Annual Report 2018

中漆集團有限公司
CPM GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code : 1932

GOLDEN FLOWER

Contents

Corporate Information

BOARD OF DIRECTORS

Non-executive Director and Chairman

Lam Ting Ball, Paul

Executive Directors

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

Non-executive Director

Chong Chi Kwan

Independent Non-executive Directors

Chiu Kam Hing, Kathy
Chua Joo Bin
Xia Jun

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

Fok Pik Yi, Carol

AUDITORS

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

COMPLIANCE ADVISER

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

SHARE REGISTRARS

Hong Kong

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

Cayman Islands

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

PRINCIPAL BANKERS

Hong Kong

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

PRC

HSBC Bank (China) Company Limited
Shenzhen Branch

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

WEBSITE

www.cpmgroup.com.hk

Chairman's Statement

OVERVIEW

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 tensions 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 condition 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%.

In addition to the decreasing demand for paint and coating products, the PRC domestic price of crude oil continued to increase during the year of 2018. This has resulted in the continuous decrease in the profitability amongst paint and coating product manufacturers in Mainland China, and hence led to price reduction/competition for them to penetrate into the market share or maintain sales volume. The continuous rise in crude oil price has led to the increase in the cost of principal raw materials, such as solvent and resin, for the paint and coating industry in Mainland China. Besides, the stringent implementation of environmental protection laws and regulations in Mainland China have resulted in many chemical factories going out of business or reducing their production scale. This explains why the selling prices of pigments and additive in Mainland China increased more than the prices of Xylene and Toluene of solvent.

In response to these challenges, management team of the Group has adopted various business revamp measures or initiatives to stabilise the situation so as to make the Group to be more competitive with the launch of new products and to be more profitable with rationalised cost structure.

Looking ahead, the road ahead is still full of challenges. However, the Board fully supports the business revamp measures and initiatives developed and implemented by the management. With the continued dedication, commitment and hard work of our staff, I remain confident in improving the Group's profitability in the paint and coating products in Mainland China.

RESULTS

The Group's revenue for the year amounted to approximately HK$617.25 million, representing a decrease of 38.0% when compared with last year. The decrease in the revenue was mainly attributable to the weak demand for retail wood coating products in Mainland and Hong Kong, the changes in end-user preferences, the stringent implementation of environmental protection laws and regulations in Mainland China and the effect of the resignation of sale personnels who were responsible for marketing and the promotion of the Group's business in the Eastern China Market. The amount of gross profit in 2018 decreased to HK$150.94 million, representing a decrease of 51.0% as compared to the gross profit of the Group of HK$307.81 million in 2017. The Group recorded a loss attributable to its owners of the parent company of HK$139.26 million in 2018. During the year ended 31 December 2017, the Group recorded a profit attributable to its owners of the parent company of HK$17.33 million. The unsatisfactory performance of the Group during the year ended 31 December 2018 was due to a number of factors. Such factors are set forth in the section headed Management Discussion and Analysis.

PROSPECTS

According to the publicly available information, it is expected that China's economy will 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 tensions, the Group remains prudently optimistic about the China's economy and prospect. In the shadow of political trade tensions 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.

BUSINESS REVIEW

The 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. The 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.

REVIEW OF OPERATIONS

Revenue

During the year under review, the Group's revenue decreased by 38.0% to HK$617.25 million in 2018 from HK$995.96 million in 2017. The following sets forth an analysis of the Group's revenue during the years ended 31 December 2017 and 2018 by principal products:

	Year ended 31 December				
	2017		**2018**		% of
	HK$'000	%	**HK$'000**	**%**	change
Industrial paint and coating products	555,696	55.8	**285,288**	**46.2**	(48.7)
Architectural paint and coating products	208,142	20.9	**199,556**	**32.3**	(4.1)
General paint and coating and ancillary products [1]	232,120	23.3	**132,410**	**21.5**	(43.0)
	995,958	100.0	**617,254**	**100.0**	(38.0)

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

Industrial paint and coating products, architectural paint and coating products, and general paint and coating and ancillary products 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 Group continues to focus on Mainland China market which contributed to approximately 92.4% (2017: 91.3%) of the total revenue 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 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 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 Group's situation was further affected by the resignation of sale personnels who were responsible for marketing and the promotion of the Group's business in the Eastern China Market. During the year, the 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.

REVIEW OF OPERATIONS (continued)

Significant Decrease in Revenue (continued)

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 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 Group in Mainland China.

On the other hand, the Group's revenue was generated from different sale channels, including distributors, direct sales, cash and credit sales to other customers and showroom sales. The Group's customers include distributors, manufacturers and renovation contractors for property and infrastructure projects. In the past, our revenue which was generated from distributors in Mainland China and Hong Kong was more than 60%. However, due to the unfavorable macroeconomic conditions, the Group recorded a decrease in the sales to distributors in Mainland China and Hong Kong, which affected our 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.

Cost of Sales

The following set forth an analysis of the cost of sales during the years ended 31 December 2017 and 2018, and the percentage of change.

	Year ended 31 December				
	2017		**2018**		
	HK$000	% to revenue	**HK$000**	**% to revenue**	% of change
Raw materials	601,991	60.4	**405,068**	**65.6**	(32.7)
Direct labour	56,843	5.7	**41,927**	**6.8**	(26.2)
Depreciation and production overhead	29,317	3.0	**19,316**	**3.1**	(34.1)
	688,151	69.1	**466,311**	**75.5**	(32.2)

REVIEW OF OPERATIONS (continued)

Unexpected Soar in Raw Materials Costs

The raw materials used by the Group include resins, solvents and other materials, of which resins and solvents accounted for a significant portion of the total cost of raw materials. As resins and solvents are the downstream products of crude oil, their market prices 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 Group. The 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 Our 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 Group even though there was a decrease in the production and sales volume of the Group's paint and coating products.

Profitability Analysis

The year of 2018 was an extraordinarily challenging year for the Group. The unsatisfactory performance of the 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 to the market. Regarding the negative sale performance, the 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 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 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 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 Group decided to integrate the production facilities in Mainland China and to streamline the workforces and personnel. The Group then reorganised the production plants in Mainland China to rationalise the production process and to improve production efficiencies. In addition, sale 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.

REVIEW OF OPERATIONS (continued)

Profitability Analysis (continued)

5. Finance costs – The 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 Group because there was loss making for the Group for the year ended 31 December 2018.

BUSINESS PLANS AND OUTLOOK

The Directors are cautiously optimistic on the business environment of the paint and coating industry in Mainland China in the midst of different challenges encountered by the Group. Whilst the political trade tensions continue between China and the United States, the PRC and foreign paint and coating manufacturers are making decisions that will affect the future development of the paint and coating industry in Mainland China. Overall, the well-established paint and coatings manufacturers are optimistic about the future of the paint and coating industry over the next five years, thus some of them invested huge capital in paint and coating industry in Mainland China.

In light of the substantial decrease in revenue, gross profit margin and gross profit for the year ended 31 December 2018, starting from the second quarter of 2018, the 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 Group. These business initiatives include the following:

1. Stabilising the business performance in the short term

In the short term, the Group aims to stabilise business performance with the target to restore the profitability of the Group. Starting from the second quarter of 2018, the 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 Group for the year ended 31 December 2018 did not decrease in line with the drop in the Group's revenue for the year ended 31 December 2018. This development, which was primarily due to the heavy redundancy costs incurred, continuous investment in brand building, adversely affected the profitability of the Group. Hence, cost reduction is the primary objective of the Group in 2019. In this regard, the 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 Group, it has slowed down the cash outflow from operation during the last quarter of 2018.

2. Price increase for paint and coating products

The 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 Group must increase the pricing to ensure that the Group can continue to deliver exceptional technical support and solutions to customers. In the second half of 2018, the Group increased the selling prices of most paint and coating products for twice. Definitely, the 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.

BUSINESS PLANS AND OUTLOOK (continued)

3. Improvement in the procurement and sourcing process

The 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 Group. Through the improvement in the procurement and sourcing process, the Directors expect that the Group would have relatively strong bargaining power to reduce the price of raw materials required.

4. Enhancing the competitiveness of the Group's products by adjusting the product mix and production distribution channels

The Directors are well aware that the implementation of the stringent cost control measures will not be sufficient to turn around the performance of the 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 Group will focus on solvent-based and water-based paint and coating products. The 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 our product development and supply chain processes. Therefore, the 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 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 the Company.

5. Integration of the production facilities in Mainland China

Most of the revenue of the Group is generated from sales to customers in the Southern China. In this connection, the Group decides to strengthen its production activities in Shenzhen, Zhongshan and Xinfeng, Guangdong Province, the PRC. The 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 Group will continue to enhance the production activities at the production facilities of the Group in Shenzhen, so that such production facilities will become the principal production hub and the product research and development base of the Group.

Subject to the market conditions, the 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 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 Group through the under-utilised production facility in Xuzhou, the Group explored production cooperation with those selected paint and coating manufacturers on an Original Equipment Manufacturer (OEM) basis.

Management's Discussion and Analysis

FINANCIAL REVIEW

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

The Group recorded a loss attributable to the owners of the parent company of approximately HK$139.26 million for the year. During the year ended 31 December 2017, the Group recorded a profit attributable to its parent company of HK$17.33 million. Revenue for the year amounted to approximately HK$617.25 million, representing a decrease of approximately 38.0% when compared with that of last year. Gross profit for the year amounted to approximately HK$150.94 million, representing a decrease of approximately 51.0% when compared with that of last year. The gross profit margin decreased by 20.7% from 30.9% in 2017 to 24.5% in 2018.

LIQUIDITY AND FINANCIAL INFORMATION

The Group's business operation is generally financed by its internal financial resources and bank borrowings. The cash and cash equivalents amounted to HK$160.28 million as of 31 December 2018 as compared with HK$247.26 million as of 31 December 2017. The significant decrease in cash and cash equivalents during the year under review was mainly due to (i) the payments made for the acquisition of the entire equity interest in China Molybdenum & Vanadium Development Limited; and (ii) the use of working capital. Bank and other borrowings amounted to HK$220.43 million as of 31 December 2018 as compared with HK$101.79 million as of 31 December 2017. The Group's bank and other borrowings mainly bear interest at floating rates. Of the Group's total bank and other borrowings as of 31 December 2018, HK$219.78 million (99.7%) is payable within one year, HK$0.42 million (0.2%) is payable in the second year and the remaining balance of HK$0.23 million (0.1%) is payable in the third to fifth years. The significant increase in bank and other borrowings during the year under review was mainly due to (a) the partial payment for the acquisition of the entire equity interest in China Molybdenum & Vanadium Development Limited; and (b) the use of working capital.

The Group's cash, bank balances and bank and other borrowings were mainly denominated in Hong Kong dollars and Renminbi. The Group's results can be affected by movements in the exchange rate between Hong Kong dollars and Renminbi. The Group currently does not adopt any hedging measures, but it will monitor the foreign exchange exposure and will consider hedging its foreign currency exposure should the need arise.

Gearing ratio of the Group which is expressed as a percentage of total bank and other borrowings to adjusted capital (as defined below) was 39.5% as of 31 December 2018 as compared with 13.6% as of 31 December 2017.

Liquidity ratio of the Group which is expressed as a percentage of current assets to current liabilities was 1.48 times as of 31 December 2018 as compared with 2.04 times as of 31 December 2017.

For the year under review, the inventory turnover days[1] were 44 days which was slightly different from that of 38 days in 2017. The trade and bills receivables turnover days[2] were 251 days compared to that of 256 days in 2017. The increase in the trade receivable turnover days were primarily due to the requests by our customers (including distributors) to extend the credit period amid the less favorable industry environment in Mainland China.

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.

LIQUIDITY AND FINANCIAL INFORMATION (continued)

Equity and Net Asset Value

Shareholders' funds of the Company as of 31 December 2018 was HK$569.39 million as compared with HK$752.21 million as of 31 December 2017. Adjusted capital of the Company, being shareholders' fund less the unrealised leasehold land and building revaluation reserve, as of 31 December 2018 was HK$558.10 million as compared with HK$745.72 million as of 31 December 2017. Net assets value per share as at 31 December 2018 was HK$0.57 compared with HK$0.76 as at 31 December 2017.

Contingent Liabilities

As of 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 HK$219.38 million (31 December 2017: HK$100.39 million).

Pledge of Assets

As of 31 December 2018, certain property, plant and equipment with an aggregate net book value of HK$8.48 million (31 December 2017: HK$9.49 million) were pledged to secure a general banking facility granted to the Group. In addition, at 31 December 2018, an indirect wholly owned subsidiary of the Company pledged its shares (2017: Nil) to secure general banking facilities granted to the Group.

TREASURY MANAGEMENT

Funding and Treasury Policy

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

Foreign Currency Exposure

The Group's cash, bank balances and bank and other borrowings were mainly denominated in Hong Kong Dollars and Renminbi. The Group's results can be affected by movements in the exchange rate between Hong Kong Dollars and Renminbi. The Group did not have any hedging instrument to hedge the foreign currency exposure as at 31 December 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$136.00 million (2017: HK$16.28 million) in the plant and equipment, and the construction of dangerous warehouses.

HUMAN RESOURCES

Headcount as at 31 December 2018 was 850 (31 December 2017: 1,013). Staff costs (excluding directors' emoluments) amounted to HK$155.96 million for the year as compared with HK$159.03 million last year. The Group has a comprehensive and competitive staff remuneration and benefits system which is based on the performance of individual employees.

PRINCIPAL RISKS AND UNCERTAINTIES

FINANCIAL RISKS

Interest Rate Risk

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

Currency Rate Risk

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

Credit Risk

The Group trades only with 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 adopts a forward-looking expected credit loss approach to estimate the provision based on the aging of its receivable balances. If the financial condition of its debtors deteriorates which resulted in the actual impairment loss being higher than expected, the Group would be required to revise the basis of making the allowance.

BUSINESS RISKS

Market Risks

Loss of market share to competitors is the market risk to the Group. The Group's core markets in Hong Kong and Mainland China are subject to increasing competition. Loss of business to competitors resulting from failure to consider changes in the environment in Hong Kong and Mainland China could have an adverse effect on the Group's financial position. The Group has 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 works for the paint business of the Group with the aims of "Prevention First, Protect the Environment, Comply with Laws and Regulations, and Environmental Sustainability":

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

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

(3) effective use of water and electricity; and

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

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

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

EVENTS AFTER THE REPORTING DATE

There is no significant subsequent event after 31 December 2018.

USE OF NET PROCEEDS FROM THE SHARE OFFER

The Group's business objectives and planned use of net proceeds as disclosed in the prospectus of the Company dated 19 June 2017 (the "Prospectus") were based on the best estimation of future market conditions made by the Group at the time of preparing the Prospectus and subject to the risk factors as stated in the Prospectus. The actual use of net proceeds was based on the actual market situation. Should there be any change in the use of proceeds, the Company will immediately inform its shareholders by way of announcement.

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

		Net proceeds	Aggregate amount utilised as at 31.12.2018	Amount unutilised as at the date of this report
		HK$ million	HK$ million	HK$ million
(1)	Construction of our Xinfeng Production Plant	78.5	(26.3)	52.2
(2)	Repayment of our bank loans	19.1	(19.1)	0.0
(3)	Acquisitions of businesses or production assets	42.0	(42.0)	0.0
(4)	Sales and market campaigns and activities	28.6	(28.6)	0.0
		168.2	(116.0)	52.2

The unutilised net proceeds from the Listing have been deposited in the bank accounts of the Group.

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.

THE BOARD

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

Executive Directors

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

Non-executive Directors

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

Independent Non-executive Directors

Chiu Kam Hing, Kathy
Chua Joo Bin
Xia Jun

The biographical details of the Directors and the relationships among them, if any, are set out in the "Biographies of Directors and Senior Management" on pages 44 to 45.

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

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

THE BOARD (continued)

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

The Board meets regularly to discuss and review the Group's overall strategy, the operation and financial performance of the Group and other duties of the Board. The attendance record of each Director at the 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		
Tsui Ho Chuen, Philip	4/4	1/1
Li Guangzhong	4/4	1/1
Wong Anders	4/4	1/1
Non-executive Directors		
Lam Ting Ball, Paul	4/4	1/1
Chong Chi Kwan	4/4	1/1
Independent Non-executive Directors		
Chiu Kam Hing, Kathy	3/4	1/1
Chua Joo Bin	4/4	1/1
Xia Jun	4/4	1/1

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 Nomination Committee 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 Articles.

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

NON-EXECUTIVE DIRECTORS

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

DIRECTORS’ TRAINING

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

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

DIRECTORS' TRAINING (continued)

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

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

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

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

BOARD COMMITTEES

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

Audit Committee

During the year, the Audit Committee consisted of three non-executive Directors (the majority of whom are independent): Ms. Chiu Kam Hing, Kathy (AC Chairlady), Mr. Chua Joo Bin and Mr. Chong Chi Kwan.

The Audit Committee met 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**
Chiu Kam Hing, Kathy *(AC Chairlady)*	2/2
Chua Joo Bin	2/2
Chong Chi Kwan	2/2

BOARD COMMITTEES (continued)

Remuneration Committee

During the year, the Remuneration Committee comprised two independent non-executive Directors and one non-executive Director: Ms. Chiu Kam Hing, Kathy (RC Chairlady), Mr. Chong Chi Kwan and Mr. Xia Jun.

The primary objectives and duties of the Remuneration Committee are set out in its terms of reference adopted in compliance with the requirements under the CG Code, which include, inter alia, making recommendations to the Board on the remuneration policy and structure for all the Directors and the senior management of the Company and on the establishment of a formal and transparent procedure for developing its remuneration policy. The remuneration of the executive Directors is determined by the Remuneration Committee and the remuneration of the non-executive Directors is determined by the Board on the recommendation of the Remuneration Committee, by reference to their duties and responsibilities, performance, experiences, time commitment, market conditions and the corporate goals and objectives as set by the Board. No Director is involved in deciding his/her own remuneration. Details of the remuneration of the Directors are set out in note 9 to the financial statements. During the year, the Remuneration Committee held one meeting to review and approve the remuneration policy and remuneration packages of the Directors and senior management of the Company. The attendance record of each committee member is set out below:

Directors	**Number of committee meeting attended/held**
Chiu Kam Hing, Kathy *(RC Chairlady)*	1/1
Chong Chi Kwan	1/1
Xia Jun	1/1

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

Remuneration Bands	**Number of Individuals**
HK$500,001-HK$1,000,000	1
HK$1,000,001-HK$1,500,000	1

Nomination Committee

During the year, the Nomination Committee comprised two independent non-executive Directors and one executive Director: Ms. Chiu Kam Hing, Kathy (NC Chairlady), Mr. Tsui Ho Chuen, Philip and Mr. Xia Jun.

The Nomination Committee met once during the year to review the structure, size and composition of the Board and assess the independence of independent non-executive Directors, and to approve the recommendation of the re-election of retiring Directors. The attendance record of each committee member is set out below:

Directors	**Number of committee meeting attended/held**
Chiu Kam Hing, Kathy *(NC Chairlady)*	1/1
Tsui Ho Chuen, Philip	1/1
Xia Jun	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-compliance 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	3,065,000
Non-audit services	329,200
	3,394,200

The non-audit services rendered by the Company's external auditors to the Group included performance of agreed-upon procedures on the 2018 interim financial statements and the preliminary results announcement for the year ended 31 December 2018, the audit examination of the statement on details of contribution of the Group's occupational retirement schemes and performance of a review 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 50 to 53.

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 chairman of the Board and the chairlady of the Audit Committee, the Remuneration Committee and the Nomination 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 an extraordinary general meeting

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

Putting forward proposals at general meeting

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

SHAREHOLDERS' RIGHTS (continued)

Putting forward proposals at general meeting (continued)

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

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

Making enquiries to the Board

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

CONSTITUTIONAL DOCUMENTS

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

On behalf of the Board
CPM Group Limited

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

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 endeavours 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 business of the manufacture and sale of paint and coating products, sets out the Group's strategic approach and performance in the area of environmental and social sustainable development. For the disclosure of various environmental-related indicators and performance data, please refer to the section headed "Summary of Environmental Data and Performance" of the ESG Report. 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.

STAKEHOLDERS' ENGAGEMENT

The Group is committed to maintaining the sustainable development of its business and the environmental protection of the local 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 expertise to ensure the sustainability of the Group's business ➢ Regular information dissemination by publication on the websites of the Stock Exchange and the Company ➢ Dedicated to improvement in internal control 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 training ➢ Establish a fair, reasonable and competitive remuneration system ➢ Enhance occupational health and workplace safety level

STAKEHOLDERS' ENGAGEMENT (continued)

Stakeholders	Expectations and requests	Management response
Customers	➢ High-quality products and customer services ➢ Timely delivery ➢ Reasonable price	➢ Improve the quality of products and services continuously in order to satisfy customers' requirements ➢ Establish an effective, efficient and green supply chain system ➢ Formulate comprehensive quality assurance process and recall procedures ➢ Ensure the performance of contractual obligations
Suppliers	➢ Stable demand ➢ Good relationship with the Company ➢ Corporate reputation	➢ Ensure the performance of contractual obligations ➢ 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 contribution ➢ Economic development	➢ Pay attention to the problem of climate change ➢ Encourage employees to participate in charitable activities and voluntary services ➢ Maintain 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 the Group's business development is in line with the expectations and requirements of its stakeholders. The Group's and its stakeholders' matters of concern are presented in the following materiality matrix:

Materiality Matrix

Importance to Stakeholders \ Importance to the Group	Low	Medium	High
High	◆ Anti-discrimination ◆ Protecting labour rights	◆ Talent management ◆ Staff training and promotion opportunity ◆ Staff compensation and welfare policies	➢ Customers' satisfaction level ➢ Product quality and safety ➢ Suppliers management ◆ Occupational health and workplace safety ✧ Application of clean production and green products
Medium	➢ Community involvement	➢ Anti-corruption ✧ Air and greenhouse gas emission ✧ Use of resources	➢ Operational compliance ➢ Protecting customers' privacy ✧ Air emissions ✧ Sewage discharge
Low	◆ Preventive measures for child and forced labour	✧ Use of water resources ✧ Non-hazardous wastes produced	✧ Use of raw materials ✧ Hazardous wastes produced

✧ Environmental ◆ Employee ➢ Operation

ENVIRONMENTAL PROTECTION

Emissions Management

The emissions in the Group's production process are mainly from its production plants in Mainland China. The Group has formulated different emission management measures in accordance with the local government policies and specific environmental conditions applicable to each production plant. In order to implement the "Environmental Protection Law of the People's Republic of China" and related laws and regulations, the Group has established the "Responsibility System for Environmental Protection of Hazardous Wastes" and has adopted the environmental protection policy of "Prevent and Control" to enable planning, implementation and development of production and environmental protection simultaneously and to achieve benefits in the economic, social and environmental aspects at the same time.

At present, the control and management of volatile organic compounds (hereinafter referred to as "VOC") is the biggest challenge to be tackled by the paint and coating manufacturing industry. The Group always promotes clean production and VOC management has become one of the key tasks for the Group. The Group has established a set of management policy and working guidelines to manage the whole product life cycle, which cover the selection of raw materials and auxiliary materials, the emission reduction measures in the production process, the management of emissions, and the usage of products by consumers. The Group also implemented an environmental reward and penalty management system to encourage various departments to carry out technological transformation and innovation, and initiate innovative changes in production methods, transformation of machine facilities or management methods.

The Group understands that VOC, paint wastes, industrial sewage and other emissions are generated during the paint and coating production process. Therefore, the Group puts great effort on the environmental management of each production plant and strives to reduce the environmental pollution caused by air emissions, sewage discharge and disposal of solid wastes. The Group has obtained pollutant discharge permit in respect of air emissions, sewage discharge and noise issued by the PRC government. In addition to the accredited GB/T 24001-2016/ISO 14001:2015 environmental management system certification, the Shenzhen production plant has established a safety and environmental protection department for the decision-making, supervision and coordination of various environmental protection works and the systemic management of the environmental performance of the entire production plant. In accordance with the Group's environmental protection policies and from the perspective of risk management, the management and the safety and environmental protection department have worked together to prepare preventive plans and establish an independent management system, such as "Prevention and Emergency Procedures for Air Pollution" and "Prevention and Emergency Procedures for Water Pollution", "Sewage Treatment Operation Manual" and "Prevention and Emergency Procedures for Noise Pollution". These policies not only set out working guidelines for the daily operation of the production plant but also rigorously regulate air emissions, sewage discharge and noise emission during the production process to ensure that the production process is in full compliance with national and local environmental standards. It also enables the production plant to deal with the emergencies or other environmental factors that can cause loss to the Group's stakeholders. Accordingly, it makes the entire environmental management system more comprehensive.

ENVIRONMENTAL PROTECTION (continued)

Emissions Management (continued)

Meanwhile, the Group fully identifies and provides timely updates on the environmental laws and regulations that are relevant to its production plants and provides trainings for all relevant employees to ensure that the operation of the production plants is in full compliance with relevant laws and regulations. During the reporting period, the Group strictly complied with the environmental laws and regulations of the national and local governments and did not involve in any non-compliance incident relating to emissions that had a significant impact on the Group.

1. Management of Air and Greenhouse Gas Emissions

The operation of the Group is affected by the country's increasingly stringent rectification policy on air pollution. In view of its future development, the Group continues to optimise the management of air and greenhouse gas emissions and the environmental protection facilities of each production plant. During the reporting period, the Group introduced three units of horizontal sand mill machines to replace the original three-roll mill machines in the Xinfeng production plant and changed its production method from open grinding production to sealed production. This led to a reduction in raw materials consumption caused by volatilisation and VOC volatilisation released into the atmosphere in the grinding process, thus further protected the health and safety of its employees and mitigated the adverse effects on the environment.

Each department of the Group plays its own important role in ensuring the Group's industrial exhaust emissions are in compliance with the national standards by monitoring and coordinating on each control point. The safety and environmental protection department is responsible for improving and monitoring the industrial waste gas treatment methods in production lines; the engineering department is responsible for maintaining the production facilities in the production plant and ensures that the facilities are operating effectively to prevent environmental pollution; the science and technology department is responsible for the introduction of new raw materials and auxiliary materials and conducts detailed testing to ensure that the materials meet RoHS and REACH standards (RoHS is a directive issued by the European Union to limit the determination of hazardous substances used in products. It limits the concentration of four hazardous substances, namely lead, cadmium, mercury and hexavalent chromium, and two flame retardants, namely polybrominated biphenyls and polybrominated diphenyl ethers, in products. REACH is a regulation of the European Union to limit the production and use of various chemicals so as to reduce the potential negative impact of those chemicals on human health and the environment). The production department strictly implements internal work guidelines and ensures that the exhaust air must be purified and recycled by activated charcoal. After the treatment process, it is discharged at a height of 15 meters in compliance with the national discharge height standard.

Numerous trees are planted in the production plants and surrounding areas for greening and to provide employees with a comfortable and healthy working environment. The Group engaged a professional environmental testing company to perform tests on waste gas. The frequency of tests has been increased from once a year to two to three times a year. The Group expects the remediation plan would provide positive verification for air emissions, and provide timely feedbacks to various departments. It can also provide direction for future environmental plans to optimise the environmental management systems and facilities of each production plant. During the reporting period, the test results which cover benzene, toluene, xylene, VOC concentration and particulate matter were in compliance with national emission standards.

ENVIRONMENTAL PROTECTION (continued)

Emissions Management (continued)

2. Management of waste water

As all the production plants are located in Mainland China, the Group has established a sewage discharge management system based on the "Water Pollution Prevention and Control Law of the People's Republic of China". The safety and environmental protection department is responsible for industrial waste water treatment and monitoring and inspection of the sewage treatment process in the production lines. It also evaluates the environmental performance of the production plants, and delegates personnel to perform regular inspection on the chemical oxygen demand ("COD") of sewage and measures the pH value of waste water once a day. The test results are recorded and used for management purposes. The Group has engaged a local environmental accredited company to perform test and measurement on the pH value, suspended substance, ammonia nitrogen, 5-day biochemical oxygen demand and COD of waste water. During the reporting period, all quarterly test results were in compliance with the national emission standards. The National Ministry of Ecology and Environment also performs unscheduled inspections on sewage for about two to three times a year. During the reporting period, the Group did not receive any reports from the relevant authorities regarding any breach of standards.

The waste water generated by production plants is mainly domestic sewage and industrial sewage. The domestic sewage is directly discharged to the local sewage treatment plant through the main pipelines. Each production plant has its own sewage treatment station, which comprised of conditioning tank, chemical sedimentation tank, anaerobic tank and biological pool. The water-based paint sewage emitted during the production process is discharged after conditioned, precipitated and underwent chemical and biological treatment procedures. In order to prevent sewage overflow from the conditioning tank which may result in environmental pollution, different treatment methods have been implemented to control the flow of different water levels. The Group has an emergency pool for emergency storage during large-scale production or when the sewage treatment station is not working properly. To ensure the proper functioning of sewage treatment facilities, the Group pays close attention to the regular maintenance and repair of these facilities.

The waste water generated from the production of water-based paint products is from the cleaning process of paints mixing tank. The untreated water-based paint waste water will be handled by the waste water treatment station to conduct a series of hazard-free treatment. Hazardous substances are separated from the water after the treatment and the treated water-based paint waste water is discharged to the local sewage treatment plant directly for further treatment. Qualified recycler with "Hazardous Waste Operating License" is engaged for the transfer and disposal of hazardous sludge. During the reporting period, the Group did not receive any reports of illegal or irregular emissions. The Group's non-hazardous waste water in 2018 was 10,701.92 tonnes, an increase of approximately 579.21 tonnes or 5.72% from the previous year which was mainly for the water-based paint production in 2018.

ENVIRONMENTAL PROTECTION (continued)

Emissions Management (continued)

3. Management of Disposal of Solid Wastes

To comply with the "Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste" and relevant laws and regulations, the Group has established relevant internal policies and procedures to manage and monitor the process of disposal of solid wastes. For handling the disposal of the hazardous wastes, the Group has also established "Responsibility System for Environmental Protection of Hazardous Wastes".

The hazardous solid wastes generated during the production process are mainly sludge, used activated charcoal, waste containers and labour supplies contaminated with hazardous substances. The managing department categorises solid wastes in accordance with the "Standard for Pollution Control on Hazardous Waste Storage" and "Standards for Pollution Control on the Storage and Disposal Site for General Industrial Solid Wastes" and controls the storage and disposal of solid wastes in the specific area. All hazardous solid wastes must be recycled by the units that hold the permit for operation of dangerous wastes. Those units are strictly required to dispose the hazardous wastes in accordance with the "Management Indicator System for Hazardous Wastes" and prevent any illegal disposal of hazardous wastes. For sludge reduction, the manufacturing sequence in respect of the use of raw materials in the paint mixing tank is also considered during the planning stage of production. For example, materials of the same type will be directly fed to the mixing tank to reduce the number of cleaning, so as to improve the efficiency of production and materials usage.

For the usage, transportation and storage of hazardous substances, such as chemicals, the responsible departments and users of the Group strictly comply with relevant laws and regulations and internal policies and procedures, and take necessary protective measures to avoid environmental pollution. The Group has also established a chemical waste management plan to report all discarded hazardous chemicals to the environmental protection department and maintained a register regarding information of discarded hazardous chemicals. For the transfer of hazardous wastes, the Group has filed registrations with the national solid waste management information platform, and hazardous wastes will only be transferred upon the examination and receipt of approvals from relevant authorities. Therefore, the Group can ensure no illegal disposal of waste by recyclers and avoid environmental pollution in this respect.

For non-hazardous wastes, the Group has adopted a recycling approach corresponding to the generation process. Waste generated during the production process, such as packaging materials and cardboards, are collected by the production units according to different categories and are sent to designated locations. Local environmental accredited companies are engaged to handle such wastes. The Group recycles and re-uses papers used in the office in order to maximise the resources utilisation rate.

4. Management of Noise

The Group strictly controls and manages noise produced during the operation of production facilities. All production facilities undergo noise reduction treatment. The engineering department of the Group is responsible for the management, repair and maintenance of production facilities and power generators to ensure that the noise produced is within the national standards. The Group conducts an assessment of the noise level at least once a year. During the reporting period, the test result was in compliance with the national emission standards.

ENVIRONMENTAL PROTECTION (continued)

Management of Use of Resources

In order to comply with the "Law of the People's Republic of China on Conserving Energy" and relevant laws and regulations, the Group has established relevant internal policies and procedures in each plant. The Group is committed to promoting a corporate culture on "saving resources" by constantly reminding employees to embrace the concept of "resources are precious and the Group will save resources and avoid wastage". To ensure staff understand the importance of resources conservation, the Group has implemented various measures to encourage staff to build a habit of saving and make the best use of resources.

1. Energy Conservation

The Group controls the use of energy and improves resource usage efficiency through daily management of energy consumption. The Group emphasises the saving of electricity by promoting the use of energy-efficient lighting. Lights shall be turned off whenever there is enough daylight. Air conditioners shall be turned off after work, and the use of which will be limited according to seasonal and temperature changes. Doors and windows shall be kept closed when air conditioners are turned on. Employees are required to switch off their own or their department's electrical appliances while computers are required to be switched off before employees leaving the workplace. The engineering department actively carries out energy-saving renovations for various production and electrical equipment, such as installing variable-frequency drive, automatic sensor switches, etc., and improves energy use according to the load or conditions of the equipment. In addition, all new employees are required to complete induction training, which covers environmental protection facilities and equipment operation procedures, to ensure that each new employee understands the functions of the environmental facilities and reduce the inappropriate use of equipment so as to minimise unnecessary energy consumption.

During the reporting period, the Group's production plant in Xinfeng installed 772 LED energy-saving light bulbs as replacements, transformed the air compressor's temperature by installing the variable-frequency drive, introduced automatic packaging machines and replaced three-roll mill machines with horizontal sand mill machines. All these transformations enable the Group to achieve an annual saving of electricity of nearly 50,000 kilowatt-hours.

During the reporting period, the Group's electricity consumption decreased by approximately 32.72% compared with the previous year. Due to the country's enhanced supervision of oil-based paints and changes in environmental protection policies, the production of oil-based paint products decreased during the year and electricity consumption reduced accordingly. Scope 2 greenhouse gas emissions refer to the "energy indirect" greenhouse gas emissions resulting from the internal consumption of purchased electricity. As electricity consumption for the year decreased, the Scope 2 greenhouse gas emissions also reduced by 33.10%.

ENVIRONMENTAL PROTECTION (continued)

Management of Use of Resources (continued)

2. Water Conservation

Although the Group did not encounter any problems in sourcing water that is fit for purpose, the Group has always attached importance to the use of water resources and implemented different measures to encourage its employees to make the best use of water resources and reduce wastage. Each production department and office is required to check water facilities, pipelines, taps to prevent wasting water regularly. The Group also aims to enhance employees' awareness of water conservation by putting up different water-saving tips at prominent positions. Once damaged pipes or valves or water leakage is found, the employees shall notify the maintenance department promptly for repair. The engineering department also installed monitoring equipment at different water outlets to measure and rectify the water outlets with significant water consumption.

During the reporting period, there were water leakage cases in the Group's water pipes in the course of the municipal government's canal improvement projects. This resulted in a slightly increase of water consumption by 1,378.24 cubic meters or 1.22% and an increase of water consumption density by 64.21% from the previous year.

3. Paper Conservation

To reduce wastage of paper, the Group advocates to create a paperless office and encourages employees to read documents in electronic format, rather than paper copies. Employees are encouraged to follow the principle of "think before printing" and print selectively to save paper. Double-sided printing is suggested. Employees are encouraged to reuse single-sided used papers and collect double-sided used papers in recycling bins for recycling. Files are recommended to be distributed in electronic format. During the reporting period, the paint manufacturing and coating business of the Group consumed approximately 9.73 tonnes of paper.

The Environment and Natural Resources

The Group has been devoted to the care and protection of natural resources. To promote the concept of "caring and protecting the environment is everyone's responsibility", the Group hopes to engage everyone and join hands for a better world. In order to provide employees with a better understanding of the importance of environmental protection and the close relationship between the environment and business development, the Group continues to adopt various policies, measures and take actions (Please refer to the sections headed "Management of Emissions" and "Management of Use of Resources" for details), implements appropriate environmental management policies for the reduction of energy consumption and waste generation, so as to enhance the environmental awareness among families, friends and business partners and minimise the environmental impacts of the Group's business activities.

Regarding the direction of promoting water-based paint and discouraging the use of oil-based paint strongly advocated by the national government, the Group is aware of the adjustments in industrial structure and consumers' demands for better product quality. Traditional extensive production methods will also be eliminated progressively. The paint and coating manufacturing industry is expected to face increasing challenges in the future. As a responsible enterprise, the Group will develop certain policies and measures to comply with the national standards. The Group will continuously improve and transform its production facilities and processes, convert to the use of clean energy and raw materials and improve its resource utilisation to reduce waste generation during the production process. In the near future, the Group aims to create an environmental friendly operating process that suits with its own business characteristics so as to meet customers' growing concern about environmental protection and contribute to environmental protection.

EMPLOYMENT AND LABOUR PRACTICES

Employees are the Group's valuable assets. The Group adheres to the "people-oriented" principle in its governance. A set of comprehensive talent management mechanism has been established to attract and retain competent talents for sustainable development. The Group devotes to create a non-discriminatory, equal, harmonious and safe workplace and build up a mutual respect relationship with its employees. The Group encourages its employees to be innovative, flexible and committed when dealing with customers and providing high-quality products and services. To accomplish these goals, the Group offers favourable conditions to attract, retain and reward talents, such as the provision of appropriate remuneration, personal and career development training together with other fringe benefits. Besides, the Group promotes work-life balance and focuses on the physical and mental health of its employees. The Group organises various activities to enrich their leisure time and enhance the cohesiveness of its teams.

Talent Selection

The Group is a fair opportunity employer and respect employees' privacy, by establishing relevant policies to govern equal opportunity for employment to all employees, regardless of their ethnic group, religious affiliation, nationality, gender, age, marital status. The Group considers their morality, knowledge, ability and job-related requirements for employment and applies those policies to all phases of the employment relationship, including but not limited to, hiring, promotion, performance appraisal, training, personal development and employment termination.

Labour Standards

The Group values human rights and protects labour rights. Child or forced labour is strictly prohibited in the Group in accordance with the applicable laws and regulations. The Group conducts background checks and reference checks during the hiring process to prevent any illegal labour. The employees working hours are in line with the relevant local labour laws and regulations. Consent shall be obtained from employees for working overtime so as to prevent forced overtime work. Employees are compensated in accordance with the requirements of the relevant laws and regulations. During the reporting period, the Group had complied with the labour laws and regulations and no person under the legal working age was employed in respect of child or forced labour.

Compensation and Welfare

The Group attracts and retains outstanding talents by providing competitive remuneration packages and regularly examines their salary levels to ensure that it is up to standard. The Group collects and benchmarks up-to-date remuneration data for its industry in order to establish a fair, reasonable and competitive remuneration scheme. The Group adopts a five-day work week to promote employees' health and work-life balance. Other benefits include the provision of employee housing dorm, annual body medical check-up, festival red packets, such as Spring Festival, Mid-Autumn Festival, maternity subsidy, meal allowance, etc. In accordance with the local labour laws and social security laws and regulations, the Group provides social security benefits for all employees, and protect their entitlements to rest days and holidays. The Group handles the dismissal of employees and compensates them in accordance with the national laws and regulations. Bonuses, year-end awards, salaries increment and/or promotion are fairly assessed based on a number of criteria, including working experience, seniority, knowledge, skills, performance, contribution, etc., during the regular performance appraisal.

In order to enhance the cohesion among employees and help them to build up a sense of belonging and reduce stress, the Group organised festival gatherings, such as table tennis and basketball competitions, encouraged employees to participate in different activities, such as marathons, and organised different courses. During the reporting period, the Shenzhen factory offered various courses for its employees, such as stress management and emotional control, how to be a good parent, sales exchange meeting, crystal glass crafts activity for parents and kids. The Shenzhen factory provides a multi-purpose recreation centre with facilities, such as badminton courts, billiard room, basketball court, fitness room and lounge for employees to use during their leisure time.

EMPLOYMENT AND LABOUR PRACTICES (continued)

Development and Training

The Group made great efforts in helping employees' personal development and growth and formulated training policies and procedures. Based on the departmental human resources needs, the human resources department established a comprehensive training programme for employees, to create an excellent, well-trained and responsible corporate team. Such programme not only enhances the employees' knowledge and management skills, but also improves their ability, performance and efficiency, and raises their enthusiasm and builds team spirit. New employees are required to participate in pre-employment training programmes and pass the assessment before they report to duty. The training topics include corporate culture, business and work-related rules and regulations, organisational structure, welfare scheme, environmental protection and workplace safety, etc. (Please refer to the section headed "Health and Safety" for details of workplace safety training). During the reporting period, the Group organised various onboard training programmes. The training topics include professional qualities of purchaser and job operation procedures, assessment criteria for recommended toy coatings suppliers, measuring instrument management, new industrial paints, 7S framework, etc. The Group will continuously encourage and provide various training at its availability to meet the expectations and needs of its employees.

Health and Safety

The Group cares about its employees' health and provides a safe working environment in order to protect employees from occupational hazards. To comply with the relevant local safety production laws and regulations, the Group established policies and procedures to ensure safe production and established the safety and environmental protection department and safety management organisational structure. Supervisors and employees at all levels must clearly understand their own safety responsibilities and sign the respective safety responsibility statement, and strictly perform their duty in accordance with the requirements as stated in the statement. New employees must join different practical training, understand the workflow, equipment operation and guidelines of the production department and receive safety education conducted by the production department and team. In order to raise occupational safety awareness, the Group provides frequent training to its employees to improve their awareness, knowledge and skills in the area of workplace safety. The Group also carries out regular role-based technical training, safety assessment and team activities to ensure that its employees are prepared mentally and have adequate knowledge and skills to meet the safety standards and to fulfill their job duties. During the reporting period, the Group organised various safety training programmes. Topics include safety production laws and regulations, RoHS training on the restriction of phthalates, work instructions for manufacturing thinner, drills for production safety emergency incidents, volunteer fire brigade training, safety operation specification for chemical production units, hazardous chemicals basic knowledge, forklifts safety operation guidelines, fire-fighting equipment, etc. The Group will continue to provide training to minimise occupational health and safety risks during the production process. Besides, the Group provides all employees with environmental, occupational health and safety education to help them understand the corporate environmental approach and continuously improve their awareness of environmental protection, occupational health and safety and report to the safety and environmental protection department once any emergency issue is found.

The safety and environmental protection department is responsible for monitoring and managing workplace hazards. In order to provide a safe working environment to employees, the safety and environmental protection department and the production department conduct several safety inspections each day to ensure potential safety hazards can be identified timely, and implement proper measures to eliminate and control the risks.

EMPLOYMENT AND LABOUR PRACTICES (continued)

Health and Safety (continued)

The engineering department is responsible for the repair and maintenance of production equipment and is required to perform safety inspections. It also provides status reports to the management daily. If there is any malfunctioning of production equipment, repair work is required to be conducted immediately to ensure safe production. To ensure equipment and facilities are in good condition and to control risk and prevent safety incidents, the engineering department performs inspections on production equipment and facilities and fire facilities, including fire extinguishers, fire hose, etc., on a regular basis and reports abnormalities for immediate repair arrangement and keeps proper regular inspection and repair and maintenance records.

Pursuant to the requirements of the "Law of the People's Republic of China on Prevention and Control of Occupational Diseases", the Group establishes an occupational health management system to protect employees' health, rights and interests and make constant improvement. The Group provides employees with protective equipment, such as masks, uniforms, protective shoes, etc., to comply with the national standards, and supervise and educate employees on how to wear and use them. Stringent safety work and fire prevention guidelines are also established. Employees are required to perform medical check-up every year and to pass in the medical assessment as a prerequisite for continuous employment, which indicates that the Group cares about employees' health and occupational safety.

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

OPERATING PRACTICES

Supply Chain Management

The Group conveys its concerns on environmental protection issues to the suppliers and business partners, and expects them to join hands with the Group to fulfill social corporate responsibility. The Group also serves to maintain long-term, stable and strategic cooperative relationships with leading suppliers, and co-develops with suppliers on the basis of equality to achieve a win-win situation. Prior to entering into the contracting stage with its key business partners, the Group conducts an assessment based on a variety of criteria, including attitude towards environmental and social issues. Therefore, the Group has adopted strict procurement management and evaluation systems for both new and existing suppliers and has prepared the "approved vendor list". When selecting a new supplier, the Group is required to assess the potential, management system, production equipment, etc. of suppliers; and conduct trail test on new raw materials for selecting the best suppliers. The Group has segregation of duties on each stage from the signing of contracts with suppliers to the acceptance of the products. The suppliers are required to obtain recognised certifications, adopt good internal management system, achieve stability in product quality, make on-time delivery, comply with relevant laws and regulation and possess professional skills and qualifications. As such, the Group can ascertain that the selected suppliers are capable of providing competitive and qualified products and services. The Group establishes a supply chain management system with strict requirements to provide various reporting channels to employees, suppliers, customers and other business parties to report any violations of laws or regulations. During the reporting period, the Group did not have significant issues relating to violations in this respect.

Product Responsibility

To achieve the philosophy of "quality, consumer and environmental protection first", the Group satisfies its customers with high-quality products and services. With technological advancement and improving living standards, customers are increasingly demanding for product quality. Therefore, the Group keeps improving product quality and implements an effective quality control system. Valuable insights and experience accumulated in their positions enable employees to provide valid suggestions for product quality improvement. If customers encounter any product quality problem or the products failed to satisfy their requirements, they can request for assistance by referring to the after-sales arrangement of the Group.

OPERATING PRACTICES (continued)

Product Responsibility (continued)

The production plants in Mainland China have obtained various international accreditation certificates. In respect of the production of paint and coating products, the Group has complied with the international standards in the processes of selection of raw materials, production and product testing. Over the years, the Group has been awarded numerous honours for its products which recognise the Group's determination in providing its customers with the best service and high-quality products (Please refer to the section headed "Awards and Honours" for details).

Confidentiality is one of the Group's core values. Customers' information is always handled diligently and confidentially. For any confidential information obtained through business relationships, employees are prohibited from disclosing any information to third parties without proper authorisation unless there is a legal or professional right or duty to do so.

During the reporting period, there was no non-compliance incident relating to its products which would have a significant impact on the Group.

Anti-corruption

Maintaining an ethical working environment is one of our core values. The Group adopts a zero-tolerance approach for all kinds of corruption, bribery, extortion situation. Therefore, the Group established different policies and procedures and working guidelines to require Directors, management and general employees to be honest, conduct business with high integrity and to follow the requirements in business ethics and culture in order to avoid bribery. For example, the Group formulated "sales department policies and procedures" to prevent the inappropriate behaviour of salespersons. The Group has set out strict penalties in the employee handbook to combat inappropriate collection and acceptance of bribes, commissions or other illegal interests, such as property, banquet activities, etc. The Group requires all personnel to be abided by rules and regulations and does not tolerate any bribery act at all. The Group has conducted disciplinary inspections and monitoring in the production and operation process to ensure whistle-blowing channels are in place, such as "Chairman's Mailbox", that people can use, in confidence, to lodge complaints alleging disciplinary complaints and act in violation of rules, regulations and laws, such as the abuse of power for personal gains, bribery, blackmailing, frauds or money laundering. We are determined to combat corruption and contribute to building a clean society. Before employees are on board, they are required to attend training in business ethics. Employees who are in breach of the Company's code of conduct are disciplined and/or dismissed. During the reporting period, there was no litigation of corruption involving the Group or its employees.

COMMUNITY INVESTMENT

The Group emphasises community involvement and advocates accountability in its corporate culture. Everyone is accountable to oneself, their family, their employer, and society. The Group encourages its staff to help people in need by participating in charitable activities and volunteer services which include low-carbon green walk, marathon pre-training course and first-aid training, marathon volunteer services, and ecosystem protection activities. The Group also established scholarships for Yunnan University to support students in poverty and arranged visits to those people in need (e.g. the elderly). The Group will continuously encourage its employees to participate in more volunteer activities and services in the coming year.

AWARDS AND HONOURS

The Group has obtained the following major awards and honours in 2018:

Hong Kong

- Various products of "*Flower (菊花牌)*" and "*Golden Flower (金菊花牌)*" of China Paint (1932) were awarded "*Hong Kong Green Labels*".
- "*Flower (菊花牌)*" of China Paint (1932) was awarded "*Hong Kong Top Brand*".

Mainland China

- China Paint (Shenzhen), China Paint (Xinfeng) and Hubei Giraffe were awarded "*ISO 9001:2015 Quality Management System Certificate*".
- Various products of China Paint (Shenzhen), China Paint (Xinfeng) and Hubei Giraffe were awarded "*Certificates for China Compulsory Product Certificate (中國國家強制性產品認證證書)*".
- China Paint (Shenzhen) was awarded "*GB/T28001-2011/OHSAS 18001:2007 Occupational Health and Safety Management System Certificate*".
- China Paint (Shenzhen), China Paint (Xinfeng) and Hubei Giraffe were awarded "*GB/T24001-2016/ ISO14001:2015 Environmental Management System Certificate*".
- China Paint (Shenzhen) was awarded "*IECQ QC 080000:2017 Hazardous Substance Process Management System Certificate*".
- China Paint (Shenzhen) was awarded "*IATF 16949:2016 Quality Management System Certificate*".
- China Paint (Shenzhen) was awarded "*Shenzhen Corporate Social Responsibility Rating Certificate (深圳市企業社會責任評價等級證書)*".
- China Paint (Shenzhen) was awarded "*ISO/IEC 17025:2005 Labouratory Accreditation Certificate*".
- Various water-based paint products of China Paint (Shenzhen) and Hubei Giraffe were awarded "*Certificates for China Environmental Labelling Production Certificate (中國環境標誌產品認證證書)*".
- Various wood coating paint products for interior decoration of China Paint (Shenzhen), China Paint (Xinfeng) and Hubei Giraffe were awarded "*Certificates for China Environmental Labelling Production Certificate (中國環境標誌產品認證證書)*".
- China Paint (Shenzhen) was awarded "*High Technology Enterprise Certificate (高新技術企業證書)*".
- China Paint (Shenzhen) was awarded "*China Household Industry Green Supply Chain Alliance Member Unit (中國家居產業綠色供應鏈聯盟成員單位)*".
- China Paint (Shenzhen) was awarded "*The Most Influential Brand of Interior Paint Products in China 2018 (2018年度中國內牆塗料最具影響力品牌)*".

AWARDS AND HONOURS (continued)

Mainland China (continued)

- China Paint (Shenzhen) was awarded "*Shenzhen Enterprise Technology Center (深圳市企業技術中心)*".
- Paint products of "*Giraffe (長頸鹿牌)*" of China Paint (Shenzhen) was awarded "*Influential National Brand of Paint Products (牆面漆影響力民族品牌)*".
- Paint products of "*Giraffe (長頸鹿牌)*" of China Paint (Shenzhen) was awarded "*Influential Brand of Wood Coating Paint Products (家裝木器漆影響力品牌)*".
- Paint products of "*Toy Brand (玩具牌)*" of China Paint (Shenzhen) was awarded "*Influential Brand of Light Industry Paint Products (輕工業塗料影響力品牌)*".
- Paint products of "*Flower (菊花牌)*" of China Paint (Shenzhen) was awarded "*Shenzhen Famous Brand (深圳知名品牌)*".
- China Paint (Shenzhen) was awarded "*Excellent Business Partner 2018 (2018年度優秀合作伙伴)*".
- Low-Temperature Thermocuring Polyurethane Coating Products of China Paint (Xinfeng) was awarded "*Guangdong Province High-Tech Products Certificate (廣東省高新技術產品證書)*".

VISION AND OUTLOOK

As a good corporate citizen, the Group strives to strike a balance between achieving corporate missions and business objectives, and fulfilling social responsibility. The Group will continue to evaluate its performance on environmental protection, employee care, product and service quality and community investment so as to create new advantages for the sustainable development of the Group.

In the aspect of environmental protection, the Group will endeavor to comply with the stringent environmental protection laws and regulations, allocate resources and undertake various environmental improvement projects, including improving exhaust air, sewage and waste treatment facilities. Regarding employee's care, the Group will put employee's satisfaction and production safety as its top priority. The Group aims at attracting more talents in the technical and management areas with a competitive remuneration system. As for product and service quality, the Group will continue to provide customers with high-quality products and to invest in the improvement of product quality in order to conform with the environmental protection requirements. In 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 and hopes to enhance its business performance through the implementation of sustainable development strategies and create more meaningful long-term value for the enterprise and its stakeholders.

SUMMARY OF ENVIRONMENTAL DATA AND PERFORMANCE

	Unit	2018	(Restated)[4] 2017
Greenhouse gas emissions:			
Scope 1[1]:			
Total	Tonnes	273.08	317.78
Intensity	Tonnes (per production unit – Tonne)	0.01	0.01
Scope 2[2]:			
Total	Tonnes	3,145.87	4,702.45
Intensity	Tonnes (per production unit – Tonne)	0.12	0.11
Air emissions:			
Nitrogen oxides	Tonnes	19.47	22.98
Sulfur oxides	Tonnes	1.84	2.14
Particles	Tonnes	3.21	3.67
Hazardous wastes generated:			
Solid wastes generated:			
Total	Tonnes	249.60	191.99
Intensity	Tonnes (per production unit – Tonne)	0.01	–[#]
Non-hazardous wastes generated:			
Solid wastes generated:			
Total	Tonnes	504.76	432.98
Intensity	Tonnes (per production unit – Tonne)	0.02	0.01
Sewage discharged:			
Total	Tonnes	10,701.92	10,122.71
Intensity	Tonnes (per production unit – Tonne)	0.42	0.24
Energy and water consumption:			
Electricity:			
Total	Mwh	3,549.56	5,276.05
Intensity	Mwh (per production unit – Tonne)	0.14	0.13
Diesel:			
Total	Tonnes	24.49	26.36
Intensity	Tonnes (per production unit – Tonne)	–[#]	–[#]
Gasoline:			
Total	Tonnes	62.82	75.30
Intensity	Tonnes (per production unit – Tonne)	–[#]	–[#]
Water:			
Total	Cubic meters	114,068.00	112,689.76
Intensity	Cubic meters (per production unit – Tonne)	4.45	2.71
Packaging materials used:			
Total[3]	Tonnes	2,386.50	4,379.32
Intensity	Tonnes (per production unit – Tonne)	0.09	0.11

Notes:

1 Scope 1 refers to the direct greenhouse gas emissions from the Group's business, including combustion of diesel and gasoline.

2 Scope 2 refers to the indirect greenhouse gas emissions from the Group's business, including consumption of purchased electricity.

3 The packaging materials used in the Group's finished products decreased mainly due to the decrease in production volume during the year.

4 Last year data were restated for comparative purposes.

\# Data less than 0.01.

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

Key Performance Indicators ("KPIs")	Reporting Guideline	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.	27–30
KPI A1.1	The types of emissions and respective emissions data.	39
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	39
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	39
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	39
KPI A1.5	Description of measures to mitigate emissions and results achieved.	27–30
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	27–30
Aspect A2	**Use of Resources**	
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	31–32
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (MWh) and intensity (e.g. per unit of production volume, per facility).	39
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	39
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	31
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	32
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	39
Aspect A3	**The Environment and Natural Resources**	
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	32
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	32

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

Key Performance Indicators ("KPIs")	Reporting Guideline	Page No.
	B. Social[1]	
Aspect B1	**Employment**	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	33
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.	34–35
Aspect B3	**Development and Training**	
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	34
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.	33
Aspect B5	**Supply Chain Management**	
General Disclosure	Policies on managing environmental and social risks of the supply chain.	35
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.	35–36
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.	36
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.	36

Note:

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

Report of the Directors

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 and coating products and investment holding activities. Details of the activities of the principal subsidiaries are set out in notes 1 to 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 13 of this annual report. The discussion forms part of this directors' report.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2018 and the Group's financial position at that date are set out in the financial statements on pages 54 to 138.

The Directors have resolved not to declare a final dividend for the year ended 31 December 2018.

MAJOR SUPPLIERS AND CUSTOMERS

In the year under review, purchases from the Group's five largest suppliers accounted for approximately 12% of the total purchases for the year and purchases from the largest supplier included therein amounted to 5%. Sales to the Group's five largest customers accounted for less than 20% of the total sales for the year.

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

SUMMARY OF FINANCIAL INFORMATION

The following table summarizes 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.

Results

	Year ended 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**617,254**	995,958	937,450	867,997	1,131,305
Profit/(loss) before tax	**(162,509)**	23,600	73,267	61,631	127,341
Income tax (expense)/credit	**22,867**	(6,585)	(17,801)	(19,701)	(30,192)
Profit/(loss) for the year	**(139,642)**	17,015	55,466	41,930	97,149
ATTRIBUTABLE TO:					
Owners of the parent	**(139,260)**	17,332	55,448	42,498	97,274
Non-controlling interest	**(382)**	(317)	18	(568)	(125)
	(139,642)	17,015	55,466	41,930	97,149

SUMMARY OF FINANCIAL INFORMATION (continued)

Assets, Liabilities and Non-controlling Interest

	Year ended 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**1,069,178**	1,309,202	1,201,165	1,210,434	1,296,476
Total liabilities	**(496,767)**	(553,426)	(522,794)	(542,112)	(641,851)
Non-controlling interest	**(3,023)**	(3,566)	(3,618)	(3,843)	(4,596)
	569,388	752,210	674,753	664,479	650,029

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

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

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF THE SHARES

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 33 to the financial statements and in the consolidated statement of changes in equity respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company's reserves available for distribution, calculation in accordance with the Companies Law of the Cayman Islands, amounted to approximately HK$89,446,000.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$348,523.

Report of the Directors

DIRECTORS

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

Executive Directors

Tsui Ho Chuen, Philip
Li Guangzhong
Wong Anders

Non-executive Directors

Lam Ting Ball, Paul
Chong Chi Kwan

Independent Non-executive Directors

Chiu Kam Hing, Kathy
Chua Joo Bin
Xia Jun

In accordance with the Articles, Mr. Li Guangzhong, Mr. Wong Anders and Ms. Chiu Kam Hing, Kathy will retire from office at the forthcoming AGM and, being eligible, will offer themselves for re-election.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Directors

Name	Age	Position held	Number of years of service	Business experience
Executive Directors				
Tsui Ho Chuen, Philip	55	Executive Director and Managing Director	34	Qualified solicitor and more than 34 years' experience in the paint and coating industry
Li Guangzhong	49	Executive Director and Sales Director	26	More than 25 years' experience in the paint and coating industry
Wong Anders	46	Executive Director and Finance Director	11	More than 23 years' experience in finance and accounting
Non-executive Directors				
Lam Ting Ball, Paul	77	Non-executive Director and Chairman	46	More than 46 years' experience in management and the paint and coating industry
Chong Chi Kwan	51	Non-executive 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
Independent Non-executive Directors				
Chiu Kam Hing, Kathy	69	Independent Non-executive Director	2	More than 29 years' experience in banking experience in Canada and Asia Pacific Region
Chua Joo Bin	66	Independent Non-executive Director	2	More than 42 years' experience in finance and accounting
Xia Jun	63	Independent Non-executive Director	2	Qualified PRC lawyer with more than 29 years' experience in PRC legal practice

Senior management

Name	Age	Position held	Number of years of service	Business experience
Cao Hualong	48	General Manager – Production and Operation	4	More than 24 years' experience in the chemical, paint and coatings industry in the PRC
Lin Shu	65	Senior Assistant to Chairman	21	More than 19 years' experience in the paint and coating industry

Notes:

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

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

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

CHANGE IN 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 9 to the financial statements.

DIRECTORS' INTERESTS IN SIGNIFICANT TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

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

CONTRACTS WITH CONTROLLING SHAREHOLDERS

Save as disclosed in note 39 to the financial statements, there was no contract of significance entered into between the Company or any of its subsidiaries and any controlling Shareholder or any of its subsidiaries, nor there was any contract of significance for the provision of services to the Company or any of its subsidiaries by a controlling Shareholder or any of its subsidiaries during the year ended 31 December 2018 or subsisted as at 31 December 2018.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

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

DIRECTORS' SERVICE CONTRACTS

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

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

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

PERMITTED INDEMNITY PROVISION AND DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

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

The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors, the Company Secretary and other officers of the Company during the year ended 31 December 2018.

EQUITY-LINKED AGREEMENTS

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

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

As at 31 December 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.

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 showed that the following persons had interests in the Shares and underlying shares of the Company:

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

Note:

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

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

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

CONTINUING CONNECTED TRANSACTIONS

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

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

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

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

The aggregate amount paid by the Group in respect of the leasing transactions for the year ended 31 December 2018, which is subject to the annual review requirement under the Listing Rules, was approximately HK$3.713 million (98.9% of the annual cap of HK$3.755 million).

In addition, all the independent non-executive Directors have reviewed the Continuing Connected Transactions for the year ended 31 December 2018 and confirmed that such transactions had been entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms; and (c) according to the respective relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

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

Based on the work performed, the Company's auditors have confirmed in a letter to the Board that nothing has come to their attention which causes them to believe that:

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

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

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

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

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITORS

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

On behalf of the Board
CPM Group Limited

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

Independent Auditor's Report

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

OPINION

We have audited the consolidated financial statements of CPM Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 54 to 138, 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$485.1 million before loss allowance of HK$86.8 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 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 receivables balances, and past repayment history of customers and forecast economic conditions. Disclosures in relation to trade receivables are included in note 4 – Significant accounting judgments and estimates and note 22 – 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.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

- 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.

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	6	**617,254**	995,958
Cost of sales		**(466,311)**	(688,151)
Gross profit		**150,943**	307,807
Other income and gains	6	**13,442**	9,593
Selling and distribution expenses		**(169,164)**	(172,014)
Administrative expenses		**(107,603)**	(100,400)
Other expenses, net		**(44,352)**	(19,827)
Finance costs	8	**(5,775)**	(1,559)
PROFIT/(LOSS) BEFORE TAX	7	**(162,509)**	23,600
Income tax credit/(expense)	11	**22,867**	(6,585)
PROFIT/(LOSS) FOR THE YEAR		**(139,642)**	17,015
ATTRIBUTABLE TO:			
Owners of the parent		**(139,260)**	17,332
Non-controlling interest		**(382)**	(317)
		(139,642)	17,015
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	13	**HK(13.93) cent**	HK1.99 cent

Consolidated Statement of Comprehensive Income

Year ended 31 December 2018

	Notes	**2018** **HK$'000**	2017 HK$'000
PROFIT/(LOSS) FOR THE YEAR		**(139,642)**	17,015
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		**(29,506)**	43,600
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Remeasurement of net pension scheme assets	20	**(687)**	2,176
Gain on property revaluation	14	**6,403**	–
Income tax effect	30	**(1,601)**	–
		4,802	–
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods		**4,115**	2,176
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**(25,391)**	45,776
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**(165,033)**	62,791
ATTRIBUTABLE TO:			
Owners of the parent		**(164,490)**	62,843
Non-controlling interest		**(543)**	(52)
		(165,033)	62,791

Consolidated Statement of Financial Position

31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**220,890**	200,883
Investment property	15	**15,713**	–
Prepaid land lease payments	16	**85,571**	19,232
Intangible assets	17	**805**	–
Equity investment designated at fair value through other comprehensive income	18	**300**	–
Available-for-sale investment	18	**–**	300
Deposits for purchases of properties, plant and equipment	19	**10,675**	8,972
Net pension scheme assets	20	**3,687**	4,421
Deferred tax assets	30	**19,008**	5,327
Total non-current assets		**356,649**	239,135
CURRENT ASSETS			
Inventories	21	**56,682**	71,682
Trade and bills receivables	22	**424,689**	698,051
Prepayments, deposits and other receivables	23	**70,878**	53,076
Cash and cash equivalents	24	**160,280**	247,258
Total current assets		**712,529**	1,070,067
CURRENT LIABILITIES			
Trade payables	25	**184,253**	293,604
Other payables and accruals	26	**66,299**	111,727
Due to the Remaining Group	27	**68**	3,166
Interest-bearing bank and other borrowings	28	**219,779**	100,770
Tax payable		**11,531**	15,774
Total current liabilities		**481,930**	525,041
NET CURRENT ASSETS		**230,599**	545,026
TOTAL ASSETS LESS CURRENT LIABILITIES		**587,248**	784,161

Consolidated Statement of Financial Position

31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	28	**646**	1,016
Deferred tax liabilities	30	**12,383**	25,154
Deferred income	31	**1,808**	2,215
Total non-current liabilities		**14,837**	28,385
Net assets		**572,411**	755,776
EQUITY			
Equity attributable to owners of the parent			
Issued capital	32	**100,000**	100,000
Reserves	33	**469,388**	652,210
		569,388	752,210
Non-controlling interest		**3,023**	3,566
Total equity		**572,411**	755,776

Tsui Ho Chuen, Philip
Director

Lam Ting Ball, Paul
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2018

	Note	Attributable to owners of the parent												
		Issued capital HK$'000 (note 32)	Share premium account HK$'000 (note 32)	Merger reserve HK$'000	Capital contribution^ HK$'000	Contributed surplus HK$'000	Leasehold land and building revaluation reserve HK$'000	General reserve HK$'000	Exchange fluctuation reserve HK$'000	Reserve funds** HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interest HK$'000	Total equity HK$'000
At 1 January 2017		–	–	12,077	2,630	(45,710)	6,489	10,485	(36,353)	28,866	696,269	674,753	3,618	678,371
Profit/(loss) for the year		–	–	–	–	–	–	–	–	–	17,332	17,332	(317)	17,015
Other comprehensive income/(loss) for the year:														
Remeasurement of net pension scheme assets	20	–	–	–	–	–	–	–	–	–	2,176	2,176	–	2,176
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	43,335	–	–	43,335	265	43,600
Total comprehensive income/(loss) for the year		–	–	–	–	–	–	–	43,335	–	19,508	62,843	(52)	62,791
Issue of new shares		–	–	(27,094)	–	27,094	–	–	–	–	–	–	–	–
Issue of new shares pursuant to the Share Offer		25,000	190,000	–	–	–	–	–	–	–	–	215,000	–	215,000
Issue of new shares pursuant to the Capitalisation Issue		75,000	(75,000)	–	–	–	–	–	–	–	–	–	–	–
Share issue expenses		–	(20,386)	–	–	–	–	–	–	–	–	(20,386)	–	(20,386)
2017 special interim dividend declared		–	–	–	–	–	–	–	–	–	(180,000)	(180,000)	–	(180,000)
At 31 December 2017		100,000	94,614#	(15,017)#	2,630#	(18,616)#	6,489#	10,485#	6,982#	28,866#	535,777#	752,210	3,566	755,776

Consolidated Statement of Changes in Equity

Year ended 31 December 2018

		Attributable to owners of the parent													
	Notes	Issued capital HK$'000 (note 32)	Share premium account HK$'000 (note 32)	Merger reserve HK$'000	Capital contribution^ HK$'000	Contributed surplus HK$'000	Fair value reserve (non-recycling) HK$'000	Leasehold land and building revaluation reserve HK$'000	General reserve HK$'000	Exchange fluctuation reserve HK$'000	Reserve funds** HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interest HK$'000	Total equity HK$'000
At 31 December 2017		100,000	94,614	(15,017)	2,630	(18,616)	–	6,489	10,485	6,982	28,866	535,777	752,210	3,566	755,776
Effect of adoption of HKFRS 9	2.2	–	–	–	–	–	(500)	–	–	–	–	(17,832)	(18,332)	–	(18,332)
At 1 January 2018 (restated)		100,000	94,614	(15,017)	2,630	(18,616)	(500)	6,489	10,485	6,982	28,866	517,945	733,878	3,566	737,444
Loss for the year		–	–	–	–	–	–	–	–	–	–	(139,260)	(139,260)	(382)	(139,642)
Other comprehensive income/(loss) for the year:															
Remeasurement of net pension scheme assets	20	–	–	–	–	–	–	–	–	–	–	(687)	(687)	–	(687)
Gain on property revaluation, net of tax	14	–	–	–	–	–	–	4,802	–	–	–	–	4,802	–	4,802
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	–	(29,345)	–	–	(29,345)	(161)	(29,506)
Total comprehensive income/(loss) for the year		–	–	–	–	–	–	4,802	–	(29,345)	–	(139,947)	(164,490)	(543)	(165,033)
At 31 December 2018		100,000	94,614#	(15,017)#	2,630#	(18,616)#	(500)#	11,291#	10,485#	(22,363)#	28,866#	377,998#	569,388	3,023	572,411

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

These reserve accounts comprise the consolidated reserves of HK$469,388,000 (2017: HK$652,210,000) in the consolidated statement of financial position.

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

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**(162,509)**	23,600
Adjustments for:			
Finance costs	8	**5,775**	1,559
Bank interest income	6	**(415)**	(839)
Depreciation	7	**19,547**	18,212
Amortisation of prepaid land lease payments	7	**1,364**	513
Amortisation of intangible assets	7	**459**	–
Recognition of deferred income	6	**(305)**	(295)
Losses on disposal of items of property, plant and equipment	7	**25**	61
Write-off of items of property, plant and equipment	7	**297**	557
Fair value gains on structured deposits	6	**–**	(762)
Write-down/(write-back) of inventories to net realisable value	7	**342**	(2,841)
Impairment of trade receivables	7	**30,055**	7,967
Net pension benefit expenses	7	**47**	127
		(105,318)	47,859
Decrease/(increase) in inventories		**11,237**	(3,518)
Decrease/(increase) in trade and bills receivables		**195,331**	(225,467)
Increase in prepayments, deposits and other receivables		**(18,361)**	(5,299)
Increase/(decrease) in trade and bills payables		**(98,305)**	78,038
Decrease in other payables and accruals		**(51,116)**	(35,805)
Exchange realignment		**6,008**	(6,124)
Cash used in operations		**(60,524)**	(150,316)
Interest paid		**(5,550)**	(1,575)
Overseas taxes paid		**(5,890)**	(10,258)
Net cash flows used in operating activities		**(71,964)**	(162,149)

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		**(24,963)**	(16,261)
Proceeds from disposal of items of property, plant and equipment		**364**	79
Investments in structured deposits		**–**	(165,055)
Proceeds from structured deposits		**–**	266,131
Interest received		**411**	841
Deposits paid for purchases of property, plant and equipment		**(2,989)**	(1,266)
Acquisition of assets through acquisition of subsidiaries		**(99,471)**	–
Net cash flows from/(used in) investing activities		**(126,648)**	84,469
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**216,186**	94,730
Repayment of bank loans		**(94,107)**	(107,324)
Proceeds from issue of shares		**–**	215,000
Share issue expenses		**–**	(20,386)
Decrease in amount due to the Remaining Group		**(3,098)**	(90,132)
Capital element of finance lease rental payments		**(387)**	(370)
Net cash flows from financing activities		**118,594**	91,518
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(80,018)**	13,838
Cash and cash equivalents at beginning of year		**247,258**	219,540
Effect of foreign exchange rate changes, net		**(6,960)**	13,880
CASH AND CASH EQUIVALENTS AT END OF YEAR		**160,280**	247,258
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	**160,280**	184,275
Non-pledged time deposits with original maturity of less than three months when acquired		**–**	62,983
Cash and cash equivalent as stated in the consolidated statements of financial position		**160,280**	247,258

1. CORPORATE AND GROUP INFORMATION

CPM Group Limited (the "Company") is an exempted company with limited liability incorporated in the Cayman Islands on 19 September 2016. The registered office of the Company is located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business of the Company is situated at 31st Floor, CNT Tower, 338 Hennessy Road, Wanchai, Hong Kong.

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

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

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

Information about subsidiaries

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
The China Paint Manufacturing Company (1932) Limited	Hong Kong	Ordinary HK$200,000 Non-voting deferred HK$1,761,300	–	100	Manufacture and sale of paint products and investment holding
China Molybdenum & Vanadium Development Limited	Hong Kong	HK$1,000	–	100	Investment holding
CNT Resene (Distribution) Limited	Hong Kong	HK$1	–	100	Sale of paint products
CNT Resene Limited	Hong Kong	HK$2	–	100	Manufacture and sale of paint products and investment holding
CP Industries (BVI) Limited*	British Virgin Islands ("BVI")	US$1,635,512	100	–	Investment holding
Great Premium Investments Limited	Hong Kong	HK$1	–	100	Investment holding
Majority Faith Corporation*	BVI	US$1	–	100	Investment holding
New Rainbow Ventures 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
Top Dreamer Limited*	BVI	US$1	–	100	Investment holding
R, J & Thomas Secretaries Limited	Hong Kong	HK$30,000	–	100	Investment holding
中華製漆 (深圳)有限公司 The China Paint Manufacturing (Shenzhen) Co., Ltd.#*^	PRC/ Mainland China	HK$70,000,000	–	100	Manufacture and sale of paint products
中華製漆 (新豐)有限公司 The China Paint Mfg. Co., (Xinfeng) Ltd.#*^	PRC/ Mainland China	US$13,000,000	–	100	Manufacture and sale of paint products
長頸鹿製漆(上海)有限公司 Giraffe Paint Mfg. Co., (Shanghai) Ltd.#*^	PRC/ Mainland China	US$4,000,000	–	100	Sale of paint products
長頸鹿製漆 (徐州)有限公司 Giraffe Paint Mfg. Co., (Xuzhou) Ltd.#*^	PRC/ Mainland China	US$2,000,000	–	100	Manufacture and sale of paint products
湖北長頸鹿製漆有限公司 Hubei Giraffe Paint Mfg. Co., Ltd.##*^	PRC/ Mainland China	RMB40,000,000	–	90.5	Manufacture and sale of paint products
中山市永成化工有限公司 Zhongshan Yongcheng Chemical Co., Ltd.#*^	PRC/ Mainland China	RMB64,901,999	–	100	Manufacture and sale of paint products

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

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

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

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

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

2.1 BASIS OF 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 an investment property, an equity investment and net pension scheme assets, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand ("HK$'000") except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as 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 interest, even if this results in the non-controlling interest having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on 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:

	Notes	HKAS 39 measurement Category	HKAS 39 measurement Amount HK$'000	Re-classification HK$'000	ECL HK$'000	HKFRS 9 measurement Amount HK$'000	HKFRS 9 measurement Category
Financial assets							
Equity investment designated at fair value through other comprehensive income		N/A	–	300	–	300	FVOCI[1] (equity)
From: Available-for-sale investment	(i)			300	–		
Available-for-sale investment		AFS[2]	300	(300)	–	–	N/A
To: Equity investment designated at fair value through other comprehensive income	(i)			(300)	–		
Trade and bills receivables	(ii)	L&R[3]	698,051	–	(21,566)	676,485	AC[4]
			698,351	–	(21,566)	676,785	
Other assets							
Deferred tax assets			5,327	–	3,234	8,561	
Total			703,678	–	(18,332)	685,346	

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) (continued)

Notes:

(i) The Group has elected the option to irrevocably designate its previous available-for-sale investment as an equity investment designated at fair value through other comprehensive income.

(ii) The gross carrying amount 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.

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 note 22 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	21,566	**59,967**

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
Balance as at 31 December 2017 under HKAS 39	535,777	–
Recognition of expected credit losses for trade receivables under HKFRS 9	(21,566)	–
Reclassification of accumulated impairment losses previously recognised for an equity investment to fair value reserve (non-recycling)	500	(500)
Deferred tax in relation to the above	3,234	–
Balances as at 1 January 2018 under HKFRS 9	517,945	(500)

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 notes 4 and 6 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 3 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$1,391,000 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$1,588,000 was reclassified from other payables to contract liabilities in relation to the consideration received from customers in advance for the sale of paint and coating 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. During 2018, the Group has performed a high-level assessment on the impact of adoption of HKFRS 16. As at 31 December 2018, the Group has non-cancellable operating lease commitments of approximately HK$5,064,000 as disclosed in note 37. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

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

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

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

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 property), 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

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.

Related parties

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

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost 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 of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above.

Intangible assets

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

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

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

Research and development costs

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

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

Investments and other financial assets (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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Initial recognition and measurement (continued)

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 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.

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 designated 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.

3. 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 designated at fair value through other comprehensive income (equity investments) (continued)

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.

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.

3. 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.

Loans and receivables

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Available-for-sale financial investments

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

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

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

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

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

Derecognition of financial assets (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.

3. 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) (continued)

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

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

Impairment of financial assets (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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Financial assets carried at amortised cost (continued)

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.

Available-for-sale financial investments

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (policies under HKFRS 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.

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss (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.

3. 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)

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.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

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

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

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

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

Government grants

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

Revenue recognition (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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (applicable from 1 January 2018) (continued)

Revenue from contracts with customers (continued)

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 paint and coating products

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

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

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

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 contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised when the Group performs under the contract.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Pension schemes and other retirement benefits

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

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

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

- the date of the scheme amendment or curtailment; and
- the date that the Group recognises restructuring-related costs

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

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

Dividends

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

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

Foreign currencies

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

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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 a commercial property lease on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangement, that it retains all the significant risks and rewards of ownership of the property which is leased out on operating lease.

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.

4. 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.

Write-down of inventories to net realisable value

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

Provision for income taxes

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

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography 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 22 to the financial statements.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

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, 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) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The carrying amount of investment property at 31 December 2018 was HK$15,713,000 (2017: Nil). Further details, including the key assumptions used for fair value measurement and a sensitivity analysis, are given in note 15 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.

5. OPERATING SEGMENT INFORMATION

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

Geographical information

(a) Revenue from external customers

	2018	2017
	HK$'000	HK$'000
Hong Kong	**46,852**	86,162
Mainland China	**570,402**	909,796
	617,254	995,958

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

(b) Non-current assets

	2018	2017
	HK$'000	HK$'000
Hong Kong	**2,708**	3,628
Mainland China	**330,946**	225,459
	333,654	229,087

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

Information about a major customer

During the years ended 31 December 2018 and 2017, no revenue from any single customer accounted for 10% or more of the total revenue of the Group.

6. REVENUE, OTHER INCOME AND GAINS

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

	2018 HK$'000	2017 HK$'000
Revenue from contracts with customers	**617,254**	–
Sale of paint and coating products	**–**	995,958
	617,254	995,958

(i) Disaggregated revenue information

For the year ended 31 December 2018	HK$'000
Type of paint and coating products sold	
Industrial paint and coating products	285,288
Architectural paint and coating products	199,556
General paint and coating and ancillary products	132,410
Total revenue from contracts with customers	617,254
Timing of revenue recognition	
Goods transferred at a point in time	617,254

(ii) Performance obligations

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

Sale of paint and coating products

The performance obligation is satisfied upon delivery of the paint and coating products and payment is generally due within 30 to 90 days from delivery, except for new customers, where payment in advance is normally required.

6. REVENUE, OTHER INCOME AND GAINS (continued)

An analysis of other income and gains is as follows:

	Note	2018 HK$'000	2017 HK$'000
Other income			
Bank interest income		**415**	839
Government grants*		**9,459**	4,819
Recognition of deferred income	30	**305**	295
Rental income		**2,053**	–
Others		**1,210**	2,878
		13,442	8,831
Gains			
Fair value gains on structured deposits		**–**	762
Total other income and gains		**13,442**	9,593

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

7. PROFIT/(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		**466,311**	688,151
Depreciation	14	**19,547**	18,212
Amortisation of prepaid land lease payments	16	**1,364**	513
Amortisation of intangible assets	17	**459**	–
Minimum lease payments under operating leases in respect of land and buildings		**8,646**	11,489
Auditor's remuneration:			
Audit related services		**3,065**	2,350
Other services		**329**	485
		3,394	2,835
Employee benefit expense (including directors' remuneration (note 9)):			
Wages, salaries, bonuses, allowances and welfare		**149,027**	153,448
Pension scheme contributions (defined contribution schemes)#		**18,335**	18,984
Net pension benefit expenses recognised (defined benefit schemes)	20	**47**	127
		167,409	172,559
Foreign exchange differences, net*		**390**	512
Write-down/(write-back) of inventories to net realisable value@		**342**	(2,841)
Impairment of trade receivables*	22	**30,055**	7,967
Fair value gains on structured deposits*		**–**	(762)
Losses on disposal of items of property, plant and equipment*		**25**	61
Product improvement and development		**22,923**	36,809
Write-off of items of property, plant and equipment*	14	**297**	557

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

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

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

8. FINANCE COSTS

An analysis of finance costs is as follows:

	2018 HK$'000	2017 HK$'000
Interest on bank loans	**5,716**	1,482
Interest on finance leases	**59**	77
	5,775	1,559

9. 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 HK$'000	2017 HK$'000
Fees	**1,600**	800
Other emoluments:		
Salaries, allowances and benefits in kind	**8,759**	9,328
Discretionary bonuses	**601**	2,911
Pension scheme contributions	**488**	481
	9,848	12,720
	11,448	13,520

(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
Chiu Kam Hing, Kathy	(appointed on 9 June 2017)	**200**	100
Chua Joo Bin	(appointed on 9 June 2017)	**200**	100
Xia Jun	(appointed on 9 June 2017)	**200**	100
		600	300

9. DIRECTORS' REMUNERATION (continued)

(b) Executive Directors and non-executive Directors

2018	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Executive Directors:					
Tsui Ho Chuen, Philip	200	5,648	365	350	6,563
Wong Anders	200	1,270	161	18	1,649
Li Guangzhong	200	1,841	75	120	2,236
	600	8,759	601	488	10,448
Non-executive Directors:					
Lam Ting Ball, Paul	200	–	–	–	200
Chong Chi Kwan	200	–	–	–	200
	400	–	–	–	400
	1,000	8,759	601	488	10,848

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

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

10. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid employees during the year, included two Directors (2017: three), details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining three (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	**7,452**	5,628
Discretionary bonuses	**946**	792
Pension scheme contributions	**130**	18
	8,528	6,438

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

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

During the years ended 31 December 2018 and 2017, no emoluments were paid by the Group to the Directors or any of the highest paid employees who are non-directors as an inducement to join or upon joining the Group or as compensation for loss of office nor has any Director waived or agreed to waive any emoluments.

11. INCOME TAX

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

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

	2018 **HK$'000**	2017 HK$'000
Current – Elsewhere		
Charge for the year	**2,206**	10,611
Overprovision in prior years	**–**	(2,515)
Deferred (note 30)	**(25,073)**	(1,511)
Total tax charge/(credit) for the year	**(22,867)**	6,585

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 is as follows:

	2018 **HK$'000**	2017 HK$'000
Profit/(loss) before tax	**(162,509)**	23,600
Tax at the statutory tax rate	**(26,814)**	3,894
Different tax rates for subsidiaries in the PRC, net	**1,290**	(422)
Adjustments in respect of current tax of previous periods	**–**	(2,515)
Income not subject to tax	**(519)**	(2,797)
Expenses not deductible for tax	**3,283**	4,658
Tax losses utilised from previous periods	**(7)**	(933)
Tax losses not recognised	**12,433**	4,236
Reversal of withholding taxes on the unremitted earnings	**(12,811)**	–
Others	**278**	464
Tax charge/(credit) at the Group's effective tax rate	**(22,867)**	6,585

12. DIVIDENDS

The Directors have resolved not to declare a final dividend for the year ended 31 December 2018 (2017: Nil).

On 7 June 2017, CP Industries (BVI) Limited, a subsidiary of the Company, declared a special interim dividend of HK$180,000,000 to CNT Group, its former holding company prior to the completion of a reorganisation of the Group, on 7 June 2017. The rate for this dividend and the number of shares ranking for this dividend are not presented as such information is not considered meaningful for the purposes of the financial statements.

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

The calculation of basic loss (2017: profit) per share amounts is based on the loss for the year attributable to ordinary equity holders of the parent of HK$139,260,000 (2017: profit of HK$17,332,000) and the weighted average number of ordinary shares of 1,000,000,000 (2017: 869,863,014) in issue during the year.

The weighted average number of shares used to calculate the basic earnings per share amounts for the year ended 31 December 2017 includes 100 ordinary shares issued on 8 June 2017 and 749,999,900 new shares issued pursuant to the Capitalisation Issue (as further detailed in note 32(ii)) on the assumption that these shares had been in issue throughout the year ended 31 December 2017.

No adjustment has been made to the basic (loss)/earnings 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.

The calculation of basic earnings/(loss) per share is based on:

	2018 **HK$'000**	2017 HK$'000
Earnings/(loss)		
Profit/(loss) attributable to ordinary equity holders of the parent	**(139,260)**	17,332

	Number of shares	
	2018	2017
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings/(loss) per share calculation	**1,000,000,000**	869,863,014

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Construction in progress HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2018							
At 31 December 2017 and at 1 January 2018:							
Cost or valuation	263,854	388	17,795	155,257	36,281	20,516	494,091
Accumulated depreciation	(110,598)	–	(14,553)	(122,737)	(30,013)	(15,307)	(293,208)
Net carrying amount	153,256	388	3,242	32,520	6,268	5,209	200,883
At 1 January 2018, net of accumulated depreciation	153,256	388	3,242	32,520	6,268	5,209	200,883
Additions	63	20,168	892	834	2,597	443	24,997
Acquisition of assets through acquisition of subsidiaries (note 34)	29,941	–	–	–	–	–	29,941
Disposals	–	–	–	(276)	(52)	(61)	(389)
Write-off (note 7)	(49)	–	(15)	(46)	(174)	(13)	(297)
Transfer from deposits for purchases of properties, plant and equipment (note 19)	–	–	–	546	–	249	795
Surplus on revaluation	6,403	–	–	–	–	–	6,403
Transfer to an investment property (note 15)	(11,164)	–	(11)	–	–	–	(11,175)
Depreciation provided during the year (note 7)	(10,330)	–	(761)	(4,615)	(2,173)	(1,668)	(19,547)
Reclassification	18,508	(19,558)	1,050	–	–	–	–
Exchange realignment	(7,704)	(944)	(139)	(1,710)	(103)	(121)	(10,721)
At 31 December 2018, net of accumulated depreciation	178,924	54	4,258	27,253	6,363	4,038	220,890
At 31 December 2018:							
Cost or valuation	294,134	54	17,415	148,769	35,459	19,646	515,477
Accumulated depreciation	(115,210)	–	(13,157)	(121,516)	(29,096)	(15,608)	(294,587)
Net carrying amount	178,924	54	4,258	27,253	6,363	4,038	220,890

14. PROPERTY, PLANT AND EQUIPMENT (continued)

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

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 HK$'000	2017 HK$'000
Furniture, fixtures and equipment	**41**	28
Motor vehicles	**1,082**	1,464
	1,123	1,492

14. PROPERTY, PLANT AND EQUIPMENT (continued)

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

Had Group's leasehold land and buildings been carried at historical cost less accumulated depreciation and impairment, their total carrying amounts at 31 December 2018 and 2017 would have been nil.

At 31 December 2018, certain of the above land and buildings with an aggregate net carrying amount of HK$7,362,000 (2017: HK$8,004,000) were pledged to secure general banking facilities granted to the Group (note 28).

15. INVESTMENT PROPERTY

	Notes	HK$'000
Carrying amount at 1 January 2017, 31 December 2017 and 1 January 2018		–
Transfer from an owner-occupied property	14	11,175
Transfer from prepaid land lease payments	16	4,390
Exchange realignment		148
Carrying amount at 31 December		15,713

The Group's investment property is an industrial property in Mainland China. The directors of the Company have determined that the investment property consists of one class of asset, i.e., industrial, based on the nature, characteristics and risks of the property. The Group's investment property was revalued on 31 December 2018 based on valuations performed by BMI Appraisals Limited, an independent professionally qualified valuers, at HK$15,713,000. 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 property based on market knowledge, reputation and independence of the external valuer, and whether professional standards are maintained by the external valuer. Fair value of the Group's investment property is generally derived by using the investment 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 annual financial reporting.

15. INVESTMENT PROPERTY (continued)

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

Fair value hierarchy

The following table illustrates how the fair values of the Group's investment property 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 property held by the Group	**Fair value hierarchy**	**Valuation techniques**	**Significant unobservable inputs**	**Range or weighted average 31 December 2018**
Industrial property in Mainland China	Level 3	Income capitalisation method	Prevailing market rent (per sq.m. and per month)	RMB25
			Capitalisation rates	5.5%-6.0%

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.

Under the investment approach, a significant increase (decrease) in the unit rental rate in isolation would result in a significant increase (decrease) in the fair value of the investment property. A significant increase (decrease) in the term yield and reversion yield in isolation would result in a significant decrease (increase) in the fair value of the investment property.

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Industrial property HK$'000
Carrying amount at 1 January 2017, 31 December 2017 and 1 January 2018	–
Transfer from an owner-occupied property	11,175
Transfer from prepaid land lease payments	4,390
Exchange realignment	148
Carrying amount at 31 December 2018	**15,713**

The investment property is leased to a third party under an operating lease, further summary details of which are included in note 37(a) to the financial statements.

16. PREPAID LAND LEASE PAYMENTS

	2018	2017
	HK$'000	HK$'000
Carrying amount at 1 January	**19,232**	18,389
Acquisition of assets through acquisition of subsidiaries (note 34)	**76,794**	–
Recognised during the year (note 7)	**(1,364)**	(513)
Transfer to an investment property (note 15)	**(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 34)	1,279
Amortisation provided during the year (note 7)	(459)
Exchange realignment	(15)
At 31 December 2018	805
At 31 December 2018:	
Cost	1,265
Accumulated amortisation	(460)
Net carrying amount	805

18. EQUITY INVESTMENT DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE INVESTMENT

	2018 HK$'000	2017 HK$'000
Equity investment designated at fair value through other comprehensive income		
Unlisted club membership debenture, at fair value	**300**	–
Available-for-sale investment		
Unlisted club membership debenture, at fair value	**–**	300

The above equity investment was irrevocably designated at fair value through other comprehensive income as the Group considers the investment to be strategic in nature. The fair value of the unlisted club membership debenture held by the Group was based on quoted market price.

19. DEPOSITS FOR PURCHASES OF PROPERTIES, PLANT AND EQUIPMENT

	2018 HK$'000	2017 HK$'000
Carrying amount at 1 January	**8,972**	8,662
Transfer to property, plant and equipment (note 14)	**(795)**	(1,574)
Additions	**2,989**	1,266
Exchange realignment	**(491)**	618
Carrying amount at 31 December	**10,675**	8,972

At the end of 31 December 2018 and 2017, the carrying amounts represented deposits paid for the purchases of a parcel of land in Xinfeng, Guangdong Province, the PRC, and machinery and equipment.

20. 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.

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.

20. NET PENSION SCHEME ASSETS (continued)

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

	Increase in rate	Increase/ (decrease) in net pension scheme assets	Decrease in rate	Increase/ (decrease) in net pension scheme assets
	%	HK$'000	%	HK$'000
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	2017
	HK$'000	HK$'000
Current service cost	**129**	172
Interest cost	**(82)**	(45)
Net pension benefit expenses recognised in administrative expenses	**47**	127

20. 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:

31 December 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 income/ (expense) HK$'000	Sub-total included in profit or loss HK$'000	Benefit paid HK$'000	Return on scheme assets (excluding amounts included in net interest expense) HK$'000	Actuarial changes arising from changes in demographic assumptions HK$'000	Actuarial changes arising from changes in financial assumptions HK$'000	Experience adjustments HK$'000	Sub-total included in other comprehensive loss HK$'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

20. NET PENSION SCHEME ASSETS (continued)

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

31 December 2017

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

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

At 31 December 2018, the weighted average duration of the defined benefit obligations at the end of the reporting period was 8 years (2017: 9 years).

21. INVENTORIES

	2018 **HK$'000**	2017 HK$'000
Raw materials	**36,033**	42,918
Work in progress	**4,766**	5,373
Finished goods	**15,883**	23,391
	56,682	71,682

22. TRADE AND BILLS RECEIVABLES

	2018	2017
	HK$'000	HK$'000
Trade receivables	**485,103**	712,701
Impairment	**(86,787)**	(38,401)
	398,316	674,300
Bills receivable	**26,373**	23,751
	424,689	698,051

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one month, extending up to three months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade and bills receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade and bills receivable balances. Trade and bills receivables are non-interest-bearing.

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

	2018	2017
	HK$'000	HK$'000
Within three months	**175,121**	506,999
Over three months and within six months	**87,684**	61,802
Over six months	**161,884**	129,250
	424,689	698,051

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

	2018	2017
	HK$'000	HK$'000
At beginning of year	**38,401**	28,283
Effect of adoption of HKFRS 9	**21,566**	–
At beginning of year (restated)	**59,967**	28,283
Amount written off as uncollectable	**(471)**	(68)
Impairment losses, net (note 7)	**30,055**	7,967
Exchange realignment	**(2,764)**	2,219
At end of year	**86,787**	38,401

22. TRADE AND BILLS RECEIVABLES (continued)

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 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	Within 3 months	3 to 6 months	Over 6 months	Total
Expected credit loss rate	**4.6%**	**8.5%**	**16.2%**	**33.1%**	**17.9%**
Gross carrying amount (HK$'000)	**161,577**	**91,361**	**30,111**	**202,054**	**485,103**
Expected credit losses (HK$'000)	**7,352**	**7,748**	**4,885**	**66,802**	**86,787**

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

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.

22. TRADE AND BILLS RECEIVABLES (continued)

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 was as follows:

	2017 HK$'000
Neither past due nor impaired	371,286
Within three months past due	173,048
Over three months and within six months past due	89,193
Over six months past due	64,524
	698,051

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.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2018 **HK$'000**	2017 HK$'000
Prepayments	**5,180**	9,989
Deposits and other receivables	**65,698**	43,087
	70,878	53,076

None of the above assets is either past due or impaired. The financial assets included in the above balances related to receivables for which there was no recent history of default. The directors of the Company considered that the allowance for expected credit losses for these balances are not significant.

24. CASH AND CASH EQUIVALENTS

	2018 HK$'000	2017 HK$'000
Cash and bank balances	**160,280**	184,275
Time deposits:		
– with original maturity of less than three months when acquired	**–**	62,983
	160,280	247,258

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$111,314,000 (2017: HK$134,357,000). 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.

25. TRADE PAYABLES

An ageing analysis of the trade 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	**145,005**	289,675
Over three months and within six months	**35,624**	3,622
Over six months	**3,624**	307
	184,253	293,604

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

26. OTHER PAYABLES AND ACCRUALS

	Notes	2018 HK$'000	2017 HK$'000
Deferred income	31	**303**	320
Contract liabilities	(a)	**1,588**	–
Receipts in advance		**–**	1,391
Other payables	(b)	**38,127**	48,693
Accruals		**26,281**	61,323
		66,299	111,727

Notes:

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

	31 December 2018 HK$'000	1 January 2018 HK$'000
Short-term advances received from customers		
Sale of paint and coating products	**1,588**	1,391

(b) Other payables are non-interest-bearing and have an average term of three months.

27. DUE TO THE REMAINING GROUP

The balance due to the Remaining Group is unsecured, interest-free and repayable on demand. The carrying amount of the balance approximate to the fair value.

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**	**399**	2.5-8.8	2018	382
Bank loans – secured	**3.5-4.4**	**2019**	**98,000**	2.2-2.4	2018	54,000
Bank loans – unsecured	**3.3-7.2**	**2019**	**85,726**	2.0-2.2	2018	43,000
Import loans – secured	**5.7**	**2019**	**19,819**	2.3-2.6	2018	2,734
Import loans – unsecured	**3.3-4.0**	**2019**	**15,835**	2.8	2018	654
			219,779			100,770
Non-current						
Finance lease payables (note 29)	**2.5-4.0**	**2020- 2023**	**646**	2.5-8.8	2019- 2021	1,016
			220,425			101,786

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	**219,380**	100,388
Other borrowings repayable:		
Within one year	**399**	382
In the second year	**417**	394
In the third to fifth years, inclusive	**229**	622
	1,045	1,398
	220,425	101,786

Notes:

(a) The above bank loans of HK$187,654,000 (2017: HK$100,388,000) 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, no bank loans due for repayment in the second year and in the third year as at 31 December 2017, 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	173,380
In the second year	18,400
In the third to fifth years, inclusive	27,600
	219,380

(b) The Group's bank loans and import loans are secured by (i) charges over shares of an indirect subsidiary of the Company; and; (ii) the Group's land and buildings with an aggregate net book value at the end of reporting period of HK$7,362,000 (2017: HK$8,004,000) (note 14).

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

	2018 HK$'000	2017 HK$'000
United States dollars ("US$")	**–**	2,242
RMB	**51,545**	–
HK$	**168,880**	99,544
	220,425	101,786

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 one to four years. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

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

	Minimum lease payments		**Present value of minimum lease payments**	
	2018 **HK$'000**	2017 HK$'000	**2018** **HK$'000**	2017 HK$'000
Amounts payable:				
Within one year	**431**	440	**399**	382
In the second year	**430**	431	**417**	393
In the third to fifth years, inclusive	**215**	645	**229**	623
Total minimum finance lease payments	**1,076**	1,516	**1,045**	1,398
Future finance charges	**(31)**	(118)		
Total net finance lease payables	**1,045**	1,398		
Portion classified as current liabilities (note 28)	**(399)**	(382)		
Non-current portion (note 28)	**646**	1,016		

30. DEFERRED TAX

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

Deferred tax liabilities

	Revaluation of properties		Withholding taxes		Total	
	2018	2017	**2018**	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At 1 January	**458**	458	**24,696**	28,885	**25,154**	29,343
Deferred tax credited to the statement of profit or loss during the year*	**–**	–	**(14,388)**	(4,189)	**(14,388)**	(4,189)
Deferred tax charged to the statement of other comprehensive income during the year	**1,601**	–	**–**	–	**1,601**	–
Exchange realignment	**16**	–	**–**	–	**16**	–
Gross deferred tax liabilities recognised in the consolidated statement of financial position at 31 December	**2,075**	458	**10,308**	24,696	**12,383**	25,154

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	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At 1 January	**–**	–	**–**	–	**3,362**	2,977	**1,965**	4,493	**5,327**	7,470
Effect of adoption of HKFRS 9	**3,234**	–	**–**	–	**–**	–	**–**	–	**3,234**	–
At 1 January (restated)	**3,234**	–	**–**	–	**3,362**	2,977	**1,965**	4,493	**8,561**	7,470
Deferred tax credited/ (charged) to statement of profit or loss during the year*	**4,276**	–	**7,703**	–	**(104)**	156	**(1,190)**	(2,834)	**10,685**	(2,678)
Exchange realignment	**(127)**	–	**73**	–	**(173)**	229	**(11)**	306	**(238)**	535
At end of the year	**7,383**	–	**7,776**	–	**3,085**	3,362	**764**	1,965	**19,008**	5,327

* Net deferred tax credited to the consolidated statement of profit or loss for the year ended 31 December 2018 amounted to HK$25,073,000 (2017: HK$1,511,000) (note 11).

The Group had estimated tax losses arising in Hong Kong of HK$330,788,000 (2017: HK$299,784,000), 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$97,147,000 (2017: HK$15,260,000) 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.

30. DEFERRED TAX (continued)

As at 31 December 2018, deferred tax asset of HK$7,776,000 (2017: Nil) was recognised for unused tax losses of a subsidiary arising in Mainland China of HK$51,840,000 (2017: Nil) to the extent that it is probable that taxable profit will be available against which the unused tax losses can be utilised. 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.

At 31 December 2018, deferred tax liabilities of HK$10,308,000 have been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, the remaining unremitted earnings of the Group's subsidiaries in Mainland China as at 31 December 2018 are expected to be used to fund their operations and capital expenditure and therefore it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

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
Carrying amount at 1 January		**2,535**	2,643
Recognised during the year	6	**(305)**	(295)
Exchange realignment		**(119)**	187
Carrying amount at 31 December		**2,111**	2,535
Portion classified as current liabilities	26	**(303)**	(320)
Non-current portion		**1,808**	2,215

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

31. DEFERRED INCOME (continued)

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

32. SHARE CAPITAL

Shares

	2018 **HK$'000**	2017 HK$'000
Authorised:		
8,000,000,000 (2017: 8,000,000,000) ordinary shares of HK$0.10 each	**800,000**	800,000
Issued and fully paid:		
1,000,000,000 (2017: 1,000,000,000) ordinary shares of HK$0.10 each	**100,000**	100,000

A summary of the movements in the Company's share capital is as follows:

	Notes	**Number of ordinary shares in issued**	**Issued share capital** HK$'000	**Share premium account** HK$'000	**Total** HK$'000
At 1 January 2017		1	–	–	–
Issue of new shares	(i)	99	–	–	–
Issue of new shares pursuant to the Capitalisation Issue	(ii)	749,999,900	75,000	(75,000)	–
Issue of new shares pursuant to the Share Offer	(iii)	250,000,000	25,000	190,000	215,000
Share issue expenses		–	–	(20,386)	(20,386)
At 31 December 2017, at 1 January 2018 and at 31 December 2018		1,000,000,000	100,000	94,614	194,614

Notes:

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

(ii) Pursuant to the resolution of the sole shareholder of the Company passed on 9 June 2017, the Company issued and allotted a total of 749,999,900 shares, credited as fully paid at par, to CNT Enterprises Limited on 10 July 2017 (the "Listing Date") by way of capitalisation of the sum of HK$74,999,990 standing to the credit of the share premium account of the Company (the "Capitalisation Issue").

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

33. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 58 and 59 of the financial statements.

34. ACQUISITION OF ASSETS THROUGH ACQUISITION OF SUBSIDIARIES

On 31 August 2018, the Group acquired 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 100% equity interest in Zhongshan Yongcheng Chemical Co., Ltd. ("Zhongshan Yongcheng"). Zhongshan Yongcheng is engaged in the manufacture and sale of paint 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 the 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 cost have been expensed and are included in administrative expenses in the consolidated statement of profit or loss for the year.

35. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

i. During the year ended 31 December 2018, the Group completed the acquisition of certain items of property, plant and equipment, the consideration of which was partially settled by deposits previously paid with an aggregate carrying amount of HK$794,000 (2017: HK$1,574,000).

ii. During the year ended 31 December 2018, the Group entered into a finance lease arrangement in respect of property, plant and equipment with a capital value at the inception of the lease of HK$34,000 (2017: HK$16,000).

iii. During the year ended 31 December 2017, certain amount due from the Remaining Group in aggregate of HK$100,681,000 was re-assigned such that the balances was settled through the amount due to the Remaining Group.

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

(b) Changes in liabilities arising from financing activities

	2018		
	Interest-bearing bank borrowings HK$'000	**Finance lease payables HK$'000**	**Amount due to the Remaining Group HK$'000**
At 1 January 2018	**100,388**	**1,398**	**3,166**
Changes from financing cash flows	**122,079**	**(387)**	**(3,098)**
New finance lease	**–**	**34**	**–**
Foreign exchange movement	**(3,087)**	**–**	**–**
At 31 December 2018	**219,380**	**1,045**	**68**

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

36. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's bank loans and other borrowings are included in note 28 to the financial statements.

37. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment property (note 15) under an operating lease arrangement, with lease negotiated for a term of ten years which is non-cancellable for the first five years. The terms of the lease generally also require the tenant to pay a security deposit 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 lease with its tenant falling due as follows:

	2018 **HK$'000**
Within one year	**854**
In the second to fifth years, inclusive	**3,416**
	4,270

(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 **HK$'000**	2017 HK$'000
Within one year	**5,004**	4,961
In the second to fifth years, inclusive	**60**	4,141
	5,064	9,102

38. CAPITAL COMMITMENTS

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

	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.

39. RELATED PARTY TRANSACTIONS

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

	Notes	2018 HK$'000	2017 HK$'000
Rental expenses paid to the Remaining Group	(i)	**3,713**	3,538
Advertising expenses paid to the Remaining Group	(ii)	**–**	2,900

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

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

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

39. RELATED PARTY TRANSACTIONS (continued)

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

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

(d) Compensation of key management personnel of the Group

	2018 **HK$'000**	2017 HK$'000
Short term employment benefits	**12,982**	17,062
Post-employment benefits	**642**	766
Total compensation paid to key management personnel	**13,624**	17,828

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

40. FINANCIAL INSTRUMENTS BY CATEGORY

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

31 December 2018

Financial assets

	Financial assets at amortised cost HK$'000	**Financial asset at fair value through other comprehensive income HK$'000**	**Total HK$'000**
Equity investment designated at fair value through other comprehensive income	**–**	**300**	**300**
Trade and bills receivables	**424,689**	**–**	**424,689**
Financial assets included in prepayments, deposits and other receivables	**65,545**	**–**	**65,545**
Cash and cash equivalents	**160,280**	**–**	**160,280**
	650,514	**300**	**650,814**

40. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

31 December 2018 (continued)

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade payables	**184,253**
Financial liabilities included in other payables and accruals	**38,127**
Due to the Remaining Group	**68**
Interest-bearing bank and other borrowings	**220,425**
	442,873

31 December 2017

Financial assets

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

Financial liabilities

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

41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

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

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

The fair value of the equity investment designated at fair value through other comprehensive income is based on quoted market prices.

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)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
Assets measured at fair value:				
At 31 December 2018				
Equity investment designated at fair value through other comprehensive income	**–**	**300**	**–**	**300**
At 31 December 2017				
Available-for-sale investment	–	300	–	300

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

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

	HK$'000
At 1 January 2017	98,666
Purchases	165,055
Disposals	(266,130)
Net gains recognised in the consolidated statement of profit or loss	762
Exchange realignment	1,647
At 31 December 2017, 1 January 2018 and 31 December 2018	–

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).

42. 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 trade and bills receivables, deposits and other receivables, equity investment designated at fair value through other comprehensive income, a balance due to the Remaining Group, trade and bills payables, and other payables and accruals, which arise directly from its operations.

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.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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). 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**	**739**
RMB	**50**	**(401)**
HK$	**(50)**	**(739)**
RMB	**(50)**	**401**

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

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

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

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Group's profit/(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**	**(5,099)**
If HK$ strengthens against RMB	**(5)**	**5,099**

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

42. 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*	–	–	–	485,103	485,103
Bills receivables	26,373	–	–	–	26,373
Financial assets included in prepayments, deposits and other receivables					
– Normal**	65,545	–	–	–	65,545
Cash and cash equivalents					
– Not yet past due	160,280	–	–	–	160,280
	252,198	–	–	485,103	737,301

* For trade and bills receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 22 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 and deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

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.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

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 the Remaining Group	**68**	**–**	**68**
Trade payables	**184,253**	**–**	**184,253**
Financial liabilities included in other payables and accruals	**38,127**	**–**	**38,127**
Interest-bearing bank borrowings*	**221,664**	**–**	**221,664**
Finance lease payables	**431**	**645**	**1,076**
	444,543	**645**	**445,188**
2017			
Due to the Remaining Group	3,166	–	3,166
Trade payables	293,604	–	293,604
Financial liabilities included in other payables and accruals	48,693	–	48,693
Interest-bearing bank borrowings*	100,736	–	100,736
Finance lease payables	440	1,076	1,516
	446,639	1,076	447,715

* 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$187,654,000 (2017: HK$100,388,000), 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	142,711	48,021	190,732

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.

42. 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. The gearing ratios as at the end of the reporting periods were as follows:

	2018 **HK$'000**	2017 HK$'000
Bank and other borrowings	**220,425**	101,786
Equity attributable to owners of the parent	**569,388**	752,210
Less: Leasehold land and building revaluation reserve	**(11,291)**	(6,489)
Adjusted capital	**558,097**	745,721
Gearing ratio	**39.5%**	13.6%

43. 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 ASSET		
Investment in a subsidiary	**27,094**	27,094
CURRENT ASSETS		
Prepayments	**312**	409
Due from subsidiaries	**133,931**	77,141
Cash and cash equivalents	**30,546**	92,586
Total current assets	**164,789**	170,136
CURRENT LIABILITIES		
Other payables and accruals	**1,604**	1,290
Due to fellow subsidiaries	**833**	–
Due to a subsidiary	**–**	1,122
Total current liabilities	**2,437**	2,412
NET CURRENT ASSETS	**162,352**	167,724
Net assets	**189,446**	194,818
EQUITY		
Issued capital	**100,000**	100,000
Reserves (note)	**89,446**	94,818
Total equity	**189,446**	194,818

43. 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	Accumulated losses HK$'000	Total HK$'000
At 1 January 2017	–	–	(12,962)	(12,962)
Issue of new share on 8 June 2017	–	27,094	–	27,094
Issue of new shares pursuant to the Capitalisation Issue	(75,000)	–	–	(75,000)
Issue of new shares pursuant to the Share Offer	190,000	–	–	190,000
Share issue expenses	(20,386)	–	–	(20,386)
Loss for the year	–	–	(13,928)	(13,928)
At 31 December 2017 and 1 January 2018	94,614	27,094	(26,890)	94,818
Loss for the year	–	–	(5,372)	(5,372)
At 31 December 2018	94,614	27,094	(32,262)	89,446

44. 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.

45. APPROVAL OF THE FINANCIAL STATEMENTS

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

Glossary

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

Glossary

NC or Nomination Committee	The nomination committee of the Board
PRC	The People's Republic of China
RC Chairlady	The chairlady of the Remuneration Committee
RC or Remuneration Committee	The remuneration committee of the Board
Remaining Group	CNT Group Limited and its subsidiaries, but excluding the Group
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Share(s)	Ordinary share(s) of HK$0.10 each in the capital of the Company
Shareholder(s)	Shareholder(s) of the Company
Stock Exchange	The Stock Exchange of Hong Kong Limited
substantial shareholder(s)	has the meaning as defined in the Listing Rules

中漆集團有限公司
CPM GROUP LIMITED