties, and deposits for purchases of properties, plant and equipment and investment properties.

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2018 HK$'000	2017 HK$'000
Hong Kong	63,260	116,153
Mainland China	768,679	1,111,912
	831,939	1,228,065

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

(b) Non-current assets

	2018 HK$'000	2017 HK$'000
Hong Kong	718,497	632,726
Mainland China	510,456	404,092
	1,228,953	1,036,818

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 year ended 31 December 2018, revenue generated from one of the Group's customers in the iron and steel trading segment amounting to approximately HK$87,979,000 individually accounted for over 10% of the Group's revenue.

During the year ended 31 December 2017, there was no single customer from which the revenue accounted for 10% or more of the total revenue of the Group.

5. REVENUE, OTHER INCOME AND GAINS, NET

An analysis of revenue is as follows:

	2018 HK$'000	2017 HK$'000
Revenue from contracts with customers	809,571	–
Sale of paint products	–	995,958
Sale of iron and steel products	–	198,389
Revenue from other sources		
Gross rental income from investment properties	22,368	33,718
	831,939	1,228,065

5. REVENUE, OTHER INCOME AND GAINS, NET (continued)

Revenue from contracts with customers

(i) Disaggregated revenue information for the year ended 31 December 2018

Segments	Paint products HK$'000	Iron and steel products HK$'000	Total HK$'000
Sale of industrial products	**617,254**	**192,317**	**809,571**
Geographical markets			
Hong Kong	**46,852**	**–**	**46,852**
Mainland China	**570,402**	**192,317**	**762,719**
Total revenue from contracts with customers	**617,254**	**192,317**	**809,571**
Timing of revenue recognition			
Goods transferred at a point in time	**617,254**	**192,317**	**809,571**

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2018 HK$'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Sale of industrial products	**2,489**

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of industrial products

The performance obligation is satisfied upon delivery of the industrial products and payment is generally due within one to three months from the invoice date, except for new customers, where payment in advance is normally required.

5. REVENUE, OTHER INCOME AND GAINS, NET (continued)

An analysis of other income and gains, net is as follows:

	Notes	2018 HK$'000	2017 HK$'000
Other income			
Bank interest income		**1,961**	1,352
Dividend income from an available-for-sale investment		**–**	240
Dividend income from an equity investment designated at fair value through other comprehensive income		**240**	–
Government grants*		**9,582**	4,819
Commission income		**–**	58
Recognition of deferred income	31	**305**	295
Rental income		**2,053**	1,087
Others		**2,333**	2,400
		16,474	10,251
Gains, net			
Fair value gains on structured deposits		**–**	762
Recovery of an amount due from an associate previously written off		**433**	–
Write-back of an other receivable	24	**1,366**	–
Foreign exchange differences		**–**	3,446
		1,799	4,208
Total other income and gains, net		**18,273**	14,459

* 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.

6. PROFIT/(LOSS) BEFORE TAX

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

	Notes	2018 HK$'000	2017 HK$'000
Cost of inventories sold		**653,486**	880,595
Depreciation	13	**22,068**	20,795
Amortisation of intangible assets	17	**459**	–
Amortisation of prepaid land lease payments	16	**1,364**	513
Minimum lease payments under operating leases in respect of land and buildings		**4,934**	7,466
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties		**4,096**	3,880
Auditor's remuneration:			
Audit related services		**5,343**	4,591
Other services		**502**	440
		5,845	5,031
Employee benefit expense (excluding directors' remuneration (note 8)):			
Wages, salaries, bonuses, allowances and welfare		**148,119**	153,263
Pension scheme contributions (defined contribution schemes)#		**18,269**	18,970
Net pension benefit expenses recognised (defined benefit schemes)	21	**47**	127
		166,435	172,360
Foreign exchange differences, net*		**3,584**	(3,446)
Write-down/(write-back) of inventories to net realisable value		**342**	(2,841)
Impairment of financial assets:			
Impairment of trade receivables*	23	**31,704**	7,967
Impairment of an available-for-sale investment*	19	**–**	4,000
		31,704	11,967
Loss on disposal of items of property, plant and equipment, net*		**25**	61
Write-off of items of property, plant and equipment*	13	**297**	558

* 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.

\# At 31 December 2018 and 2017, the Group had no material forfeited contributions available to reduce its contributions to the retirement benefit schemes in future years.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2018	2017
	HK$'000	HK$'000
Interest on bank loans	**6,764**	2,167
Interest on finance leases	**59**	78
	6,823	2,245

8. DIRECTORS' REMUNERATION

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:

	2018	2017
	HK$'000	HK$'000
Fees:		
Executive directors	**1,700**	2,100
Non-executive directors	**400**	400
Independent non-executive directors	**500**	400
	2,600	2,900
Other emoluments:		
Salaries, allowances and benefits in kind	**9,116**	9,040
Discretionary bonuses	**565**	3,825
Pension scheme contributions	**386**	386
Consultancy fee	**444**	444
Other fee	**600**	300
	11,111	13,995
	13,711	16,895

8. DIRECTORS' REMUNERATION (continued)

(a) Independent non-executive directors

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

	2018 HK$'000	2017 HK$'000
Danny T Wong	200	200
Wu Hong Cho *(appointed on 19 July 2017)*	200	100
Zhang Xiaojing	100	100
	500	400

There were no other emoluments payable to the independent non-executive directors during the year (2017: Nil).

(b) Executive directors and non-executive directors

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Pension scheme contributions HK$'000	Other emoluments HK$'000	Total remuneration HK$'000
2018						
Executive directors:						
Lam Ting Ball, Paul	1,100	2,197	–	18	200*	3,515
Chong Chi Kwan	600	1,271	200	18	200*	2,289
	1,700	3,468	200	36	400	5,804
Non-executive directors:						
Chan Wa Shek	100	–	–	–	444#	544
Zhang Yulin	100	–	–	–	–	100
Hung Ting Ho, Richard	100	–	–	–	–	100
Tsui Ho Chuen, Philip	100	5,648	365	350	200*	6,663
	400	5,648	365	350	644	7,407
	2,100	9,116	565	386	1,044	13,211

8. DIRECTORS' REMUNERATION (continued)

(b) Executive directors and non-executive directors (continued)

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Pension scheme contributions HK$'000	Other emoluments HK$'000	Total remuneration HK$'000
2017						
Executive directors:						
Lam Ting Ball, Paul	1,100	2,161	100	18	100*	3,479
Chong Chi Kwan	560	1,268	1,900	18	100*	3,846
Tsui Ho Chuen, Philip *(re-designated as non-executive director on 10 July 2017)*	440	2,619	–	175	–	3,234
	2,100	6,048	2,000	211	200	10,559
Non-executive directors:						
Chan Wa Shek	100	–	–	–	444#	544
Zhang Yulin	100	–	–	–	–	100
Hung Ting Ho, Richard	100	–	–	–	–	100
Tsui Ho Chuen, Philip *(re-designated as non-executive director on 10 July 2017)*	100	2,992	1,825	175	100*	5,192
	400	2,992	1,825	175	544	5,936
	2,500	9,040	3,825	386	744	16,495

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2017: Nil).

For consultancy services provided to the Company related to project development and related matters in Hong Kong and the PRC

* Fee paid for their capacity as directors of CPM Group Limited

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three directors (2017: three), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of two (2017: two) highest paid employees who are non-directors for the year are as follows:

	2018	2017
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**5,628**	5,628
Discretionary bonuses	**794**	792
Pension scheme contributions	**18**	18
	6,440	6,438

The remuneration of the highest paid employees who are non-directors by band is set out below:

	Number of employees	
	2018	2017
HK$2,000,001 to HK$2,500,000	**–**	–
HK$2,500,001 to HK$3,000,000	**1**	–
HK$3,000,001 to HK$3,500,000	**1**	2
	2	2

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, except for the qualified entity of the Group is calculated in accordance with the two-tiered profits tax rates regime. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

All subsidiaries of the Group established in Mainland China are subject to the PRC corporate income tax at a standard rate of 25% (2017: 25%) during the year, except for subsidiaries of the Group qualified as PRC High and New Technology Enterprise in Mainland China to which a lower PRC corporate income tax rate of 15% (2017: 15%) had been applied during the year.

10. INCOME TAX (continued)

	2018 HK$'000	2017 HK$'000
Current – Hong Kong		
Charge for the year	**1,119**	3,017
Overprovision in prior years	**(63)**	(40)
Current – Elsewhere		
Charge for the year	**2,206**	11,816
Overprovision in prior years	**–**	(2,504)
Deferred (note 30)	**(22,903)**	(954)
Total tax charge/(credit) for the year	**(19,641)**	11,335

A reconciliation of the tax expense/(credit) applicable to profit/(loss) 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/(credit) 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:

	2018 HK$'000	2017 HK$'000
Profit/(loss) before tax	**(79,929)**	58,253
Tax at the statutory tax rate	**(13,188)**	9,612
Different tax rates for specific provinces in the PRC, net	**2,280**	11
Effect of change in tax rates	**(165)**	–
Adjustments in respect of current tax of previous periods	**(63)**	(2,544)
Profits and losses attributable to associates	**720**	(530)
Income not subject to tax	**(15,627)**	(7,886)
Expenses not deductible for tax	**6,445**	7,259
Reversal of withholding taxes on the unremitted earnings	**(12,811)**	–
Tax losses utilised from previous periods	**(1,385)**	(1,226)
Tax losses not recognised	**13,654**	6,584
Others	**499**	55
Tax charge/(credit) at the Group's effective rate	**(19,641)**	11,335

The share of tax attributable to an associate amounting to HK$244,000 (2017: HK$287,000) is included in "Share of profits and losses of associates" in the consolidated statement of profit or loss.

11. DIVIDEND

	2018	2017
	HK$'000	HK$'000
Proposed final – HK1.0 cent (2017: HK1.0 cent) per ordinary share	**19,037**	19,037

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. The actual amount will be accounted for as an appropriation of the distributable reserves in the year ending 31 December 2019.

At the annual general meeting held on 31 May 2018, the Company's shareholders approved the distribution of the final dividend for the year ended 31 December 2017 of HK1.0 cent (year ended 31 December 2016: HK1.0 cent) per share which amounted to approximately HK$19,037,000 (year ended 31 December 2016: HK$19,037,000).

12. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings/(loss) per share amounts is based on the loss for the year attributable to ordinary equity holders of the parent of HK$25,091,000 (2017: profit of HK$37,516,000), and the weighted average number of ordinary shares of 1,903,685,690 (2017: 1,903,685,690) in issue during the year.

No adjustment has been made to the basic earnings/(loss) per share amounts presented for the years ended 31 December 2018 and 2017 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during these years.

13. 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 2018							
At 31 December 2017 and at 1 January 2018:							
Cost or valuation	376,576	388	22,735	155,257	37,945	21,029	613,930
Accumulated depreciation and impairment	(148,612)	–	(19,493)	(122,736)	(31,328)	(15,686)	(337,855)
Net carrying amount	227,964	388	3,242	32,521	6,617	5,343	276,075
At 1 January 2018, net of accumulated depreciation and impairment	227,964	388	3,242	32,521	6,617	5,343	276,075
Acquisition of assets through acquisition of subsidiaries (note 36)	29,941	–	–	–	–	–	29,941
Additions	62	20,168	892	834	2,611	443	25,010
Disposals	–	–	–	(276)	(52)	(61)	(389)
Write-off (note 6)	(49)	–	(15)	(46)	(174)	(13)	(297)
Surplus on revaluation	18,746	–	–	–	–	–	18,746
Transfer from deposits for purchases of properties, plant and equipment, and investment properties (note 20)	–	–	–	546	–	248	794
Transfer	18,508	(19,558)	1,050	–	–	–	–
Transfer to investment properties (note 14)	(24,344)	–	(11)	–	–	–	(24,355)
Depreciation provided during the year (note 6)	(12,686)	–	(761)	(4,615)	(2,274)	(1,732)	(22,068)
Exchange realignment	(7,704)	(944)	(138)	(1,711)	(108)	(121)	(10,726)
At 31 December 2018, net of accumulated depreciation and impairment	250,438	54	4,259	27,253	6,620	4,107	292,731
At 31 December 2018:							
Cost or valuation	403,998	54	22,355	148,769	37,014	20,159	632,349
Accumulated depreciation and impairment	(153,560)	–	(18,096)	(121,516)	(30,394)	(16,052)	(339,618)
Net carrying amount	250,438	54	4,259	27,253	6,620	4,107	292,731

13. 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 2017							
At 1 January 2017:							
Cost or valuation	333,283	15,799	21,065	144,144	38,023	20,088	572,402
Accumulated depreciation and impairment	(131,059)	–	(17,984)	(112,395)	(30,538)	(14,641)	(306,617)
Net carrying amount	202,224	15,799	3,081	31,749	7,485	5,447	265,785
At 1 January 2017, net of accumulated depreciation and impairment	202,224	15,799	3,081	31,749	7,485	5,447	265,785
Additions	500	9,436	978	3,030	1,365	988	16,297
Disposals	–	–	–	(24)	(8)	(108)	(140)
Write-off (note 6)	(11)	–	(31)	(420)	(96)	–	(558)
Transfer from deposits for purchases of properties, plant and equipment, and investment properties (note 20)	–	–	–	868	–	707	1,575
Transfer	26,474	(26,474)	–	–	–	–	–
Depreciation provided during the year (note 6)	(10,083)	–	(980)	(5,229)	(2,620)	(1,883)	(20,795)
Exchange realignment	8,860	1,627	194	2,547	491	192	13,911
At 31 December 2017, net of accumulated depreciation and impairment	227,964	388	3,242	32,521	6,617	5,343	276,075
At 31 December 2017:							
Cost or valuation	376,576	388	22,735	155,257	37,945	21,029	613,930
Accumulated depreciation and impairment	(148,612)	–	(19,493)	(122,736)	(31,328)	(15,686)	(337,855)
Net carrying amount	227,964	388	3,242	32,521	6,617	5,343	276,075

13. PROPERTY, PLANT AND EQUIPMENT (continued)

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:

	2018	2017
	HK$'000	HK$'000
Furniture, fixtures and equipment	**67**	64
Motor vehicles	**1,082**	1,464
	1,149	1,528

Certain of the Group's leasehold land and buildings situated in Hong Kong and 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 Hong Kong were revalued at open market value, based on their existing use. 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 amount at 31 December 2018 would have been HK$25,306,000 (2017: HK$26,341,000).

At 31 December 2018, certain of the above land and buildings with an aggregate net carrying amount of HK$78,784,000 (2017: HK$82,615,000) were pledged to secure general banking facilities granted to the Group (note 28).

14. INVESTMENT PROPERTIES

	Notes	2018 HK$'000	2017 HK$'000
Carrying amount at 1 January		**683,923**	644,323
Additions		**747**	–
Fair value gains, net		**90,773**	27,799
Transfer from deposits for purchases of properties, plant and equipment, and investment properties	20	**4,937**	–
Transfer from owner-occupied properties	13	**24,355**	–
Transfer from prepaid land lease payments	16	**4,390**	–
Exchange realignment		**(9,147)**	11,801
Carrying amount at 31 December		**799,978**	683,923

The Group's investment properties consist of residential, commercial and industrial properties in Hong Kong and the PRC. The directors of the Company have determined that the investment properties consist of five classes of asset, i.e., commercial and industrial in Hong Kong and residential, commercial and industrial in the PRC, based on the nature, characteristics and risks of each property. The Group's investment properties were revalued on 31 December 2018 based on valuations performed by BMI Appraisals Limited, an independent professional qualified valuer. The Group's finance department who reports directly to the senior management selects an external valuer to be responsible for the external valuation of the Group's properties based on market knowledge, reputation and independence of the external valuer, and whether professional standards are maintained by the external valuer. Fair values of the Group's investment properties are generally derived by using the income capitalisation method or market comparison approach. The Group's finance department has discussion with the external valuer on the valuation assumptions and valuation results when the valuation is performed for interim and annual financial reporting.

The income capitalisation method is based on the capitalisation of the net income and reversionary income potential by adopting appropriate capitalisation rates, which are derived from analysis of rental/sales transactions and valuers' interpretation of prevailing investor requirements or expectations. The prevailing market rents adopted in the valuation have been assessed with reference to recent lettings, within the subject properties and other comparable properties. Capitalisation rates are estimated by valuer based on the risk profile of the properties being valued.

The market comparison approach is based on the price by assuming sale of the property interest in its existing state with reference to comparable sales transactions as available in the relevant market.

14. INVESTMENT PROPERTIES (continued)

Fair value hierarchy

The following table illustrates how the fair values of the Group's investment properties are determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements are observable.

Investment properties held by the Group	Fair value hierarchy	Valuation techniques	Significant unobservable inputs	Range or weighted average 2018	2017
Commercial properties in Hong Kong	Level 3	Income capitalisation method	Prevailing market rents (per sq.ft. per month)	**HK$31 to HK$109**	HK$29 to HK$104
			Capitalisation rates	**2.5% to 3.0%**	2.4% to 2.9%
Commercial properties in Mainland China	Level 3	Income capitalisation method	Prevailing market rents (per sq.m. per month)	**RMB135 to RMB270**	RMB135 to RMB220
			Capitalisation rates	**5.0% to 5.3%**	5.0% to 5.3%
		Market comparison approach	Prevailing market rates (per sq.m.)	**RMB39,000 to RMB79,000**	RMB39,000 to RMB75,000
Industrial properties in Hong Kong	Level 3	Income capitalisation method	Prevailing market rents (per sq.ft. per month)	**HK$8 to HK$28**	HK8 to HK$25
			Capitalisation rates	**3.2% to 7.1%**	3.5% to 8.2%
		Market comparison approach	Prevailing market rates (per sq.ft.)	**HK$2,000 to HK$4,150**	Not applicable
Industrial properties in Mainland China	Level 3	Income capitalisation method	Prevailing market rents (per sq.m. per month)	**RMB16 to RMB25**	RMB16
			Capitalisation rates	**6.0% to 9.0%**	9.0%
Residential properties in Mainland China	Level 3	Market comparison approach	Prevailing market rates (per sq.m.)	**RMB40,000 to RMB46,000**	RMB38,000 to RMB41,000

14. INVESTMENT PROPERTIES (continued)

Fair value hierarchy (continued)

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 (2017: Nil).

Under the income capitalisation method, a significant increase (decrease) in the prevailing market rents in isolation would result in a significant increase (decrease) in the fair value of the investment properties. A significant increase (decrease) in the capitalisation rate in isolation would result in a significant decrease (increase) in the fair value of the investment properties.

Under the market comparison approach, a significant increase (decrease) in the prevailing market rates in isolation would result in a significant increase (decrease) in the fair value of the investment properties.

The reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy of each class of asset is as follows:

	Residential properties in Mainland China HK$'000	Commercial properties in Hong Kong HK$'000	Commercial properties in Mainland China HK$'000	Industrial properties in Hong Kong HK$'000	Industrial properties in Mainland China HK$'000	Total HK$'000
Carrying amount at 1 January 2017	37,621	160,900	98,173	323,390	24,239	644,323
Fair value gains/(losses), net	(770)	9,900	(9)	16,590	2,088	27,799
Exchange realignment	2,775	–	7,134	–	1,892	11,801
Carrying amount at 31 December 2017 and 1 January 2018	**39,626**	**170,800**	**105,298**	**339,980**	**28,219**	**683,923**
Additions	**–**	**–**	**747**	**–**	**–**	**747**
Fair value gains	**5,552**	**17,500**	**2,415**	**65,070**	**236**	**90,773**
Transfer from deposits for purchases of properties, plant and equipment, and investment properties	**4,937**	**–**	**–**	**–**	**–**	**4,937**
Transfer from owner-occupied properties	**–**	**–**	**–**	**13,180**	**11,175**	**24,355**
Transfer from prepaid land lease payments	**–**	**–**	**–**	**–**	**4,390**	**4,390**
Exchange realignment	**(2,237)**	**–**	**(5,588)**	**–**	**(1,322)**	**(9,147)**
Carrying amount at 31 December 2018	**47,878**	**188,300**	**102,872**	**418,230**	**42,698**	**799,978**

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 40(a).

At 31 December 2018, certain of the Group's investment properties with an aggregate carrying value of HK$295,060,000 (2017: HK$510,780,000) were pledged to secure general banking facilities granted to the Group (note 28).

Further particulars of the Group's investment properties are included on pages 176 to 178.

15. PROPERTIES UNDER DEVELOPMENT

	2018 HK$'000	2017 HK$'000
Carrying amount at 1 January and at 31 December	**28,000**	28,000

The properties under development are situated in Hong Kong. On 14 November 2017, the final hearing section of the Appeal Board Panel (Town Planning) of Hong Kong (the "Appeal Board"), has conditionally approved the development of columbarium application. The Appeal Board has also imposed several conditions to be fulfilled by the Group within four year as commencing from date of decision.

Further particulars of the Group's properties under development are included on page 179.

16. PREPAID LAND LEASE PAYMENTS

	2018 HK$'000	2017 HK$'000
Carrying amount at 1 January	**19,232**	18,389
Acquisition of assets through acquisition of subsidiaries (note 36)	**76,794**	–
Recognised during the year (note 6)	**(1,364)**	(513)
Transfer to investment properties (note 14)	**(4,390)**	–
Exchange realignment	**(1,812)**	1,356
Carrying amount at 31 December	**88,460**	19,232
Current portion included in prepayments, deposits and other receivables	**(2,889)**	–
Non-current portion	**85,571**	19,232

17. INTANGIBLE ASSETS

	Licenses HK$'000
Cost and net carrying amount at 1 January 2017, 31 December 2017, and 1 January 2018	**–**
Acquisition of assets through acquisition of subsidiaries (note 36)	**1,279**
Amortisation during the year (note 6)	**(459)**
Exchange realignment	**(15)**
At 31 December 2018	**805**
At 31 December 2018	
Cost	**1,265**
Accumulated amortisation	**(460)**
Net carrying amount	**805**

18. INTERESTS IN ASSOCIATES

	2018 **HK$'000**	2017 HK$'000
Share of net assets	**9,599**	15,360

The amount due to an associate included in the Group's current liabilities as at 31 December 2018 of HK$2,800,000 (2017: HK$2,800,000) was unsecured, interest-free and repayable with not less than 30 days' prior written notice.

Particulars of the associates are as follows:

Name	**Particulars of issued shares held**	**Place of incorporation and business**	**Percentage of ownership interest attributable to the Group**	**Principal activities**
Arran Investment Company Limited#	Founder's shares and ordinary shares	Hong Kong	50	Property investment
CNT Tin Plate Limited#	Ordinary shares	Hong Kong	50	Investment holding

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

Arran Investment Company Limited and CNT Tin Plate Limited were corporate associates indirectly held by the Company as at 31 December 2018. The financial year of CNT Tin Plate Limited is coterminous with that of the Group, while Arran Investment Company Limited uses a financial year end date of 31 October. The consolidated financial statements are adjusted for material transactions between this associate and the Group between the financial year end date of this associate and that of the Group.

All the above associates have been accounted for using the equity method in these financial statements.

18. INTERESTS IN ASSOCIATES (continued)

CNT Tin Plate Limited, which is considered a material associate of the Group principally engaged in investment holding, is accounted for using the equity method.

The following table illustrates the summarised financial information in respect of CNT Tin Plate Limited adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	2018 HK$'000	2017 HK$'000
Current assets	82	51
Non-current assets	54,649	67,227
Current liabilities	(333)	(332)
Non-current liabilities	(40,588)	(41,275)
Net assets	13,810	25,671
Reconciliation to the Group's interest in the associate:		
Proportion of Group's ownership	50%	50%
Group's share of net assets of the associate	6,905	12,835
Carrying amount of the investment	6,905	12,835
Revenue	–	–
Profit/(loss) for the year	(12,192)	3,297
Other comprehensive income	332	590
Total comprehensive income/(loss) for the year	(11,860)	3,887

The following table illustrates the financial information of the Group's associate that is not individually material:

	2018 HK$'000	2017 HK$'000
Share of the associate's profit for the year	1,731	1,565
Share of the associate's total comprehensive income	1,731	1,565
Dividends paid by the associate during the year	1,563	–
Aggregate carrying amount of the Group's investment in the associate	2,694	2,525

19. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE INVESTMENTS

	2018	2017
	HK$'000	HK$'000
Equity investments designated at fair value through other comprehensive income		
Unlisted equity investments, at fair value		
Profitable Industries Limited	**81,604**	–
Goodwill International (Holdings) Limited	**9,806**	–
Unlisted club membership debenture	**300**	–
	91,710	–
Available-for-sale investments		
Unlisted equity investments, at cost	**–**	234,866
Impairment	**–**	(142,783)
	–	92,083

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

During the year ended 31 December 2018, the Group received dividend in the amount of HK$240,000 from Goodwill International (Holdings) Limited.

As at 31 December 2017, included in the above provision for impairment of available-for-sale investments as at the end of the reporting period was a provision for individually impaired investments of HK$142,783,000 with an aggregate carrying amount before provision of HK$234,866,000. The individually impaired investments relate to companies that either had been loss-making for some time or invested in development projects with reduced estimated future cash flows due to changes in development plans and market conditions. The directors are of the opinion that the individually impaired investments are not expected to be fully recoverable.

As at 31 December 2017, these unlisted equity investments were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the Company's directors are of the opinion that their fair value cannot be measured reliably. At the end of the reporting period, the Group did not intend to dispose of them in the near future.

During the year ended 31 December 2017, an impairment loss of HK$4,000,000 was recognised for an available-for-sale investment of the Group, since the recoverable amount of the unlisted equity investment is lower than its carrying amount due to the uncertainty of the future profitability of that investment.

20. DEPOSITS FOR PURCHASES OF PROPERTIES, PLANT AND EQUIPMENT, AND INVESTMENT PROPERTIES

	Notes	2018 HK$'000	2017 HK$'000
Carrying amount at 1 January		**14,228**	8,662
Transfer to property, plant and equipment	13	**(794)**	(1,575)
Transfer to investment properties	14	**(4,937)**	–
Additions		**5,084**	6,389
Exchange realignment		**(1,312)**	752
Carrying amount at 31 December		**12,269**	14,228

As at 31 December 2018, the carrying amount represented deposits paid for the purchases of a parcel of land in Xinfeng, Guangdong Province, the PRC, residential car parks in Shanghai, the PRC, and machinery and equipment for the Group's paint operation.

21. 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 2018 by Grant Sherman Appraisal Limited, an independent professional actuarial advisor, using the projected unit credit actuarial valuation method.

21. NET PENSION SCHEME ASSETS (continued)

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

	2018	2017
Discount rate	1.9%	1.7%
Expected rate of salary increases	2.5%	2.5%

The actuarial valuation showed that the market value of scheme assets was HK$8,006,000 (2017: HK$9,259,000) and that the actuarial value of these assets represented 185% (2017: 191%) of the benefits that had accrued to qualifying employees.

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 HK$'000	Decrease in rate %	Increase/ (decrease) in net pension scheme assets HK$'000
2018				
Discount rate	5	28	(5)	(26)
Future salary increase	5	(37)	(5)	36
2017				
Discount rate	5	27	(5)	(28)
Future salary increase	5	(63)	(5)	62

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:

	2018 HK$'000	2017 HK$'000
Current service cost	129	172
Interest cost	(82)	(45)
Net pension benefit expenses recognised in administrative expenses	47	127

21. NET PENSION SCHEME ASSETS (continued)

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

	2018 HK$'000	2017 HK$'000
Carrying amount at 1 January	**4,838**	5,693
Current service cost	**129**	172
Interest cost	**78**	100
Remeasurements:		
– Actuarial gains arising from changes in demographic assumptions	**(344)**	(83)
– Actuarial losses/(gains) arising from changes in financial assumptions	**(52)**	11
– Experience adjustments	**(73)**	(37)
Benefit paid	**(257)**	(1,018)
Carrying amount at 31 December	**4,319**	4,838

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

2018

		Pension cost credited/(charged) to profit or loss				Remeasurement gains/(losses) in other comprehensive income					
	1 January 2018 HK$'000	Service cost HK$'000	Net interest 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 2018 HK$'000
Fair value of scheme assets	9,259	–	160	160	(257)	(1,156)	–	–	–	(1,156)	8,006
Defined benefit obligations	(4,838)	(129)	(78)	(207)	257	–	344	52	73	469	(4,319)
Net pension scheme assets	4,421	(129)	82	(47)	–	(1,156)	344	52	73	(687)	3,687

21. NET PENSION SCHEME ASSETS (continued)

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

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 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$'000	Employer contributions HK$'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	83	(11)	37	318	2,176	4,421

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:

	2018 **HK$'000**	2017 HK$'000
Equities, quoted in active markets	**5,884**	7,333
Bonds	**1,898**	1,556
Money market instruments	**224**	370
	8,006	9,259

The weighted average duration of the defined benefit obligations at the end of the reporting period was 8 years (2017: 9 years).

22. INVENTORIES

	2018 HK$'000	2017 HK$'000
Raw materials and spare parts	**36,033**	42,918
Work in progress	**4,766**	5,373
Finished goods	**38,280**	31,639
	79,079	79,930

23. TRADE AND BILLS RECEIVABLES

	2018 HK$'000	2017 HK$'000
Trade receivables	**542,916**	735,769
Impairment	**(92,045)**	(38,401)
	450,871	697,368
Bills receivable	**28,154**	26,718
	479,025	724,086

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 related to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade and bills receivables. 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 loss allowance, is as follows:

	2018 HK$'000	2017 HK$'000
Within three months	**219,076**	526,848
Over three months and within six months	**97,835**	63,494
Over six months	**162,114**	133,744
	479,025	724,086

23. TRADE AND BILLS RECEIVABLES (continued)

The movements in the loss allowance for impairment of trade receivables are as follows:

	Note	2018 HK$'000	2017 HK$'000
At beginning of year		**38,401**	28,283
Effect of adoption of HKFRS 9		**25,356**	–
At beginning of year (restated)		**63,757**	28,283
Amount written off as uncollectible		**(471)**	(68)
Impairment losses	6	**31,704**	7,967
Exchange realignment		**(2,945)**	2,219
At end of year		**92,045**	38,401

Impairment under HKFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type and customer type and rating). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade and bills receivables are written off if past due for more than one year and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2018

		Past due			
	Current	Less than 3 months	3 to 6 months	Over 6 months	Total
Expected credit loss rate	**3.6%**	**7.7%**	**16.2%**	**34.8%**	**17.0%**
Gross carrying amount (HK$'000)	**204,393**	**101,097**	**30,111**	**207,315**	**542,916**
Expected credit losses (HK$'000)	**7,352**	**7,748**	**4,885**	**72,060**	**92,045**

None of the bills receivable is either past due or impaired. There was no recent history of default for bills receivable.

23. TRADE AND BILLS RECEIVABLES (continued)

Impairment under HKAS 39 for the year ended 31 December 2017

Included in the above provision for impairment of trade and bills receivables, which was measured based on incurred credit losses under HKAS 39, as at 31 December 2017 was a provision for individually impaired trade receivables of HK$38,401,000 with an aggregate carrying amount before provision of HK$38,401,000.

The individually impaired trade receivables as at 31 December 2017 related 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.

The ageing analysis of the trade and bills receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under HKAS 39 is as follows:

	2017 HK$'000
Neither past due nor impaired	386,000
Within three months past due	180,117
Over three months and within six months past due	90,321
Over six months past due	67,648
	724,086

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

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for impairment under HKAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2018 HK$'000	2017 HK$'000
Prepayments	**7,436**	10,171
Deposits and other receivables	**85,988**	51,239
	93,424	61,410
Impairment allowance	**(700)**	(1,366)
	92,724	60,044

The movements in the loss allowance for impairment of other receivables are as follows:

	Note	2018 HK$'000	2017 HK$'000
At beginning of year		**1,366**	1,366
Effect of adoption of HKFRS 9		**700**	–
At beginning of year (restated)		**2,066**	1,366
Write back of an other receivable	5	**(1,366)**	–
At end of year		**700**	1,366

Impairment under HKFRS 9 for the year ended 31 December 2018

Where applicable, an impairment analysis is performed at each reporting date by considering the probability of default. As at 31 December 2018, the probability of default applied 25% and the loss given default was estimated to be HK$700,000.

Impairment under HKAS 39 for the year ended 31 December 2017

Included in the above provision for prepayments, deposits and other receivables, which was measured based on incurred credit losses under HKAS 39, as at 31 December 2017 was a provision for individually impaired receivables of HK$1,366,000 with a carrying amount before provision of HK$1,366,000. The individually impaired receivable was not expected to be recovered. During the year ended 31 December 2018, the other receivable of HK$1,366,000 was fully recovered.

The above deposits and other receivables included rental receivables of HK$348,000 (2017: HK$1,911,000) of which HK$348,000 (2017: HK$1,101,000) were past due within six months. Rental receivables that were past due but not impaired relate to a number of independent debtors that have no recent history of default.

Except for the above, the remaining balances were neither past due nor impaired. The financial assets included in the above balances relate to receivables for which there was then no recent history of default. The directors of the Company considered that the allowance for expected credit losses for these balances are not significant.

25. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2018 HK$'000	2017 HK$'000
Cash and bank balances	**253,407**	257,169
Time deposits:		
– with original maturity of less than three months when acquired	**43,986**	125,601
– with original maturity of more than three months when acquired	**3,528**	3,269
	300,921	386,039
Less: Pledged time deposits for bills payable		
– with original maturity of less than three months when acquired	**(1,527)**	–
– with original maturity of more than three months when acquired	**(3,528)**	(3,269)
Cash and cash equivalents	**295,866**	382,770

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$191,528,000 (2017: HK$209,930,000). 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.

26. 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:

	2018 **HK$'000**	2017 HK$'000
Within three months	**181,169**	296,092
Over three months and within six months	**41,581**	8,306
Over six months	**3,624**	307
	226,374	304,705

The trade payables are non-interest-bearing and normally settled within two months.

27. OTHER PAYABLES AND ACCRUALS

	Notes	**2018** **HK$'000**	2017 HK$'000
Deferred income	31	**303**	320
Other payables	(1)	**79,832**	59,748
Accruals		**32,823**	63,943
Receipts in advance		**–**	2,489
Contract liabilities	(2)	**2,409**	–
		115,367	126,500

Notes:

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

(2) Details of contract liabilities as at 31 December 2018 and 1 January 2018 are as follows:

	At 31 December 2018 HK$'000	At 1 January 2018 HK$'000
Advances received from customers		
Sales of industrial products	**2,409**	2,489

Contract liabilities include advances received to deliver the industrial products. The decrease in contract liabilities in 2018 was mainly due to the decrease in advances received from customers in relation to sales of industrial products at the end of the year.

28. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2018			2017		
	Effective interest rate per annum (%)	**Maturity**	**HK$'000**	Effective interest rate per annum (%)	Maturity	HK$'000
Current						
Finance lease payables (note 29)	**2.5 – 8.8**	**2019**	**410**	2.5 – 8.8	2018	397
Bank loans – secured	**2.0 – 4.4**	**2019**	**120,166**	1.8 – 2.5	2018	78,820
Bank loans – unsecured	**3.3 – 7.2**	**2019**	**85,726**	2.0 – 2.2	2018	43,000
Import loans – secured	**3.3 – 5.7**	**2019**	**47,984**	2.3 – 3.0	2018	9,654
Import loans – unsecured	**3.3 – 4.0**	**2019**	**15,835**	2.8 – 2.8	2018	654
			270,121			132,525
Non-current						
Finance lease payables (note 29)	**2.5 – 4.0**	**2019 – 2023**	**646**	2.5 – 8.8	2019 – 2021	1,026
			270,767			133,551

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

	2018 HK$'000	2017 HK$'000
Analysed into:		
Bank loans and import loans repayable:		
Within one year or on demand	**269,711**	132,128
Other borrowings repayable:		
Within one year or on demand	**410**	397
In the second year	**417**	404
In the third to fifth years, inclusive	**229**	622
	1,056	1,423
	270,767	133,551

Notes:

(a) The above bank loans of HK$237,985,000 (2017: HK$132,128,000) containing a repayment on-demand clause were already included in total current liabilities as at 31 December 2018.

Accordingly, for the purpose of the above analysis, the bank loans due for repayment in the second year and in the third year as at 31 December 2017 of HK$2,196,000 and HK$1,082,000, respectively, were analysed into bank loans and import loans repayable within one year or on demand.

Ignoring the effect of any repayment on-demand clause and based on the maturity terms of the bank borrowings, the bank borrowings are repayable as at 31 December 2018:

	HK$'000
Analysed into:	
Bank loans and import loans repayable:	
Within one year	222,601
In the second year	19,510
In the third to fifth years, inclusive	27,600
	269,711

(b) The Group's bank loans and import loans are secured by:

(i) the Group's land and buildings with an aggregate net book value at the end of the reporting period of HK$78,784,000 (2017: HK$82,615,000) (note 13);

(ii) the Group's investment properties with an aggregate carrying value at the end of the reporting period of HK$295,060,000 (2017: HK$510,780,000) (note 14); and

(iii) shares of an indirect subsidiary of the Company.

(c) Included in the Group's interest-bearing bank and other borrowings as at 31 December 2018 were borrowings with carrying amounts of HK$28,165,000 (2017: HK$9,162,000) and HK$51,545,000 (2017: Nil) which were denominated in United States dollars ("US$") and Renminbi ("RMB") respectively. All other borrowings of the Group are denominated in Hong Kong dollars.

29. 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 two months to five years (2017: two months 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	
	2018	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable:				
Within one year	**443**	455	**410**	397
In the second year	**430**	443	**417**	404
In the third to fifth years, inclusive	**215**	644	**229**	622
Total minimum finance lease payments	**1,088**	1,542	**1,056**	1,423
Future finance charges	**(32)**	(119)		
Total net finance lease payables	**1,056**	1,423		
Portion classified as current liabilities (note 28)	**(410)**	(397)		
Non-current portion (note 28)	**646**	1,026		

30. DEFERRED TAX

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

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation		Revaluation of properties		Withholding taxes		Total	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
At 1 January	**3,030**	2,771	**14,779**	13,885	**24,696**	28,885	**42,505**	45,541
Deferred tax charged/(credited) to the statement of profit or loss during the year (note 10)	**147**	259	**2,051**	327	**(14,388)**	(4,189)	**(12,190)**	(3,603)
Deferred tax charged to the statement of other comprehensive income during the year	**–**	–	**1,601**	–	**–**	–	**1,601**	–
Exchange realignment	**–**	–	**(504)**	567	**–**	–	**(504)**	567
Gross deferred tax liabilities recognised in the consolidated statement of financial position at 31 December	**3,177**	3,030	**17,927**	14,779	**10,308**	24,696	**31,412**	42,505

Deferred tax assets

	Impairment of trade receivables		Losses available for offsetting against future taxable profits		Depreciation in excess of related depreciation allowance		Accruals		Total	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
At 1 January	**–**	–	**290**	261	**3,362**	2,977	**1,965**	4,493	**5,617**	7,731
Effect of adoption of HKFRS 9	**3,235**	–	**–**	–	**–**	–	**–**	–	**3,235**	–
At 1 January (restated)	**3,235**	–	**290**	261	**3,362**	2,977	**1,965**	4,493	**8,852**	7,731
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 10)	**4,275**	–	**7,732**	29	**(104)**	156	**(1,190)**	(2,834)	**10,713**	(2,649)
Exchange realignment	**(127)**	–	**73**	–	**(172)**	229	**(12)**	306	**(238)**	535
Gross deferred tax assets recognised in the consolidated statement of financial position at 31 December	**7,383**	–	**8,095**	290	**3,086**	3,362	**763**	1,965	**19,327**	5,617

30. DEFERRED TAX (continued)

The Group had estimated tax losses arising in Hong Kong of HK$1,136,094,000 (2017: HK$1,114,207,000), 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 had estimated tax losses arising in Mainland China of HK$104,518,000 (2017: HK$22,661,000) that will expire in one to five years for offsetting against future taxable profits arising in Mainland China of the companies in which the losses arose.

As at 31 December 2018, the tax losses of a subsidiary in Hong Kong and a subsidiary in the PRC of HK$173,000 (2017: HK$1,760,000) and HK$51,840,000 (2017: Nil) were recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences. In the opinion of the directors, it is considered probable that taxable profits will be available against which such tax losses can be utilised based on the estimated future taxable profits of subsidiaries. Deferred tax assets have not been recognised in respect of the remaining 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.

31. DEFERRED INCOME

	Notes	**2018** **HK$'000**	2017 HK$'000
At 1 January		**2,535**	2,643
Recognised during the year	5	**(305)**	(295)
Exchange realignment		**(119)**	187
At 31 December		**2,111**	2,535
Portion classified as current liabilities	27	**(303)**	(320)
Non-current portion		**1,808**	2,215

31. DEFERRED INCOME (continued)

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 provided the required funding to the Xuzhou Subsidiary for the construction in the form of a loan to the Xuzhou Subsidiary (the "Construction Loan"). 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.

32. SHARE CAPITAL

Shares

	2018 **HK$'000**	2017 HK$'000
Authorised:		
2,880,000,000 (2017: 2,880,000,000) ordinary shares of HK$0.10 each	**288,000**	288,000
Issued and fully paid:		
1,903,685,690 (2017: 1,903,685,690) ordinary shares of HK$0.10 each	**190,369**	190,369

Share options

Details of the Company's share option schemes and the share options issued under the schemes are included in note 33 to the financial statements.

33. SHARE OPTION SCHEMES

The 2012 Scheme

The 2012 share option scheme (the "2012 Scheme") was adopted by the Company on 28 June 2012 pursuant to a resolution passed at the annual general meeting held on the same date. Unless terminated by a resolution in a general meeting or by the board of directors, the 2012 Scheme remains valid and effective for the period of 10 years commencing on 28 June 2012, after which period no further options will be issued but, in all other respects, the provisions of the 2012 Scheme shall remain in full force and effect. Further details are set out in the circular of the Company dated 30 April 2012.

The 2012 Scheme will expire on 27 June 2022. During the years ended 31 December 2018 and 2017, no share options were granted under the 2012 Scheme.

34. RESERVES

The amounts of the Group's reserves and the movements therein for the years ended 31 December 2018 and 2017 are presented in the consolidated statement of changes in equity on pages 66 and 67 of the financial statements.

35. PARTLY-OWNED SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTEREST

Details of the Group's subsidiary that have material non-controlling interest are set out below:

	2018	2017
Percentage of equity interest held by non-controlling interest:		
CPM Group Limited	**25%**	25%
	HK$'000	HK$'000
Profit/(loss) for the year allocated to non-controlling interest:		
CPM Group Limited	**(34,815)**	10,673
Accumulated balance of non-controlling interest at the reporting date:		
CPM Group Limited	**142,347**	188,052

35. PARTLY-OWNED SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTEREST (continued)

The following tables illustrate the summarised financial information of the above subsidiary. The amounts disclosed are before any inter-company eliminations:

CPM Group Limited	2018 HK$'000	2017 HK$'000
Revenue	617,254	995,958
Total expenses	326,894	293,800
Profit/(loss) for the year	(139,642)	17,015
Other comprehensive income/(loss) for the year	(25,391)	45,776
Total comprehensive income/(loss) for the year	(165,033)	62,791
Current assets	712,529	1,070,067
Non-current assets	356,649	239,135
Current liabilities	(481,930)	(525,041)
Non-current liabilities	(14,837)	(28,385)
Non-controlling interest	(3,023)	(3,566)
Net cash flows used in operating activities	(71,964)	(162,149)
Net cash flows from/(used in) investing activities	(126,648)	84,469
Net cash flows from financing activities	118,594	91,518
Net increase/(decrease) in cash and cash equivalents	(80,018)	13,838

36. ACQUISITION OF ASSETS THROUGH ACQUISITION OF SUBSIDIARIES

On 31 August 2018, the Group acquired a 100% equity interest in China Molybdenum & Vanadium Development Limited ("CMVD"), from an independent third party, at a cash consideration of HK$99,609,000. CMVD is engaged in investment holding and holds a 100% equity interest in Zhongshan Yongcheng Chemical Co., Ltd. ("Zhongshan Yongcheng"). Zhongshan Yongcheng is engaged in the manufacturing and sale paint and coating products. The principal assets of Zhongshan Yongcheng were a plot of land located in Zhongshan City, Guangdong, PRC of approximately 33,333 square meters and the buildings and production facilities erected on the land.

The above transaction was accounted for as purchase of assets and liabilities rather than as business combination because the acquired subsidiaries have not carried out any significant business transactions prior to the date of acquisition.

The assets and liabilities acquired in the above acquisition are as follows:

	HK$'000
Property, plant and equipment	29,941
Prepaid land lease payments	76,794
Intangible assets	1,279
Cash and bank balances	138
Other payables and accruals	(8,543)
Shareholder's loan	(44,267)
Net assets	55,342
Assignment of a shareholder's loan	44,267
Satisfied by cash	99,609
Cash consideration	99,609
Cash and bank balances acquired	(138)
Net outflow of cash and cash equivalents	99,471

The Group incurred transaction costs of approximately HK$1,612,000 for this acquisition. These costs have been expensed and are included in administrative expenses in the consolidated statement of profit or loss for the year.

37. DEEMED PARTIAL DISPOSAL OF INTEREST IN A SUBSIDIARY

On 10 July 2017, the Group has completed the spin-off of its manufacture and sale of paint products business through a separate listing of a then wholly-owned subsidiary, CPM Group Limited on the Main Board of The Stock Exchange of Hong Kong Limited (the "Spin-Off"). The Spin-Off involved the offering of 250,000,000 new ordinary shares of HK$0.1 each by CPM Group Limited at an issue price of HK$0.86 per share, which raised a total net cash proceeds of approximately HK$168,040,000.

Immediately following the completion of the Spin-Off, the Group's equity interest in CPM Group Limited was diluted from 100% to 75% and thus the Spin-Off is considered as a deemed partial disposal of CPM Group Limited by the Group. Since the deemed partial disposal of CPM Group Limited did not result in any loss of control, such transaction was accounted for as an equity transaction and the difference between the proceeds from the Spin-off and the then 25% carrying value of CPM Group Limited and its subsidiaries (collectively, the "CPM Group") after taken into account the relevant CPM Group's reserves is recognised in the capital reserve of the Group.

A summary of the financial impacts of the Spin-Off were as follows:

	HK$'000
Gross proceeds from the Spin-Off	215,000
Less: Total listing expenses	(46,960)
	168,040
Add: Listing expenses that were charged to statement of profit or loss	26,574
Net proceed directly attributable to the issue of 25% new shares of CPM Group	194,614
Less: 25% of net assets value of CPM Group recognised as non-controlling interest	(171,131)
Release of reserves recognised in previous years	(4,230)
Difference on deemed disposal of CPM Group Limited	19,253

An analysis of the cash flows in respect of the deemed partial disposal of an interest in CPM Group is as follows:

	HK$'000
Gross proceeds from the Spin-Off	215,000
Less: Listing expenses for the 25% new shares paid during the year	(16,559)
Net inflow of cash and cash equivalents in respect of the deemed partial disposal of an interest in a subsidiary	198,441

38. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

(i) During the year ended 31 December 2018, the Group entered into a finance lease arrangement in respect of property, plant and equipment with a total capital value at the inception of the lease of HK$34,000 (2017: HK$15,000).

(ii) During the year ended 31 December 2018, the Group completed the acquisition of certain items of property, plant and equipment, and investment properties, the consideration of which was partially settled by deposits previously paid with an aggregate carrying amount of HK$794,000 (2017: HK$1,575,000).

(b) Changes in liabilities arising from financing activities

2018

	Interest-bearing bank borrowing HK$'000	**Finance lease payables HK$'000**
At 1 January 2018	**132,128**	**1,423**
Changes from financing cash flows	**140,697**	**(401)**
New finance lease	**–**	**34**
Exchange realignment	**(3,114)**	**–**
At 31 December 2018	**269,711**	**1,056**

2017

	Interest-bearing bank borrowing HK$'000	Finance lease payables HK$'000
At 1 January 2017	164,126	1,792
Changes from financing cash flows	(32,007)	(384)
New finance lease	–	15
Exchange realignment	9	–
At 31 December 2017	132,128	1,423

39. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's bills payable and bank loans and other borrowings are included in notes 25 and 28, respectively, to the financial statements.

40. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 14) under operating lease arrangements, with leases negotiated for terms ranging from one to ten years (2017: one to four years), while certain leases can be early terminated by serving one to six months notices by the Group. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the prevailing market conditions.

At 31 December 2018, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2018	2017
	HK$'000	HK$'000
Within one year	**13,546**	12,370
In the second to fifth years, inclusive	**12,019**	12,315
	25,565	24,685

(b) 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 2018 the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018	2017
	HK$'000	HK$'000
Within one year	**1,060**	1,206
In the second to fifth years, inclusive	**60**	198
	1,120	1,404

41. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 40(b) above, the Group had the following capital commitments at the end of the reporting period:

	2018 HK$'000	2017 HK$'000
Contracted, but not provided for:		
Purchases of land use rights*	**1,778**	1,875
Construction and purchases of items of property, plant and equipment	**3,979**	22,123
	5,757	23,998

* 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 (2017: RMB6,658,000) had been paid by the Group as at 31 December 2018.

42. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following significant transactions with related parties during the year:

(a) Outstanding balance with a related party

Details of the Group's balance with an associate as at the end of the reporting period are disclosed in note 18 to the financial statements.

(b) Compensation of key management personnel of the Group

	2018 HK$'000	2017 HK$'000
Short term employee benefits	**5,768**	10,348
Post-employment benefits	**36**	211
Total compensation paid/payable to key management personnel	**5,804**	10,559

Further details of directors' emoluments are included in note 8 to the financial statements.

The related party transactions above do not constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

43. 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:

2018

Financial assets

	Financial assets at amortised cost HK$'000	Financial assets at fair value through other comprehensive income HK$'000	Total HK$'000
Equity investments designated at fair value through other comprehensive income	–	91,710	91,710
Trade and bills receivables	479,025	–	479,025
Financial assets included in prepayments, deposits and other receivables	85,135	–	85,135
Pledged deposits	5,055	–	5,055
Cash and cash equivalents	295,866	–	295,866
	865,081	91,710	956,791

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Due to an associate	2,800
Trade and bills payables	226,374
Financial liabilities included in other payables and accruals	79,832
Interest-bearing bank and other borrowings	270,767
	579,773

43. 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)

2017

Financial assets

	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Available-for-sale investments	–	92,083	92,083
Trade and bills receivables	724,086	–	724,086
Financial assets included in prepayments, deposits and other receivables	49,873	–	49,873
Pledged deposits	3,269	–	3,269
Cash and cash equivalents	382,770	–	382,770
	1,159,998	92,083	1,252,081

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Due to an associate	2,800
Trade and bills payables	304,705
Financial liabilities included in other payables and accruals	59,748
Interest-bearing bank and other borrowings	133,551
	500,804

44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values and available-for-sale investments (further details of which are set out in note 19 to the financial statements), are as follows:

	Carrying amounts		Fair values	
	2018	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets				
Equity investments designated at fair value through other comprehensive income	**91,710**	–	**91,710**	–
Financial liabilities				
Interest-bearing bank and other borrowings	**270,767**	133,551	**270,768**	133,564

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, 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 an amount due to an associate 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 values of the non-current portion of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2018 was assessed to be insignificant.

44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

The fair value of the unlisted club membership debenture, which was previously classified as an available-for-sale equity investment, is based on quoted market prices.

The fair values of other unlisted equity investments designated at fair value through other comprehensive income, which were previously classified as available-for-sale equity investments, have been estimated using market-based valuation techniques based on assumptions that are not supported by observable market prices or rates. The fair values of these unlisted equity investments have been determined using market comparison approach and/or quoted market prices and applicable valuation techniques which require the directors to determine comparable public companies (peers) based on industry, size, leverage and strategy, and calculates an appropriate price multiple, such as enterprise value to earnings before interest, taxes, depreciation and amortisation ("EV/EBITDA") multiple and price to earnings ("P/E") multiple, for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by an earnings measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the unlisted equity investments to measure the fair value. The directors believe that the estimated fair values resulting from the valuation techniques, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Below is a summary of significant unobservable inputs to the valuation of equity investments designated at fair value through other comprehensive income together with a quantitative sensitivity analysis as at 31 December 2018:

Financial instruments	Valuation techniques	Significant unobservable inputs	Range	Sensitivity of fair value to the inputs/ relationship of unobservable inputs to fair value
Unlisted equity investments	Market comparison approach	Unit rates of grave plots	RMB30,000 to RMB200,000 per grave plot	5% increase (decrease) in the unit rates of grave plots would result in increase (decrease) in fair value by RMB24,500,000 (RMB24,500,000)
		Unit rates of niches	RMB7,000 to RMB8,000 per niche	5% increase (decrease) in unit rates of niches would result in increase (decrease) in fair value by RMB200,000 (RMB200,000)
		Unit rates of graveyard land	RMB1,000,000 to RMB1,500,000 per mu	5% increase (decrease) in unit rates of graveyard land would result in increase (decrease) in fair value by RMB24,000,000 (RMB24,000,000)
		Minority discount	5%	5% increase (decrease) in minority discount would result in decrease (increase) in fair value by HK$22,809,000 (HK$22,809,000)
		Control premium	5%	5% increase (decrease) in control premium would result in increase (decrease) in fair value by HK$9,910,000 (HK$9,910,000)
		Discount for lack of marketability	30% to 40%	5% increase (decrease) in lack of marketability discount would result in decrease (increase) in fair value by HK$17,381,000 (HK$17,381,000)

44. 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 2018				
Equity investments designated at fair value through other comprehensive income	–	300	91,410	91,710

44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

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

	2018
	HK$'000
Equity investments designated at fair value through other comprehensive income – unlisted	
At 1 January	**92,083**
Effect of adoption of HKFRS 9	**(12,514)**
At 1 January (restated)	**79,569**
Total gain recognised in other comprehensive income	**15,628**
Exchange realignment	**(3,487)**
At 31 December	**91,710**

	2017
	HK$'000
Structured deposits	
At 1 January	98,666
Purchases	165,055
Disposals	(266,131)
Net gains recognised in the statement of profit or loss	762
Exchange realignment	1,648
At 31 December	–

44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

	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**
Liabilities for which fair values are disclosed:				
At 31 December 2018				
Interest-bearing bank and other borrowings	**–**	**–**	**270,768**	**270,768**
At 31 December 2017				
Interest-bearing bank and other borrowings	–	–	133,564	133,564

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 (2017: Nil).

45. 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 pledged deposits, trade and bills receivables, deposits and other receivables, equity investments designated at fair value through other comprehensive income, available-for-sale investments, an amount due to an associate, trade and bills payables and other payables, which arise directly from its operations.

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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.

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/(loss) before tax (through the impact on deposits with banks and floating rate borrowings after taking into account the effect of the interest rate swap). There is no impact on the Group's equity, except on the retained profits.

	Increase/ (decrease) in basis points	**Increase/ (decrease) in loss before tax HK$'000**
2018		
HK$	**50**	**849**
RMB	**50**	**(564)**
HK$	**(50)**	**(849)**
RMB	**(50)**	**564**

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax HK$'000
2017		
HK$	50	(138)
RMB	50	403
HK$	(50)	138
RMB	(50)	(403)

45. 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 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/(loss) before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in RMB rate %	Increase/ (decrease) in loss before tax HK$'000
2018		
If HK$ weakens against RMB	**5**	**(8,112)**
If HK$ strengthens against RMB	**(5)**	**8,112**

	Increase/ (decrease) in RMB rate %	Increase/ (decrease) in profit before tax HK$'000
2017		
If HK$ weakens against RMB	5	2,405
If HK$ strengthens against RMB	(5)	(2,405)

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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.

Maximum exposure and year-end staging as at 31 December 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018. The amounts presented are gross carrying amounts for financial assets.

	12-month ECLs	Lifetime ECLs			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Simplified approach HK$'000	HK$'000
Trade receivables*	–	–	–	542,916	542,916
Bills receivable	28,154	–	–	–	28,154
Financial assets included in prepayments, deposits and other receivables					
– Normal**	83,035	–	–	–	83,035
– Doubtful**	–	2,800	–	–	2,800
Pledged deposits					
– Not yet past due	5,055	–	–	–	5,055
Cash and cash equivalents					
– Not yet past due	295,866	–	–	–	295,866
	412,110	2,800	–	542,916	957,826

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 23 to the financial statements.

** The credit quality of the financial assets included in prepayments, deposits and other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Maximum exposure as at 31 December 2017

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

45. 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 within one year HK$'000	In the second to fifth years HK$'000	Total HK$'000
2018			
Due to an associate	**2,800**	**–**	**2,800**
Trade and bills payables	**226,374**	**–**	**226,374**
Other payables	**79,832**	**–**	**79,832**
Interest-bearing bank borrowings*	**272,158**	**–**	**272,158**
Finance lease payables	**443**	**645**	**1,088**
	581,607	**645**	**582,252**
2017			
Due to an associate	2,800	–	2,800
Trade and bills payables	304,705	–	304,705
Other payables	59,748	–	59,748
Interest-bearing bank borrowings*	132,887	–	132,887
Finance lease payables	455	1,087	1,542
	500,595	1,087	501,682

* Included in the above interest-bearing bank borrowings of the Group are certain bank loans with carrying amounts as at 31 December 2018 of HK$237,985,000 (2017: HK$132,128,000), the banking facility letters of which contain a repayment on-demand clause giving the creditor banks of the bank loans the right to call in the bank loans at any time. Accordingly, for the purpose of the above maturity profile, the contractual undiscounted payment of such bank loans of the Group are classified as "on demand or within one year".

In accordance with the terms of the bank loans which contain a repayment on-demand clause, the maturity profile of those loans as at 31 December 2018, based on the contractual undiscounted payments and ignoring the effect of any repayment on demand clause, is as follows:

	Within one year HK$'000	In the second to fifth years HK$'000	Total HK$'000
31 December 2018	192,354	49,142	241,496

Notwithstanding the above clause, the directors do not believe that such bank loans will be called in entirety within 12 months at the end of the reporting period and they consider that the loans will be repaid in accordance with the maturity dates as set out in the banking facility letters. This evaluation was made considering: the financial position of the Group at the date of approval of the financial statements, the lack of events of defaults, and the fact that the Group has made all previously scheduled repayments on time.

45. 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 2018 and 31 December 2017.

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 and investment property revaluation reserve. The gearing ratios as at the end of the reporting periods were as follows:

	2018 **HK$'000**	2017 HK$'000
Bank and other borrowings	**270,767**	133,551
Equity attributable to owners of the parent	**1,490,715**	1,569,485
Less: Leasehold land and building revaluation reserve	**(264,592)**	(247,447)
Investment property revaluation reserve	**(13,557)**	(13,557)
Adjusted capital	**1,212,566**	1,308,481
Gearing ratio	**22.3%**	10.2%

46. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, due to the adoption of the new and revised HKFRSs during the year, certain comparative amounts have been reclassified/re-presented to conform to the current year's presentation and disclosures.

In addition, as further explained in note 4 to the financial statements, comparative amounts of segment assets and segment liabilities have been re-presented to conform to the current year's presentation.

47. 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:

	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS		
Property, plant and equipment	**140**	218
Interests in subsidiaries	**455,470**	486,597
Due from subsidiaries	**263,968**	238,813
Total non-current assets	**719,578**	725,628
CURRENT ASSETS		
Prepayments, deposits and other receivables	**13,969**	326
Cash and cash equivalents	**98,192**	91,453
Total current assets	**112,161**	91,779
CURRENT LIABILITIES		
Other payables and accruals	**3,982**	5,100
Interest-bearing other borrowings	**11**	14
Total current liabilities	**3,993**	5,114
NET CURRENT ASSETS	**108,168**	86,665
TOTAL ASSETS LESS CURRENT LIABILITIES	**827,746**	812,293
NON-CURRENT LIABILITIES		
Interest-bearing other borrowings	**–**	11
Net assets	**827,746**	812,282
EQUITY		
Issued capital	**190,369**	190,369
Reserves (note)	**637,377**	621,913
Total equity	**827,746**	812,282

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

Note:

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

	Share premium account HK$'000	Contributed surplus* HK$'000	Fair value reserve (non-recycling) HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2017	88,970	306,230	–	53	395,253
Total comprehensive income for the year	–	–	–	245,697	245,697
Final 2016 dividend declared and paid	–	(19,037)	–	–	(19,037)
At 31 December 2017	88,970	287,193	–	245,750	621,913
Effect of adoption of HKFRS 9	–	–	(52,501)	52,501	–
At 1 January 2018 (restated)	**88,970**	**287,193**	**(52,501)**	**298,251**	**621,913**
Total comprehensive income for the year	**–**	**–**	**–**	**34,501**	**34,501**
Final 2017 dividend declared and paid	**–**	**(19,037)**	**–**	**–**	**(19,037)**
At 31 December 2018	**88,970**	**268,156**	**(52,501)**	**332,752**	**637,377**

* A portion of the contributed surplus arose as a result of the transfer from the share premium account pursuant to a court approval obtained in 1992 for the purpose of writing off the goodwill arising on the acquisition of subsidiaries. The remaining portion of the contributed surplus arose in 1991 as a result of a group reorganisation and originally represented the difference between the nominal value of the Company's shares allotted under the reorganisation scheme and the consolidated net asset value of the acquired subsidiaries.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders under certain circumstances.

48. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2019.

Schedule of Principal Properties

31 December 2018

INVESTMENT PROPERTIES

Location	Percentage of interest in property attributable to the Group	Type of existing leasehold	Existing use
Units A, B, C, D and F, 28th Floor CNT Tower No. 338 Hennessy Road Wanchai Hong Kong	100	Long term	Commercial
18th Floor, CNT Tower No. 338 Hennessy Road Wanchai Hong Kong	100	Long term	Commercial
China Paint Industrial Building Lot No. 963 in Demarcation District No. 215 No. 7 Hong Ting Road Tui Min Hoi Sai Kung New Territories Hong Kong	100	Medium term	Industrial
China Paint Industrial Building Lot No. 991 in Demarcation District No. 215 No. 9 Hong Ting Road Tui Min Hoi Sai Kung New Territories Hong Kong	100	Medium term	Industrial
Ground Floor No. 497 Shanghai Street Mong Kok Kowloon Hong Kong	100	Medium term	Commercial

INVESTMENT PROPERTIES (continued)

Location	Percentage of interest in property attributable to the Group	Type of existing leasehold	Existing use
Factory Complex Ling Dong Road Xin Hua Gangkou Industrial Development Zone Hua Du District Guangzhou City Guangdong Province the PRC	100	Medium term	Industrial
Industrial Complex 22 Jinshui Road Economic Development District Xuzhou City Jiangsu Province the PRC	100	Medium term	Industrial
Office Unit 1704, Block A1 Wealth Century Plaza 13 Haian Road Tian He District Guangzhou City Guangdong Province the PRC	100	Medium term	Commercial
Office Units 2506 and 2507, Block A Tianxia International Center Taoyuan Road Nanshan District Shenzhen City Guangdong Province the PRC	100	Medium term	Commercial

Schedule of Principal Properties

31 December 2018

INVESTMENT PROPERTIES (continued)

Location	Percentage of interest in property attributable to the Group	Type of existing leasehold	Existing use
Units 2301-2, 2501-2, 2601-2 of Block B and 2603-4, 2703-4 of Block C Phase 3, Philippe Castle Interchange of Xin Sha Road and Huan Zhen Road Shajing Street Baoan District Shenzhen City Guangdong Province the PRC	100	Medium term	Residential
Flat Nos. 1003, 1103, 1203, 1303 & 1403 10th Floor to 14th Floor Unit 2 of Block 2, Zone 1 Feicui Pearl Yayuan No. 36 Yuewan Road Sanijao Town Zhongshan City Guangdong Province the PRC	100	Medium term	Residential
Units 801 and 807, 8th Floor Greenland Rongxin Commercial Centre Lane 1588 No. 499 Zhuguang Road Xujing Town Qingpu District Shanghai the PRC	100	Medium term	Commercial
Unit 4905, 49th Floor Block 4, Greenland Centre Wangjing Dongyuan Chaoyang District Beijing the PRC	100	Medium term	Commercial

PROPERTIES UNDER DEVELOPMENT

Location	Percentage of interest in property attributable to the Group	Existing use	Approximate site/gross floor area	Expected completion date	Stage of completion
Lot Nos. 879, 880A1 880B1, 881 to 885 889RP, 891, 1318 1326 and 1344 in Demarcation District No. 115 Au Tau Yuen Long New Territories Hong Kong	100	Agricultural and house lots	3,700 sq. m.	N/A	Granted a conditional planning permission for a proposed columbarium development

Glossary

AC Chairman	The chairman of the Audit Committee
AC or Audit Committee	The audit committee of the Board
AGM	Annual general meeting of the Company
Board	The board of Directors
Bye-laws	The bye-laws of the Company
CG Code	Corporate Governance Code contained in Appendix 14 to the Listing Rules
Chairman	The chairman of the Company
Companies Act	The Companies Act 1981 of Bermuda
Company	CNT 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
Listing Rules	Rules Governing the Listing of Securities on the Stock Exchange
Managing Director	The managing director of the Company
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
PRC	The People's Republic of China
RC Chairman	The chairman of the Remuneration Committee
RC or Remuneration Committee	The remuneration committee of the Board
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
Share Option Scheme	The share option scheme adopted by the Company on 28 June 2012
Stock Exchange	The Stock Exchange of Hong Kong Limited
substantial shareholder(s)	has the meaning as defined in the Listing Rules

CNT GROUP LIMITED
北 海 集 團 有 限 公 司