ANNUAL REPORT 2019

GOLDEN FLOWER

中漆集團有限公司
CPM GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code: 1932

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 54, 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

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WEBSITE

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Chairman's Statement

OVERVIEW

The slowdown in the global economy in 2019 was primarily due to the ongoing trade tensions between China and the United States ("China-US trade tensions"). This development has resulted in slow economic growth in China, which affected not only the consumers in the PRC, but also the PRC manufacturers in a wide range of industries. As compared to 2018, the growth of China's economy in 2019 was slow with the growth in the gross domestic products ("GDP") decreased by approximately 7.6%, even though the GDP's growth rate in China in 2019 was still within the range between 6.0% and 6.5%. There were three primary economic growth drivers in China, namely, the domestic consumption, the infrastructure investment and the volume and value of export trade. According to the National Bureau of Statistics of China in 2019, the level of the domestic consumption contributed 57.8% of the overall economic growth, as compared to the same of 65.9% in 2018, and the level of the gross capital formation contributed 31.2% of the overall economic growth in 2019, as compared to the same of 41.5% in 2018. China's exports soared and became more competitive, as a result of the depreciation of Renminbi during the year. The contribution of the net export of goods and services was around 11.0% of the overall growth in China, as compared to the negative growth of 7.4% in 2018. The overall depreciation of Renminbi was around 4.3% in 2019, which was consistent with the relatively weak economic performance of China in 2019, according to the International Monetary Fund.

The paint and coating industry in China is one of the secondary industry which contributed to the GDP growth in China with the overall average growth rate of the secondary industry of 5.8% in 2019, which was 10.0% less than the same in 2018. The direct contribution of paint and coating industry to the secondary industry was significant, as the aggregate sales volume of paint and coating products in China in 2019 increased by 38.3%, as compared to the negative growth of 9.5% in 2018. In addition, the Manufacturing Producer Price Index for coating, ink, pigment and similar products in China in 2019 continued to increase in the range between -0.3% and 3.6%. In 2019, one of the reasons for the significant increase in the growth of the paint and coating industry was attributable to the increasing property sales, which accelerated the increase in the demand for paint and coating products. The cumulative construction area of property projects in China in 2019 increased by 8.7%, as compared to the increase of 5.2% in 2018. The cumulative completion area of property projects in China in 2019 increased by 2.6%, as compared to the decrease of 7.8% in 2018. However, the growth in the paint and coating industry in 2019 was partially offset by the decrease in the retail consumption of the construction and decorative paint and coating products and the furniture paint and coating products. The retail sales of the construction and decorative paint and coating products decreased by 17.5% in 2019, as compared to the decrease of 22.4% in 2018; and the retail sales of furniture goods (including the paint and coating products for furniture manufacturing purpose) decreased by 12.4% in 2019, as compared to the decrease of 19.9% in 2018. The overall improvement in the paint and coating industry is benefited from the further reduction of the value-added tax rates in the PRC.

On the other hand, the prices of the raw materials in the paint and coating industry decreased slightly in 2019. Although there were intermittent fluctuations in the international crude oil prices during the year, the average crude oil prices were on decreasing trends. The weighted average crude oil prices in 2019 decreased by 10.9%, as compared to the same in 2018. The decreasing crude oil prices were due to the excessive supply and the less than expected increase in demand, as a result of the slow economic growth (and production activities) in major oil-consuming countries (including the PRC). Whilst the international crude oil prices were decreasing, the PRC imported by-product prices of crude oil did not experience the corresponding level of decrease, due to the depreciation of Renminbi. Hence, the cost of raw materials in the paint and coating industry did not decrease to any significant extent as compared to the decrease in the international crude oil prices.

Chairman's Statement

RESULTS

In 2019, the overall paint and coating market in the PRC remained challenging. Price competitions, fluctuations in raw materials prices and the depreciation of Renminbi led to the fluctuations in the costs of sales, which in turn affected the gross profit margin during the year. On the other hand, the macroeconomic situation in the PRC remained uncertain amid escalation of the China-US trade tensions, which has resulted in a less favourable business environment and reduced the average spending by the consumers in China.

In response to the unfavourable business environment, the Group has implemented effective business revamp measures and initiatives and has achieved a better financial performance in 2019, as compared to the same in 2018. The Group's revenue in 2019 amounted to approximately HK$713.33 million, representing an increase of 15.6%, as compared to the amount of revenue of approximately HK$617.25 million in 2018. The amount of gross profit in 2019 increased to HK$196.82 million, representing a significant increase of 30.4%, as compared to the amount of gross profit of approximately HK$150.94 million in 2018. The Group's loss attributable to its owners of the parent company reduced accordingly to approximately HK$28.04 million in 2019, as compared to the same of approximately HK$139.26 million in 2018. Although the Group still recorded a net loss position in 2019, the financial performance of the Group in 2019 clearly indicated that the business of the Group has been improved.

The improvement in the financial performance of the Group was primarily a result of the Group's proactive business revamp measures and initiatives, which have been implemented since the second half of 2018, but effects of which have been reflected in the performance of the Group in 2019. The Group has increased the prices of selected paint and coating products, improved the procurement and sourcing process, enhanced the product portfolio, streamlined the distribution channels and integrated the operation of different production facilities. Further information on these measures and initiatives are set forth in the section headed "Management Discussion and Analysis" below.

BUSINESS OUTLOOK

The market sentiment and business outlook in China and Hong Kong have been plagued by the China-US trade tensions and more importantly, the outbreak of the coronavirus disease 2019 (the "COVID-19") around the world during the first quarter of 2020. Although the Chinese and the Hong Kong governments have implemented measures to combat the COVID-19, it is inevitable that the outbreak will hit the economic prosperity of China and Hong Kong. The extent of such impact remains uncertain. We hope that the epidemic will be gradually brought under control and the overall economic and business activities in China and Hong Kong can resume to normal in the next several months.

Despite the economic uncertainties in China and Hong Kong due to the China-US trade tensions and the COVID-19, the Group will continue to enhance its internal control and risk management systems and boost production efficiency in response to the challenging business environment.

Management Discussion and Analysis

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 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 OPERATION

Revenue

For the year ended 31 December 2019, the Group's revenue increased by 15.6% to HK$713.33 million in 2019 from HK$617.25 million in 2018. The following sets forth an analysis of the Group's revenue for the years ended 31 December 2019 and 2018 by principal products:

	Year ended 31 December				
	2019		2018		% of
	HK$'000	**%**	HK$'000	%	Change
Industrial paint and coating products	**292,525**	**41.0**	285,288	46.2	2.5
Architectural paint and coating products	**286,456**	**40.2**	199,556	32.3	43.5
General paint and coating and ancillary products [(1)]	**134,347**	**18.8**	132,410	21.5	1.5
	713,328	**100.0**	617,254	100.0	15.6

(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 41.0% (2018: 46.2%), 40.2% (2018: 32.3%) and 18.8% (2018: 21.5%) of total revenue of paint business in 2019 respectively. The Group continues to focus on the PRC market which contributed to 89.5% (2018: 92.4%) of the total revenue in 2019.

Increase in Revenue

The increase in the amount of revenue generated 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 ended 31 December 2019 were 2.5%, 43.5%, and 1.5% respectively. The significant increase in revenue from the sales of architectural paint and coating products during the year was primarily due to the increase in sales to renowned property developers in the PRC and therefore the Group had boosted its sales of architectural paint and coating products. In addition, the Group has recorded an increase in sales of industrial paint and coating products to industrial manufacturers. Despite the depreciation of Renminbi, the revenue of the Group for the year ended 31 December 2019, in terms of Hong Kong dollars, increased by 15.6%. It was worth noting that, in terms of the original currencies (Renminbi and Hong Kong dollars), the overall revenue of the Group for the year ended 31 December 2019 increased by 20.2%.

REVIEW OF OPERATION (continued)

Expansion of the Customer Base

During the year, the Group expanded the sales to property developers and industrial manufacturers. The Group succeeded in increasing the percentage of revenue generated from these customers, rather than relying on the sales through wholesalers and retail dealers. On the other hand, the revenue from water-based paint and coating products increased by 45.3% to approximately HK$283.02 million, as compared to the previous year. There were two major water-based paint and coating products, namely emulsion paint products and water-based wood coating products, which had recorded a double-digit growth.

Geographical Analysis of the Amount of Revenue

Geographically, a majority of the Group's revenue was generated from the Southern China, the Central China and the Eastern China. Revenue generated from these regions amounted to approximately HK$592.49 million for the year ended 31 December 2019, as compared to approximately HK$544.39 million for the year ended 31 December 2018.

Sales Breakthrough in the Central China

The sales to customers in the Central China increased by 38.6% for the year ended 31 December 2019, which was primarily due to the fact that the Group became one of the registered suppliers of the property developers. Accordingly, the Group boosted its sales of architectural paint and coating products by selling these products to the property developers in the Central China during the year.

Regain the Market Share in Hong Kong

In addition, the sales to customers in Hong Kong increased significantly by 60.4% for the year ended 31 December 2019, which was primarily due to the enhancement in product mix and the increase in distribution networks in order to promote the sales of the branded water-based architectural paint and coating products and the supply of water-based architectural paint and coating products to contractors for government projects in Hong Kong as well as contractors in the private sector.

Increase in the Revenue Contribution from New Customers in the Southern China and the Eastern China

For the year ended 31 December 2019, the Group recorded an increase in the amount of sales to the industrial manufacturers in furniture, automotive, wind power, electric automobile and electric adaptor industries in the Southern China and the Eastern China, as compared to the year ended 31 December 2018. In addition, the Group adjusted its sales strategy to customers in the Southern China and the Eastern China by promoting direct sales, rather than relying on the wholesalers and retail dealers.

Cost of Sales

The following sets forth an analysis of the cost of sales for the years ended 31 December 2019 and 2018 and the percentage of change.

	Year ended 31 December				
	2019		2018		
	HK$'000	**% to revenue**	HK$'000	% to revenue	% of Change
Raw materials	**464,624**	**65.1**	405,068	65.6	14.7
Direct labour	**27,466**	**3.9**	41,927	6.8	-34.5
Depreciation and production overhead	**24,422**	**3.4**	19,316	3.1	26.4
	516,512	**72.4**	466,311	75.5	10.8

REVIEW OF OPERATION (continued)

Cost of Sales (continued)

Raw Materials

The raw materials used by the Group include resins, solvents and other materials, of which resins and solvents accounted for a significant portion of the total cost of raw materials. The crude oil prices directly or indirectly affect the prices of such raw materials. As the overall crude oil prices fluctuated over the year of 2019, some of the raw materials prices were unstable and did not follow the movement of crude oil prices. For example, the overall crude oil prices for the year ended 31 December 2019 decreased by 10.8%, as compared to the same for the year ended 31 December 2018. In addition, the prices of imported raw materials were also affected by the depreciation of Renminbi for the year ended 31 December 2019. As a result, the fluctuation in raw materials prices was generally inconsistent with the change in the crude oil prices for the year ended 31 December 2019.

Direct Labour

The direct labour cost decreased by 34.5% to approximately HK$27.47 million for the year ended 31 December 2019, which was primarily due to the Group's integration of the production facilities in the PRC and the streamline of the workforce and personnel in 2018.

Depreciation and Production Overhead

The depreciation and production overhead cost increased by 26.4% to approximately HK$24.42 million for the year ended 31 December 2019, which was primarily due to the additional depreciation in the assets at the production plant in Zhongshan (the "Zhongshan Production Plant"), which was acquired by the Group in August 2018.

Gross Profit and Gross Profit Margin

The gross profit of the Group for the year ended 31 December 2019 increased by 30.4% to approximately HK$196.82 million as compared to the previous year. The gross profit margin of the Group for the year ended 31 December 2019 increased by 12.7% to 27.6%. The increase in the gross profit margin was mainly due to the increase in the average selling prices of the paint and coating products of the Group, the production volume and the production efficiency with the production cost increased to a lesser extent. A significant part of the production cost of the Group, such as depreciation and direct labour, would not increase at the same pace as the production volume. The increase in the average total selling prices of the paint and coating products of the Group was primarily due to the change in the product mix and the general increase in the selling prices of the industrial paint and coating products and architectural paint and coating products since the second half of 2018.

Selling and Distribution Expenses

The amount of the selling and distribution expenses for the year ended 31 December 2019 decreased by 25.4% to approximately HK$126.22 million and the percentage to revenue for the year ended 31 December 2019 also decreased by 35.4% to 17.7% from 27.4% from the previous year. The decrease in the amount was mainly due to the effect of business revamp measures carried out by the Group, such as the reduction of long-distance transportation costs due to proximity to customers, reduction of advertising expenses at non-target locations and saving on the staff costs after the manpower reduction in 2018. The decrease in the percentage was primarily due to the increase in the revenue as a result of the Group's efforts.

REVIEW OF OPERATION (continued)

Profitability Analysis

The Group recorded a loss attributable to its parent company of approximately HK$28.04 million for the year ended 31 December 2019, which was considerably less than the amount of loss of approximately HK$139.26 million for the year ended 31 December 2018. The Group has implemented key business revamp measures and initiatives to improve the amount of loss making of the Group. The objective of these business initiatives was to implement strategic plans to realign the strategic directions and priorities and to improve the efficiency of the business operations of the Group. From the financial perspective, other than the significant reduction of the operating loss of the Group for the year ended 31 December 2019, the EBITDA (which is the operating profit plus depreciation and amortisation) also recorded a positive amount of approximately HK$8.76 million for the year ended 31 December 2019, as compared to the negative EBITDA of approximately HK$135.36 million for the year ended 31 December 2018. This achievement is contributed by the Group's appropriate business revamp measures and initiatives to respond to the dynamic market environment and the implementation of a better structure to promote the sales of the products of the Group. The performance of the Group was principally affected by the following factors:

1. Revenue from sales – Excluding the impact on the effect of devaluation of Renminbi, the Group's overall revenue generated from various geographical locations in China had improvements because of the marketing initiatives implemented by the Group throughout 2019. The combined results of the increasing customer base in the property sector and the expansion of sales network in the Central China increased the sales of paint and coating products in the Central China in 2019. The upward adjustment in the Group's prices of selected paint and coating products in China and Hong Kong also contributed to the revenue growth in 2019.

2. Cost of raw materials – As mentioned above, the price trends of the international crude oil in 2019 led to the significant decrease in the cost of purchase of solvent and resin. This cost benefit was, however, reduced by the depreciation of Renminbi against the US dollars during the year. As a result, the Group's gross profit margin only experienced a minor improvement.

3. Other gains and expenses, net (net reversal of provision for impairment of trade receivables) – The Group reversed certain amount of provision for impairment of trade receivables with strengthened collection efforts and tightened credit period provided to customers. The efforts also improved the cash position of the Group with reduced number of days for the collection of accounts receivable.

4. Staff costs – The Group reduced the number of staff to 790 as of 31 December 2019, as compared to 850 as of 31 December 2018. This staff reduction also reduced the staff cost to approximately HK$140.80 million for the year ended 31 December 2019, as compared to approximately HK$155.96 million, excluding directors' remunerations, for the year ended 31 December 2018.

REVIEW OF OPERATION (continued)

Profitability Analysis (continued)

5. Selling and distribution expenses – As a result of the business revamp measures conducted, the Group reduced the long-distance transportation costs due to proximity to customers, reduction of advertising expenses at non-target locations and saving on the staff costs after the manpower reduction in 2018.

6. Finance costs – One of the significant components of the increased amount of finance costs for the year ended 31 December 2019 to approximately HK$2.24 million, as compared to approximately HK$1.0 million for the year ended 31 December 2018, was the finance cost incurred by the Group for the acquisition of the Zhongshan Production Plant in August 2018.

7. Renminbi exchange rate – The depreciation in Renminbi during the second half of 2019 had an adverse financial impact on the Group.

BUSINESS PLANS AND OUTLOOK

The Group recognises that continuous improvements in its business operations and profitability are required even though the amount of loss for the year ended 31 December 2019 was considerably less than the same in 2018. The Directors believe that the fundamentals of the business initiatives, including boosting its business performance by increasing the selling prices of the paint and coating products, improving the procurement and sourcing process, optimising the product mix and production distribution channels of the Group, and integrating the production facilities of the Group in the PRC, remain effective and necessary. The Group discontinued the expansion plan of the production plant in Xinfeng and is strengthening the production activities at the Zhongshan Production Plant. In addition, in order to increase the Group's market share in the PRC, extend the geographical sales in the PRC and expand the customers base, the Group will continue to explore production cooperation with those selected paint and coating manufacturers on an original equipment manufacturer (OEM) basis.

The Group will evaluate new opportunities and challenges in the PRC market, amid the emerging threat arising from the outbreak of the COVID-19 and the challenging business environment. The Group has implemented the business continuity plans during the epidemic immediately and has implemented other business revamp measures as follows:

Business Continuity Plans during the COVID-19 Outbreak

In response to the COVID-19 outbreak, the PRC government has stepped up the efforts and adopted measures to stop the spread of the COVID-19 by strengthening the community-based prevention and controlling work across the provinces in the PRC, suspending the public transport within some PRC cities as well as cutting airport and railway stations services to outgoing travellers. The PRC government has actively coordinated resources under a joint prevention and control mechanism to address the shortage of masks, amid the outbreak of the COVID-19, in order to increase the mask production capacity and supply; and the local governments have introduced measures to partially close off communities and tighten entry restrictions, in order to support commercial enterprises with epidemic control and prevention conditions and to resume operation in February 2020 in most areas in the PRC.

The Group has been following the development of the COVID-19 epidemic closely and has implemented business continuity plans to minimise the disruption to the Group's operations and business and ensure that the Group's business remain viable during the epidemic. The COVID-19 outbreak is a non-adjusting event after financial year end and does not result in any adjustments to the consolidated financial statements for the year ended 31 December 2019.

BUSINESS PLANS AND OUTLOOK (continued)

Business Continuity Plans during the COVID-19 Outbreak (continued)

The Group has taken the following steps to ensure adequate preparation for business continuity:

Holistic approach in monitoring the impact of the COVID-19 outbreak on production plants

The Group does not only focus on employees' well-being but also on the effective risk management in all different aspects. Securing operations, supply and distribution channels, and managing relationship with employees, customers and suppliers are to the core components of the Group's approach. In addition, the Group's plans for frequent communications with employees, customers and suppliers could help reducing the risk of harmful over-reaction that could reduce the Group's economic loss that may be arisen from the COVID-19 outbreak. In addition, the Group had engaged in a number of information sharing with the relevant government authorities to ensure the implementation of the latest epidemic prevention measures to be implemented across the Group's operations in the PRC.

These actions helped to reduce the Group's exposure to the COVID-19 outbreak and prevent the Group from any material adverse impact or disruption. To be most effective, such actions had been incorporated into the Group's routine risk management practices.

Resuming production since the middle of February 2020

Since the outbreak of the COVID-19, a number of provinces and municipalities in the PRC have taken emergency public health measures and various actions to prevent the spread of the COVID-19 in the community, including imposing restriction on the resumption date of production after the Chinese New Year holidays.

The operation of the Group's production plants in the PRC has been suspended after the statutory Chinese New Year holidays as part of the PRC government's measures in containing the spread of the COVID-19. After inspection being done at the production plants in Shaijing, Zhongshan and Xinfeng by the relevant government authorities, the Group received official endorsements on production resumption on 15 February 2020 for these production plants. As such, these production plants have resumed production on 17 February 2020.

As there are tighter restrictions in Hubei province in containing the spread of the COVID-19, the operation of the Group's production plant in Hubei has been suspended longer than other production plants of the Group since the statutory Chinese New Year holidays. Hubei province had taken various emergency public health measures and actions to control the epidemic, including travel and trade restrictions and epidemiological surveillance. Finally the production plant in Hubei has been given the green light to resume production on 23 March 2020.

Preventing the spread of the COVID-19 within the production facilities

The most direct effect of the COVID-19 on the Group's activities is the potential health threat to employees. The Group has taken various measures and precautions to provide a safe and healthy work environment and reduce the risk of spreading the COVID-19 in workplace. The Group has reduced business travels and requested that meetings and communications with customers or suppliers should be conducted by electronic means. Employees who are suspected contagious patients or who have been to any overseas countries or areas in the past 14 days are required to report to their supervisors and subject to the compulsory quarantine and self-monitoring to comply with the measures of the Hong Kong government. The Group tried to mitigate the potential risks which will cause threats to employees and proactively create a safe and healthy work environment.

BUSINESS PLANS AND OUTLOOK (continued)

Business Continuity Plans during the COVID-19 Outbreak (continued)

Monitoring the impact on the supply chain

The outbreak of the COVID-19 has significantly disrupted complex national supply chains in the PRC. In 2019, the Group recorded cost saving from the improvement in the procurement and sourcing process, but like other business, the Group has encountered demand issue following the outbreak of the COVID-19. To mitigate the risk associated with suppliers in the PRC, the Group has explored procurement sources from different countries quickly, including U.S., Japan, New Zealand, Australia, Germany, Norway, Korea, Taiwan, Malaysia and Hong Kong, to avoid shortage or disruption of supply in the PRC.

In addition, in order to maintain a minimum level of on-site inventory and low defect rate, the Group has reduced the lead time for production and achieved just-in-time production management. The Group is also prepared to maintain a higher level of the safety stock level of certain critical raw materials to ensure that the Group would not be affected by any interruption to the supply chain. In addition to the increasing safety stock level, the Group has also increased the stock levels maintained at its strategic production plants in the Southern China.

Other Business Measures and Initiatives

Developing new business segment for the production and sales advanced building decoration materials

In recent years, together with the rapid increase in the per capita income and the rising living standards in the PRC, the focus is gradually shifted to the increase investment in the real property. In the PRC property market, the potential residential property buyers are not satisfied by the basic decoration in the residential units, and they request for the innovative design with good finishing. Therefore, this change of preference amongst the consumers represents one of the major considerations of property developers in the PRC.

Moreover, according to the public information, the estimation of fully-fitted apartments (精裝房) accounted for 32.8% of the total housing development in the PRC in 2019, as compared to that of 27.5% in 2018. The estimated average percentage of the fully-fitted apartments to all commodity properties in third tier cities of the PRC, such as Shantou, Jingzhou and Luoyang, has reached 34.4% and this growing trend will continue, as compared to that of 26.6% in 2017.

As disclosed before, the Group has launched a new product of Exterior Decorative Insulation Wall Board (the "EDIWB") in April 2018, which is a newly-developed light building material. The EDIWB have all features of different types of paint and coating products and can be applied directly on surface areas without different layers of insulation materials. The Group is a strategic construction partner for the installation of the EDIWB in Henan province, the PRC.

With years of experience and product testing, the Group is currently in cooperation with a number of suppliers for this new business development and to ensure compliance with national standards and energy conservation. In this partnership, the Group has imposed the standards of advanced construction materials. The Group has also conducted the market research and assessment before making any significant capital investment. The advanced construction materials include formaldehyde-free wooden boards, low levels of radioactive materials, polymeric waterproofing membrane and etc.

Leveraging the Group's reputation and the effort in maintaining the existing network with property developers and other customers, it has advantages to expand its business into building decoration materials. This business expansion can help to develop a strong customer relationship, which would increase the brand awareness and visibility through developing a new business segment of advanced building decoration materials in the building decoration materials industry.

BUSINESS PLANS AND OUTLOOK (continued)

Other Business Measures and Initiatives (continued)

Increasing marketing efforts

The expanded customer base led to the increase in sales for the year ended 31 December 2019. In order to further promote paint and coating products to the expanded customer base, except for the active communications with customers and advertising in new media for paint and coating industry materials, the Group's sales and marketing team will continue to devote its effort in different marketing initiatives, such as participating in local exhibition shows and seminars and workshop organised by intra-industry players and associations of the construction industry in the PRC and Hong Kong, and enhancing the Group's social networking website and increasing the visibility of the website to existing or potential customers. The Group believes that the strengthened marketing efforts will further increase the intra-industry players' awareness of the Group and further strengthen the Group's business presence and visibility in the paint and coating industry.

Integrating the production facilities and complex 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 further strengthen its production activities in Shenzhen and Zhongshan. The Directors believe that through the increased production activities at these production facilities, the production cost and the lead-time for production will decrease, which will be able 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 in Shenzhen, so that such production facilities will become the principal production hub and the product research and development base of the Group.

Save as mentioned above, the Group has planned 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 of production facilities, the Group continues to assess how to further improve the productivity and utilisation in the Group's production facilities and complex, including the lease out of production facilities and complex (with low utilisation rates) to align with the Group's production facilities expansion plan in the Southern China, which can maximise the use of spare space in these facilities and complex to enhance operational efficiency of the Group.

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 bills receivables turnover days.

The Group recorded a loss attributable to the owners of the parent company of approximately HK$28.04 million for the year, the amount of which was reduced by 79.9% as compared to a loss of approximately HK$139.26 million for the year ended 31 December 2018. Revenue for the year amounted to approximately HK$713.33 million, representing an increase of 15.6% when compared to that of previous year. Gross profit for the year amounted to approximately HK$196.82 million, representing an increase of 30.4% when compared to that of the previous year. The gross profit margin increased by 12.7% from 24.5% in 2018 to 27.6% in 2019.

LIQUIDITY AND FINANCIAL INFORMATION

Liquidity and Indebtedness

The Group's business operation is generally financed by its internal financial resources and bank borrowings. The cash and cash equivalents amounted to approximately HK$224.37 million as of 31 December 2019, as compared to approximately HK$160.28 million as of 31 December 2018. The increase in the cash and cash equivalents as of 31 December 2019 was mainly due to the better settlement progress from customers. Bank and other borrowings amounted to approximately HK$215.34 million as of 31 December 2019 as compared to approximately HK$220.43 million as of 31 December 2018. The Group's bank and other borrowings mainly bear interest at floating rates. The Group's total bank and other borrowings amounted to approximately HK$215.34 million (100.0%) as of 31 December 2019 is payable within one year.

The Group's cash and bank balances and bank and other borrowings were mainly denominated in Hong Kong dollars and Renminbi. The Group's results can be affected by the appreciation or depreciation 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 arises.

Gearing ratio of the Group, which is expressed as a percentage of total bank and other borrowings to shareholders' funds, was 40.6% as of 31 December 2019, as compared to 38.7% as of 31 December 2018. Liquidity ratio of the Group, which is expressed as a percentage of current assets to current liabilities, was 1.46 times as of 31 December 2019, as compared to 1.48 times as of 31 December 2018.

For the year ended 31 December 2019, the inventory turnover days[1] were 40 days which was slightly shorter from that of 44 days in 2018. The trade and bills receivables turnover days[2] were 156 days as compared to that of 251 days in 2018. The shorter trade receivable turnover days for the year ended 31 December 2019 was primarily due to the better settlement progress from customers.

1 The calculation of inventory turnover days is based on the closing balance of inventories divided by the cost of sales times 365 days (31 December 2018: 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 times 365 days (31 December 2018: 365 days).

Equity and Net Asset Value

Shareholders' funds of the Company as of 31 December 2019 amounted to approximately HK$530.62 million as compared to approximately HK$569.39 million as of 31 December 2018. Net asset value per share as of 31 December 2019 amounted to HK$0.53, as compared to HK$0.57 as of 31 December 2018. Fluctuations in the foreign currency exchange rates between Hong Kong dollars (the reporting currency) and Renminbi could have a significant impact and may lead to volatility in the operating results of the Group.

Contingent Liabilities

As of 31 December 2019, the amount of utilised banking facilities granted to various subsidiaries subject to guarantees given by the Company was approximately HK$215.34 million (31 December 2018: HK$219.38 million).

Pledge of Assets

As of 31 December 2019, certain property, plant and equipment and right-of-use assets with aggregate net book value of approximately HK$7.62 million (31 December 2018: HK$8.48 million) were pledged to financial institutions as collaterals for bank and other borrowings and lease liabilities. In addition, as of 31 December 2019 and 2018, a wholly-owned subsidiary of the Company pledged its shares 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 2019. The Group will continue to monitor its foreign currency exposure and requirements closely and arrange hedging facilities when necessary.

Capital Expenditure

During the year ended 31 December 2019, the Group invested a total sum of approximately HK$15.41 million (2018: HK$136.00 million) in the plant and equipment, and the construction of dangerous warehouses.

HUMAN RESOURCES

Headcount as at 31 December 2019 was 790 (31 December 2018: 850). Staff costs (excluding directors' emoluments) amounted to approximately HK$140.80 million for the year as compared to approximately HK$155.96 million in the previous 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 the PRC and the Group's sales and purchases were mainly conducted in Hong Kong dollars and Renminbi. The Group also has significant investments in the PRC 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.

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

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 the PRC are subject to increasing competition. Loss of business to competitors resulting from failure to consider changes in the environment in Hong Kong and the PRC 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

Save as disclosed above, there is no significant subsequent event after 31 December 2019.

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 further change in the use of proceeds, the Company will immediately inform shareholders of the Company by way of announcement.

USE OF NET PROCEEDS FROM THE SHARE OFFER (continued)

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. On 29 July 2019, the Board resolved to change the use of the remaining unutilised proceeds from the Global Offering (as defined in the Prospectus) (the "Reallocation"). For details of the Reallocation, please refer to the announcement of the Company dated 29 July 2019. The following table sets forth the status of the use of net proceeds from the Global Offering:

		Use of net proceeds from the Global Offering prior to the Reallocation	**The Reallocation**	**Use of net proceeds subsequent to the Reallocation**	**Aggregate amount utilised as at 31 December 2019**	**Amount unutilised as at 31 December 2019**
		HK$ million	HK$ million	HK$ million	HK$ million	HK$ million
(1)	Construction of the production plant in Xinfeng	78.5	(52.2)	26.3	(26.3)	–
(2)	Repayment of the bank loans	19.1	–	19.1	(19.1)	–
(3)	Acquisitions of businesses or production assets	42.0	–	42.0	(42.0)	–
(4)	Sales and market campaigns and activities	28.6	–	28.6	(28.6)	–
(5)	Construction of production facilities for water-based paint and coating products in the Zhongshan Production Plant	–	32.2	32.2	(13.1)	19.1
(6)	Product research and development centre	–	20.0	20.0	–	20.0
		168.2	–	168.2	(129.1)	39.1

The trial production of production facilities for water-based paint and coating products in the Zhongshan Production Plant is expected to commence during the mid of 2020 and the commercial production will commence from the third quarter of 2020. The second phase will be used for the production of architectural paint and coating products. The construction work will commence from the mid of 2020, trial production is expected to commence during the first quarter of 2021 and the commercial production is planned to commence from the mid of 2021.

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 2019, 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 54 to 55.

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	4/4	1/1
Chua Joo Bin	4/4	0/1
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 the process and criteria for selecting candidates for directorship of the Company has been in place. In assessing the suitability of a proposed candidate, the Nomination Committee will consider a number of criteria, such as expertise, experience, education background and integrity, having due regard to the board diversity policy of the Company. The Nomination Committee will review the curriculum vitae of the proposed candidate to assess whether the proposed candidate is qualified for the appointment before making recommendation to the Board for consideration.

APPOINTMENT AND RE-ELECTION OF DIRECTORS (continued)

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,C
Li Guangzhong	A
Wong Anders	A,B,C
Non-executive Directors	
Lam Ting Ball, Paul	A,C
Chong Chi Kwan	A,B,C
Independent Non-executive Directors	
Chiu Kam Hing, Kathy	A,B,C
Chua Joo Bin	A,B,C
Xia Jun	A,B,C

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: 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 four times during the year to (i) review with the Company's external auditors the reporting of financial and other information to the Shareholders (including the 2018 annual results and the 2019 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; and (ii) discuss with the Company's external auditors about the enquiries raised by the Stock Exchange. The Audit Committee resolved by resolutions in writing to approve (i) the fees, terms and conditions of engaging the Company's external auditors to audit and report on the financial statements of the Group for the year ended 31 December 2018; and (ii) the scope and extent of the agreed-upon procedures engagement with respect to the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2019. 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)*	4/4
Chua Joo Bin	4/4
Chong Chi Kwan	4/4

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 Remuneration Committee resolved by resolutions in writing to approve the new housing allowance for Mr. Tsui Ho Chuen, Philip, an executive Director and Managing Director, given by the Company based on the current market rent in the property market as part of his remuneration package. 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 band during the year is set out below:

Remuneration Band	**Number of Individuals**
HK$500,001-HK$1,000,000	2

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, composition and diversity of the Board and assess the independence of independent non-executive Directors, to approve the recommendation of the re-election of retiring Directors, and to review the board diversity policy and the nomination policy 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 *(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 aims 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 2019.

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 2019, the remuneration of the Company's external auditors, Ernst & Young, is set out below:

Services rendered to the Group	**Remuneration**
	HK$
Audit services	2,650,000
Non-audit services	357,000
	3,007,000

The non-audit services rendered by the Company's external auditors to the Group included performance of agreed-upon procedures on the 2019 interim financial statements and the preliminary results announcement for the year ended 31 December 2019, 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 2019.

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 2019, 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 60 to 63.

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 2019 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 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.

DIVIDEND POLICY

The Company has adopted a dividend policy which sets out various factors to be taken into account when considering declaration and payment of dividend. The factors included, but not limited to, the Group's financial performance, capacity from current and future operation, working capital requirements and general economic conditions. The Board endeavours to maintain a balance between meeting Shareholders' expectations and prudent capital management with a sustainable dividend policy and will continually review the dividend policy from time to time.

SHAREHOLDERS' RIGHTS

Convening an extraordinary general meeting

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

SHAREHOLDERS' RIGHTS (continued)

Putting forward proposals at general meeting

Pursuant to Article 85 of the Articles, if a Shareholder wishes to propose a person for election as a Director, unless the person proposed to be elected as a Director is a Director retiring at the general meeting or is recommended by the Board for election, a Shareholder shall submit: (i) a notice in writing (the "Nomination Notice") signed by a Shareholder duly qualified to attend and vote at the meeting for which such notice is given of his/her intention to propose that person for election as a Director; and (ii) a notice in writing signed by that person of his/her willingness to be elected as a Director to the principal 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.

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, 27 March 2020

Environmental, Social and Governance Report

ABOUT THIS REPORT

This environmental, social and governance report (the "ESG Report") outlines the policies, sustainability strategies, management approach and initiatives implemented by the Group in the environmental and social aspects of its business, and performance of the Group in this regard.

The ESG Report covers the Group's businesses in the manufacture and sale of paint and coating products for the year ended 31 December 2019. The ESG Report discloses the required information under the "comply or explain" provisions of the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 to the Listing Rules. The relevant provisions and details are set out at the end of the ESG Report.

The Board is responsible for the Group's environmental, social and governance strategy formulation and reporting, evaluating and determining the risks related to the environment, social and governance of the Group, and ensuring that appropriate and effective environmental, social and governance risk management measures and internal control systems are in place. In order to determine the scope of the ESG Report, the key management personnel of the Group has discussed and identified internally the environmental, social and operating items, and assessed their importance to the stakeholders and the Group. A summary of material environmental, social and governance items is set out in the "Materiality Matrix" of the ESG Report.

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 controls and manages the related parties that can affect the Group's operation and management systems through the established "Procedures for Control of the Stakeholders' Needs and Expectations" and 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 to ensure that the relevant risk management and internal control systems are operating properly and effectively. The following table shows the Group's management response to the stakeholders' expectations and requests:

Stakeholders	Expectations and requests	Management response
Government/regulatory organisations	➢ Compliance with laws and regulations ➢ Fulfill tax obligations ➢ Green operation	➢ Uphold integrity and operational compliance ➢ Pay tax on time, and in return contributing to society ➢ Establish a comprehensive and effective internal control system and environmental management 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 publications 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
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

STAKEHOLDERS' ENGAGEMENT (continued)

Stakeholders	Expectations and requests	Management response
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 operational 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	Low	Medium	High
High	◆ Anti-discrimination ◆ Protecting human 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 emissions ✧ 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 waste produced	✧ Use of raw materials ✧ Hazardous waste produced

Importance to the Group

✧ Environmental ◆ Employee ➢ Operational

ENVIRONMENTAL PROTECTION

Emissions Management

The emissions in the Group's production process are mainly generated by its production plants in Mainland China. The Group has formulated different emissions 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", "Regulation of Guangdong Province on Environmental Protection", "Regulations of Shenzhen Special Economic Zone on Environmental Protection" and the related laws and regulations, the Group has established the Environment, Health and Safety (hereinafter referred to as "EHS") management system in accordance with the international standards GB/T 24001-2016/ISO 14001:2015 Environmental Management System and GB/T 28001-2011 Occupational Health and Safety Management System and implemented the same standards in the main production plants. Other than the environmental and safety laws and regulations, the Group is also required to comply with the relevant international conventions, industry standards and other requirements. Therefore, the Group has formulated the "Procedures for Control of Management Review" and "Procedures for Control and Compliance Evaluation of the Laws and Regulations" to review the EHS management exercises regularly, so as to ensure the effective and continuous operation of the EHS management system with full compliance. Besides, the Group initiates investigations on the non-compliance cases and takes appropriate corrective measures in a timely manner to minimise the level of risk affecting the environment, employees' health and safety.

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 Group's production plant in Shenzhen (the "Shenzhen Production Plant") has established a safety and environmental protection department which is responsible for making decisions, supervising and coordinating various environmental protection works and the systemic management of the environmental performance of the entire production plant. The management and the safety and environmental protection department have worked together to prepare preventive plans and established management systems, including "Prevention and Emergency Procedures for Air Pollution", "Prevention and Emergency Procedures for Water Pollution", "Sewage Treatment Operation Manual" and "Prevention and Emergency Procedures for Noise Pollution" by following the guiding principle of the Group in environmental protection "Focus on Prevention and Control" and considered from the perspective of risk management. These policies not only set out clear working guidelines for the daily operation of the production plants but also rigorously regulate the air emissions, sewage discharge and noise emission to ensure that the production processes are in full compliance with the national and local environmental standards. It also enables the production plants to deal with emergencies or other environmental factors effectively in order to minimise the impact on the Group's stakeholders; and also allows continual improvement in the Group's environmental management system. Besides, various departments of the Group initiated different energy conservation and consumption reduction activities and organised relevant knowledge and skills training to enhance employees awareness on environmental and occupational health and safety. The Group is continuously minimising the adverse effects of environmental factors and reducing environmental pollution, so as to provide favourable conditions for simultaneous planning, implementation and development of production, environmental protection and employees; and at the same time, promoting economic growth and providing benefits to society and the environment.

The Group is now facing challenges mainly from the control and management of volatile organic compounds (hereinafter referred to as "VOC") and the disposal of industrial waste water and hazardous wastes. The Group always promotes clean production and therefore, focuses on the management and monitoring of VOC, industrial waste water and hazardous wastes treatment. The Group has established a set of management policy and working guideline to manage the whole product life cycle, which cover the selection of raw materials and auxiliary materials, the emissions reduction measures in the production process, the management of emissions and the usage of the Group's products by consumers. The Group also implemented an environmental reward and penalty management system, and established the "Research and Development Project Reward System" in compliance with the "Scientific Progress Law of the People's Republic of China" to encourage various departments to carry out technological transformation and innovation, and initiates innovative changes in production methods, transformation of machine facilities or management methods, so as to reduce environmental pollution caused by exhaust air, waste water and solid wastes.

ENVIRONMENTAL PROTECTION (continued)

Emissions Management (continued)

1. Management of Air and Greenhouse Gas Emissions

The operation of the Group is affected by China's increasingly stringent rectification policy on air pollution. The Group strictly abides by the "Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution" and other applicable laws and regulations, with the goal of improving the atmospheric environment, adheres to source control, and continuously optimises the Group's energy structure, environmental protection facilities and air emissions management of each production plant. The Shenzhen Production Plant applied and obtained a valid pollutant discharge permit from the local environmental protection department in accordance with the "Administrative Measures for Pollutant Discharge Permits of Shenzhen Special Economic Zone". Besides, the Group also strictly abides by the "Measures for the Supervision and Administration of Vehicle Waste Gas Pollution" and "Regulations for the Prevention and Control of Vehicle Air Pollution in the Shenzhen Special Economic Zone" to control and prevent excessive exhaust air generated by the vehicles, such as purchasing vehicles that are listed on the "Eco-friendly Vehicle Catalog", conducting regular maintenance to the vehicles and using environmental friendly fuels, etc., thereby protecting and improving the atmospheric environment.

Each department of the Group plays an 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 production department strictly follows the working guidelines of each production line to ensure that the exhaust air is processed by fans, spray towers, UV decomposers and activated carbon purification devices, and the emission is lower than the limits as set out in the "Integrated Emission Standard of Air Pollutants", "Guangdong Province Emissions Limits of Air Pollutants" and the other limits set by the respective regions, and discharged it at the height of above 15 meters in compliance with the national discharge height standard. The production department also configures dust removal facilities for dust-generating equipment to control the diffusion of dust. The research and development center has taken environmental protection into consideration when developing new products and technologies. The science and technology department is responsible for the introduction and detailed testing of new raw materials and auxiliary materials. The quality control department conducts tests on raw materials, auxiliary materials and finished products regularly. Besides, the above three departments work together to ensure the goods produced are in good quality and comply with RoHS[1] and REACH[2] standards. The engineering department is responsible for the operation and maintenance of the industrial exhaust air treatment facilities by complying with the "Guidelines for Operation and Maintenance of VOC Treatment Facilities" and regularly replaces activated carbon based on its absorption characteristics to ensure that the production facilities are operating effectively so as to prevent environmental pollution. The warehouse department regularly inspects warehouses that store toxic, harmful, flammable, explosive, and volatile materials, and takes appropriate measures, such as spraying cold water in summer to lower the temperature, checking the tightness of the warehouse vents and containers to ensure the stability of the warehouse environment and reduce the risk of leakage of any harmful substances to prevent environmental pollution incidents.

Numerous trees are planted in the production plants and surrounding areas for greening in order to provide employees with a comfortable and healthy working environment. The Group engaged a professional environmental testing company to regularly perform tests on waste gas with an aim to confirm that the air emissions management methods operate effectively, and provide timely feedback to 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, VOC concentration and particulate matter were in compliance with the national emission standards.

Notes:

1 RoHS is a directive issued by the European Union to restrict the use of certain identified hazardous substances in products. It restricts 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.

2 REACH is a standard established by the European Union to restrict the production and use of various chemicals so as to reduce the potential negative impact of those chemicals on human health and the environment.

ENVIRONMENTAL PROTECTION (continued)

Emissions Management (continued)

1. Management of Air and Greenhouse Gas Emissions (continued)

During the reporting period, the Group's production plant in Xinfeng (the "Xinfeng Production Plant") had added two sets of UV photolysis purification systems to the existing waste gas treatment facilities for further reduction of the VOC concentration level generated in the production process. Besides, each production plant continuously strengthens the management of fugitive emissions in its production process. For example, employees are required to cover the temporary storage buckets when the materials are not in use, strengthens the repair and maintenance of the gas-collection hoods in materials feeding process, turns off the air compressor system after work to prevent overloading the system and impact on the normal operation of the ventilation equipment. Please refer to the sections headed "Conservation on Gasoline and Diesel Consumption" and "Conservation on Electricity Consumption" below for the details of the greenhouse gas emissions data generated from the use of fuel and electricity by the Group.

2. Management of Waste Water

The Group has established a sewage discharge management system for production plants in accordance with the "Water Pollution Prevention and Control Law of the People's Republic of China", "Regulation on Urban Drainage and Sewage Treatment", "Shenzhen Drainage Regulations" and other related laws and regulations, including the "Waste Water Control Procedures" and "Procedures for Prevention of Water Pollution and Emergency Treatment" for strictly restricting the waste water generated in the production to undergo the harmless treatment before discharging, and providing preventive and emergency measures to ensure that the sewage treatment facilities can be operated properly when an accident occurred. The Group's "Regulations on Sewage Treatment Operation" provides detailed descriptions of the operating procedures of waste water treatment facilities at each production plant, the methods and frequency of water quality inspection and other code of practice on safety. The operator is required to perform day-to-day management of the facility in accordance with the policies and procedures. Besides, in order to comply with the "Administrative Measures for the Sewage Permits of Guangdong Province", the Group holds a valid waste water discharge permit, pays sewage charges on time, establishes pollutant discharge record, and disseminates major pollutant discharge information on the Group's website, and the pollutant discharge is monitored and inspected by the local environmental protection department.

The waste water generated by production plants is mainly domestic sewage and industrial sewage. The domestic sewage is discharged to the local sewage treatment plant directly through the main pipelines. Each sewage treatment plant has its own sewage treatment station, which comprises a conditioning tank, a chemical sedimentation tank, an anaerobic tank and a biological pool. The water-based paint sewage generated from production will be conditioned, precipitated and underwent chemical and biological treatment procedures, and discharged when the "Integrated Waste Water Discharge Standard", "Guangdong Province Water Pollutant Discharge Limit" and other discharge limits stipulated by respective operating locations are met. In order to prevent environmental pollution caused by sewage overflow from the conditioning tank or abnormal operation of the sewage treatment facilities, the Group has established different treatment methods to control the flow by referring to the water level. The Group has also set up an emergency pool for extra storage during large-scale production or the malfunctioning of the sewage treatment station. To ensure the proper functioning of the sewage treatment facilities, the Group pays close attention to the regular daily repairs and maintenance of these facilities.

ENVIRONMENTAL PROTECTION (continued)

Emissions Management (continued)

2. Management of Waste Water (continued)

The safety and environmental protection department of the Group is responsible for managing the industrial waste water treatment, monitoring the progress of sewage treatment process of the production plants, evaluating and analysing the environmental performance. Online automatic monitoring system has been set up in the production plants to monitor the total phosphorus, total zinc, ammonia nitrogen, chemical oxygen demand, pH value and flow at the sewage discharge port, so as to ensure all sewage complied with the discharge standards before discharging. 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 chemical oxygen demand of waste water. The National Ministry of Ecology and Environment also performs unscheduled inspections on sewage for about two to four times a year. During the reporting period, all quarterly test results complied with the national emission standards and the Group did not receive any reports from the relevant authorities for breach of standards.

During the reporting period, the increase in the Group's production volume did not give rise to larger quantities of waste water. It was mainly due to the successful implementation of the Group's policy in reducing emissions at the source. For example, production staffs have better water use habits for paint tanks washing, optimised the materials feeding process by using the paint mix tank consistently for the same formulation and reduced the frequency of the paint tanks washing. As a whole, the Group generated approximately 9,655.00 tonnes of non-hazardous waste water during the reporting period, representing a decrease of 1,046.92 tonnes or 9.78% when compared with last year. In general, all of the production plants have recorded a decrease in waste water generation, except the Xinfeng Production Plant. A slight increase of 74.00 tonnes or 1.69% is resulted due to more rainfall this year and rainwater seeped into the pipelines underneath the Xinfeng Production Plant. On the other hand, the Group's production plant in Hubei (the "Hubei Production Plant") has recorded a significant reduction of 207.92 tonnes or 36.87% when compared with last year. It was mainly due to the sewage pool cleaning last year and larger volume of non-hazardous waste water generation was recorded.

During the reporting period, the Group's data in non-hazardous waste water discharged are as follows:

NON-HAZARDOUS WASTE WATER	2019 (Tonnes)	2018 (Tonnes)
Total	9,655.00	10,701.92
Intensity [1]	0.31	0.42

Note:

1 The emission intensity is calculated in terms of the production per tonne.

ENVIRONMENTAL PROTECTION (continued)

Emissions Management (continued)

3. Management of Disposal of Solid Waste

The solid waste generated by the Group during its operations can be divided into recyclable, non-recyclable and hazardous waste. Recyclable waste are mainly waste packaging materials, waste wood and metal scraps. Non-recyclable waste are mainly water-based paint sludge, waste paper, rags, and domestic waste. Hazardous waste are mainly waste insulating oil, used activated charcoal, organic solvent waste, waste ink, waste paint residue, waste batteries, mercury-containing waste lamps, waste chemicals containers, and other labour supplies and containers that contaminated with hazardous substances. In order to comply with the "Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste", "Regulations on the Prevention and Control of Environmental Pollution by Solid Waste of Guangdong Province" and relevant laws and regulations, the Group has formulated the "Procedure for Control of Waste" to manage and monitor the process of production, collection, storage and disposal of different types of solid waste. For the disposal of hazardous wastes, the Group has also established the "Code of Prevention and Protection against Environmental Pollution from Hazardous Wastes" and set up a task force to make decisions, monitor and coordinate the work in the environmental protection aspect and follow the national direction of "Focusing on Prevention, Integrating Management Controls" in implementing different environmental protection and pollution prevention measures.

Hazardous Solid Waste

The responsible departments of the Group categorise, label, store and dispose of the solid waste according to the requirement of the "National Hazardous Waste List", "Standard for Pollution Control on Hazardous Waste Storage" and "Standards for Pollution Control on the Storage and Disposal Site for General Industrial Solid Wastes". All hazardous solid waste must be recycled by agents holding an operation permit for dangerous wastes and strictly follow the "Measures for the Management of Hazardous Waste Transfer". Illegal disposal of hazardous waste is prohibited. In order to produce lesser sludge, the sequence of raw materials used in the paint mixing tank is also considered in the production planning stage. For example, using the mix tank consistently for the same formulation can avoid unnecessary cleaning and reduce the production of hazardous waste water and sludge in order to increase productivity and make efficient use of materials.

The responsible departments and users of the Group strictly follow the "Regulations on the Safety Management of Dangerous Chemicals", "Regulations on the Management of Transportation of Dangerous Goods", "General Rules for the Storage of Commonly Used Dangerous Chemical", "General Rules for the Classification of Chemicals and Hazard" and relevant laws and regulations, as well as internal policies and procedures to purchase, use, transport and store hazardous substances (such as chemicals). The Group also takes necessary protective measures when handling hazardous chemicals, such as demanding the raw materials suppliers to comply with relevant laws and regulations by signing an agreement, explicitly stating the safety and environmental requirements on hazardous chemicals packing, transportation and discharge process. The Group has also installed a number of online surveillance cameras in dangerous goods warehouses to enable real-time spot checks by the local government departments and increased the frequency of warehouse inspections to prevent environmental pollution caused by leakage. The Group has established a "Management Plan for Disposal of Chemical Waste" to report all discarded hazardous chemicals to the environmental protection department and maintained a register recording the information about the discarded hazardous chemicals. The Group also registers the transfer of hazardous waste on the national solid waste management information platform. Approval from the environmental protection authorities is required prior to the disposal of hazardous waste so as to prevent the recyclers from illegal disposal of the wastes which would otherwise lead to environmental pollution.

ENVIRONMENTAL PROTECTION (continued)

Emissions Management (continued)

3. Management of Disposal of Solid Waste (continued)

Hazardous Solid Waste (continued)

During the reporting period, the Shenzhen Production Plant, which mainly produces water-based paints, has engaged a third-party professional testing company to conduct water-based paint sludge test to ascertain the classification of water-based paint sludge as non-hazardous waste. The local environmental protection department has reviewed the result and confirmed that the sludge is no longer classified as hazardous waste and can be stored and disposed of as general industrial waste. In recent years, the PRC government has continued to strengthen the control of environmental protection which brings a certain degree of difficulties in the disposal of hazardous waste. Therefore, the test result not only provides affirmation of the Group's contribution to environmental protection but also reduces the cost of disposing of water-based paint sludge in the future.

During the reporting period, the Group generated approximately 86.63 tonnes of hazardous solid waste, representing a decrease of approximately 162.97 tonnes or 65.29% when compared with last year. Other than the above-mentioned reason that the sludge generated by the Shenzhen Production Plant was classified as non-hazardous waste, the Xinfeng Production Plant has reduced the frequency of replacing activated carbon upon the implementation of new UV photolysis purification system, resulting in a reduction of waste activated carbon. The Xinfeng Production Plant has also changed to use reusable resin buckets as paint containers which led to a significant drop of containers contaminated with waste paint. Besides, as a result of no production of oil-based paint by the Hubei Production Plant during the year, lesser waste paint was generated. Furthermore, each production plant has focused on enhancing the management of the production of hazardous waste and their employees have been actively supporting the Group's policy and measures implemented, which led to the favourable result in reducing the hazardous solid wastes. The Group will continue to formulate and implement different emissions reduction plans and measures in the coming years to work in line with China's environmental policies and to mitigate the adverse effects that the Group's operation might impose on the environment.

During the reporting period, the Group's data in the production of hazardous solid wastes are as follows:

HAZARDOUS SOLID WASTES	2019 (Tonnes)	2018 (Tonnes)
Total	86.63	249.60
Intensity [1, 2]	–	0.01

Notes:

1 The emission intensity is measured in terms of production per tonne.

2 Please refer to the section headed "Summary of Environmental Data and Performance" below for details about the data expressed in kilograms.

ENVIRONMENTAL PROTECTION (continued)

Emissions Management (continued)

3. Management of Disposal of Solid Waste (continued)

Non-Hazardous Solid Waste

The Group implemented different methods of recycling and disposal depending on the source of non-hazardous waste. The Group's production department is responsible for categorising waste, such as packaging materials and cardboards, arranging transportation and storing the same at designated locations and engaging with local environmental accredited recyclers to handle the waste. Besides, the Group recycles and re-uses papers in office in order to maximise the resources utilisation rate (please refer to the section headed "Paper Conservation" below for details). The Group strictly complies with the "Measures for the Management of Municipal Solid Waste" and relevant laws and regulations to monitor, collect and dispose of domestic waste, and educates employees to reduce waste generation from source, to enhance employee awareness in waste categorisation and to remind them how their behaviour will affect the environment.

During the reporting period, 50.00 tonnes of non-hazardous sludge was generated by the Shenzhen Production Plant that was previously classified as hazardous sludge (please refer to the section headed "Hazardous Solid Waste" above for details). Despite the increase in production during the year, the Group generated about 508.18 tonnes of non-hazardous solid waste, representing a slight increase of 3.42 tonnes or 0.68% when compared with last year. It was mainly due to the disposal of the significant numbers of waste iron barrels and plastic waste barrels consumed for containing the expired materials by the Xinfeng Production Plant last year.

During the reporting period, the Group's data in the production of non-hazardous solid wastes are as follows:

NON-HAZARDOUS SOLID WASTES	2019 (Tonnes)	2018 (Tonnes)
Total	508.18	504.76
Intensity [1]	0.02	0.02

Note:

1 The emission intensity is calculated in terms of the production per tonne.

4. Management of Noise

The Group strictly complies with the "Law of the People's Republic of China on Prevention of Noise Pollution", "Regulations for the Prevention of Noise Pollution in the Shenzhen Special Economic Zone" and relevant laws and regulations and established "Procedures for Control of Noise" and "Procedures for Prevention of Noise and Emergency Treatment" to strictly control and manage noise produced during the operation of the production facilities. The operators strictly follow the operation manual when using the production equipment and take appropriate sound treatment. The engineering department of the Group is responsible for the management, repair and maintenance of production facilities and generators to ensure that the noise produced is within the national standards. The Group conducts an assessment of the noise level at least once every year and the test result within the reporting period has met the "Emission Standard for Industrial Enterprises Noise at Boundary".

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

ENVIRONMENTAL PROTECTION (continued)

Management of Use of Resources

In order to comply with the "Law of the People's Republic of China on Energy Conservation", "Water Law of the People's Republic of China" and relevant laws and regulations, the Group has established related internal policies and procedures at each production plant. The Group is committed to promoting the corporate culture on "saving resources" by constantly reminding its employees to preserve precious resources and to avoid wastage. To ensure the staff understand the importance of resources conservation, the Group has implemented various measures to encourage the staff to build a habit of saving and making the best use of resources.

1. Energy Conservation

Conservation on Gasoline and Diesel Consumption

Gasoline and diesel are mainly consumed by the Group's business vehicles and warehouse forklifts. The Group has formulated "Measures for Management of Vehicle" to manage the daily use of vehicles. The vehicle users are required to complete the "Application Form for the Use of Vehicles" and obtain prior approval before using the business vehicles. The Group encourages employees to use public transportation when travelling to locations with good public transportation networks. Besides, drivers must plan the routes before using vehicles and take the shortest route and the fastest way to the destination in order to shorten the driving distance and to reduce exhaust air emissions. Drivers have to check the vehicles before use so as to prevent any environmental and safety issues due to parts failure. The finance department of the Group checks and analyses the monthly fuel consumption, investigates abnormal fuel consumption cases, and requests the vehicle users to explain for any abnormal situation. During the reporting period, the Shenzhen Production Plant has changed to use electric explosion-proof forklifts to reduce diesel consumption.

During the reporting period, the Group consumed approximately 59.36 tonnes of gasoline, representing a decrease of approximately 3.46 tonnes or 5.51% as compared with last year, which was mainly due to the disposal of 4 business vehicles and less frequent business trips, and also the active support of employees to the Group's emissions reduction policies by using public transportation or walking to the workplace. The Group consumed approximately 21.98 tonnes of diesel, representing a decrease of approximately 2.51 tonnes or 10.25% from last year. It was mainly due to the decrease in the production level of the Xinfeng Product Plant and less frequent use of forklifts for moving goods, which resulted in a reduction of diesel consumption.

During the reporting period, the Group's direct use of energy and the Scope 1 greenhouse gas emissions generated by the Group are as follows:

	2019		2018	
	Consumption (Tonnes)	CO_2 Equivalent Emissions (Tonnes)	Consumption (Tonnes)	CO_2 Equivalent Emissions (Tonnes)
Gasoline	59.36	184.29	62.82	195.01
Diesel	21.98	70.07	24.49	78.07
Group's Total Emission		254.36		273.08
Group's Emission Intensity [1]		0.01		0.01

Note:

1 The emission intensity is measured in terms of the production per tonne.

ENVIRONMENTAL PROTECTION (continued)

Management of Use of Resources (continued)

1. Energy Conservation (continued)

Conservation on Electricity Consumption

In order to consistently implement the Group's environmental protection policy, the Group has established the "Procedures for Management of Water Resource and Electricity Consumption", which strictly requires all departments to use and save energy effectively. The Group's administration and human resources department is responsible for implementing water conservation measures and providing training on the use of electricity. All new employees are required to participate in the induction training, which covers environmental protection facilities and equipment operation procedures, to ensure that each new employee has adequate knowledge in operating the environmental facilities and eliminating the chance of inappropriate use of the equipment so as to minimise unnecessary energy consumption. The engineering department of the Group is responsible for setting annual electricity saving targets, recording and analysing electricity consumption data, preparing timely remediation plan if abnormalities are discovered; suggesting necessary energy-saving renovations for production and office electrical equipment, such as installing variable-frequency drives and automatic light sensor switches, using LED energy-saving lamps, and enhancing resources conservation measures according to the loading or conditions of the equipment.

The department heads are responsible for monitoring their team members for electricity consumption and enhancing their knowledge in resources conservation so as to control energy consumption and improve resource usage efficiency through daily management. In general, employees are suggested to turn off the lights when sunlight is sufficient, turn off the air conditioners after work, close the doors and windows when air conditioners are turned on and switch off their own or their department's electrical appliances and computers after work.

During the reporting period, the Group's production volume increased, but the electricity consumption decreased by approximately 127.36 MWh or 3.59%. The Group has consumed approximately 3,422.20 MWh of electricity in total. The drop was mainly contributed to production suspension of the Xinfeng Production Plant after the fire accident occurred in July 2019 (please refer to the section headed "Health and Safety" below for details). The incident has led to a decrease of electricity consumption by approximately 108.08 MWh or 11.96%. Another cause of lesser electricity consumption during the year was due to the decrease in production fo oil-based paints. Production of oil-based paints consumed more electricity than other types of products. Besides, each production plant has continued to install LED lamps, and the engineering department renovated the electricity facilities and the employees cooperated with the Group's environmental policies and energy-saving measures have led to the lesser electricity consumption.

During the reporting period, the data relating to Group's indirect use of energy and the Scope 2 greenhouse gas emissions generated by the Group are as follows:

	2019		2018	
	Consumption (MWh)	CO_2 Equivalent Emissions (Tonnes)	Consumption (MWh)	CO_2 Equivalent Emissions (Tonnes)
Electricity	3,422.20	3,025.85	3,549.56	3,145.87
Group's Total Emission		3,025.85		3,145.87
Group's Emission Intensity [1]		0.10		0.12

Note:

1 The emission intensity is measured in terms of the production per tonne.

ENVIRONMENTAL PROTECTION (continued)

Management of Use of Resources (continued)

2. Water Conservation

The Group uses the government-supplied water sources and did not encounter any problems in sourcing water during the reporting period. The Group has always paid attention 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. In compliance with the "Law of the People's Republic of China on Use of Water Resources", "Regulations on Conservation of Use of Water in Urban Area" and relevant laws and regulations, the Group has formulated "Procedures for Management of Water Resource and Electricity Consumption" to manage the water use efficiency in the production plants. Each production department and office is required to check the water facilities, pipelines and taps, etc. regularly within their surrounding area to prevent the waste of water. The Group also aims to enhance employees' awareness of water conservation by putting up different water-saving tips at prominent positions. Once damaged pipe or valve or water leakage is discovered, the employees shall notify the maintenance department promptly for repair. The engineering department also installed monitoring equipment at different water outlets to measure and make changes to the water outlets with high water consumption.

During the reporting period, the Group actively responded to the requirements of the "National Water Conservation Plan" and continually raised the water conservation awareness of the production plants and the employees; increased the water use efficiency; assisted local governments to enhance the water metering system and online monitoring system; strengthened the control in water used for production; so as to follow the national water resources management policy of "water conservation first, balanced development, systematic management with double efforts", and eased the pressure on the environment caused by the Group's operations. During the reporting period, the Group has consumed approximately 89,683.00 cubic meters of water, representing a decrease of approximately 24,385.00 cubic meters or 21.38% when compared with last year.

Other than the reasons mentioned above, there are other factors contributed to this result. The completion of construction work at the Xinfeng Production Plant and the river course and pipelines maintenance work by the municipal government with the repairing of tap water pipeline network during the reporting period, while the government has also strengthened the promotion and monitoring of water conservation to the contractor, all these have contributed to the decrease in non-production related water consumption.

Besides, each production plant has implemented a number of water-saving measures, such as replacing the ordinary faucets with energy-saving faucets, installing water meters in dormitories to manage employees' water usage, posting water-saving tips at each water usage point, checking all underground water pipes and repair leaks in time, closer monitoring of water use in the plant. The Group will continue to focus on water conservation promotion work, strengthen the water use monitoring system and pay attention to water management.

During the reporting period, the Group's use of water resources is as follows:

WATER RESOURCES	2019 (Cubic Meters)	2018 (Cubic Meters)
Total	89,683.00	114,068.00
Intensity [1]	2.87	4.45

Note:

1 The emission intensity is measured in terms of the production per tonne.

ENVIRONMENTAL PROTECTION (continued)

Management of Use of Resources (continued)

3. Management of Use of Packaging Materials

The packaging materials used by the Group are mainly paint cans, protective rings, cartons and stickers. The packaging materials of all production plants are centrally purchased by the Shenzhen Production Plant. The marketing department, production planning department and procurement department of the Group follow the "Procedures for Control on Procurement" to carry out the related procurement processes. The marketing department of the Group formulates product design plans based on the Group's product characteristics, safety and environmental requirements, and the national standards. The production planning department of the Group prepares requisition form for raw materials procurement according to production needs. The purchasing department of the Group selects suitable suppliers from the "Approved Vendor List" according to the design plan and the raw materials requisition form. In order to strengthen the warehouse management, the Group has established the "Procedures for Control of Warehouse Management" to regulate receipt, dispatch and storage of packaging materials, and to carry out physical count and sample check of the packaging materials regularly. The Group also inspects and conducts repairs and maintenance to the material warehouse periodically to ensure that the warehouse environment is suitable for storing packaging materials in order to maintain its quality and to increase the materials' durability.

During the reporting period, the Group purchased and used 3,523.91 tonnes of packaging materials, representing an increase of 1,137.41 tonnes or 47.66% when compared with last year, which was mainly due to the increased production volume and relatively more water-based paints were produced during the year. The main packaging material for water-based paint products is iron drums, which are comparatively heavier, so the weight of packaging materials has increased this year.

4. Paper Conservation

The Group actively promotes the "Paperless Office" policy and encourages employees to read documents in electronic format and reduce photocopying and printing. Employees are also encouraged to set double-sided printing as default, to check the format of the document before copying or printing, fully utilise papers by reusing single-sided papers and collect double-sided used papers in recycling bins pending for collection by qualified recyclers. During the reporting period, the Group's paper consumption has decreased by 2.59 tonnes or 26.62%, demonstrating the successful outcomes of effective implementation of the above measures in each production plant and office. As a whole, the Group has used approximately 7.14 tonnes of paper.

The Environment and Natural Resources

The Group pays attention to the protection of natural resources, promotes the idea of "caring and protecting the environment is everyone's responsibility" and hopes to engage everyone to work together for a better world. The Group follows the "Procedures for Identification, Evaluation and Control of Environmental Factors/Source of Danger" to assess the impact on the environment from the new or changed processes and workflow in production and in the course of providing the services, makes reference to the most updated relevant laws and regulations; integrates the stakeholders' expectations and requirements to monitor and enhance the environmental performance of each production plant continuously. In response to the "Measures for the Disclosure of Environmental Information", the Group disclosed the environmental information of major production plants, including the company's general information, sewage discharge information, construction progress and operation of pollution prevention facilities, waste water online monitoring equipment status, environmental impact assessment of construction projects, and other environmental protection administrative permits, emergency plans for environmental incidents, etc.

ENVIRONMENTAL PROTECTION (continued)

The Environment and Natural Resources (continued)

Besides, 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 different policies, measures and actions (please refer to the sections headed "Management of Emissions" and "Management of Use of Resources" above for details), implement appropriate environmental management policies for the reduction of energy consumption within production and control waste generation at source, raise the environmental awareness of everyone in the production plants, their families, friends and business partners and minimise the environmental impacts from the Group's business activities.

In view of the national direction in replacing oil-based paints by water-based paints, the Group is aware of the structural change to the industry and the increasing demand for product quality by consumers. The paint and coating manufacturing industry is expected to face increasing challenges in the future. As a responsible enterprise, the Group will establish management policies and measures to meet the national standards, continuously improve and transform its production facilities and processes, use of clean energy and raw materials, and increase resource utilisation rate, so as to reduce pollutants generation in production. The Group aims to establish a path to green development that fits its business characteristics in the near future. This plan not only meets the stakeholders' growing concern about environmental protection but also contributes to the protection of the environment as a whole.

EMPLOYMENT AND LABOUR PRACTICES

Employees are the Group's most valuable assets. The Group adheres to the "fair, talent-oriented and virtuous" principle in its governance culture. A set of comprehensive talent management mechanism has been established to attract and retain competent talents for sustainable development and inherit the mission of "developing industry for the nation, creating a colourful life". 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 the employees to be innovative, flexible and committed when dealing with customers and to provide high-quality products and services. To accomplish these goals, the Group establishes competitive remuneration policy to attract, retain and reward talents, including the provision of appropriate remuneration, personal and career development training together with other fringe benefits. Besides, the Group promotes work-life balance and cares about the physical and mental well-being 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 respects employees' privacy. It has established the "Recruitment Management Policy" and "Procedures for Recruitment Management" and adhered to the concept of "talent oriented" in recruiting talents through various recruitment channels. Department heads set out "Job Duties Description" to define the job responsibilities and requirements of each position clearly. The appropriate candidates would be selected based on working experience, professional knowledge, academic background and communication skills, regardless of their ethnic group, religious affiliation, nationality, gender, age, marital status. The policy applies to all phases of the employment relationship, including but not limited to hiring, promotion, performance appraisal, training, personal development and termination.

Labour Standards

The Group cherishes 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 human resources department of the Group conducts background checks and reference checks in its hiring process to prevent any illegal labour. The employees working hours are in line with the relevant local labour laws and regulations. Employees consent shall be obtained 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 has complied with the labour laws and regulations and no person under the legal working age was employed in respect of child or forced labour.

EMPLOYMENT AND LABOUR PRACTICES (continued)

Compensation and Welfare

The Group attracts and retains outstanding talents by providing competitive remuneration packages and benchmarks up-to-date remuneration data in their industry and strives to establish a fair, reasonable and competitive remuneration scheme. Staff salaries level is decided based on their knowledge, skills, experiences and education background. Employee compensation varies among factories and offices by location. The remuneration package includes salary, over-time allowance and bonus. Other benefits include the provision of employee housing dorm, free annual body medical checkup, festival red packets, 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 protects their entitlements to rest days and holidays. The Group handles the dismissal of employees and compensates them in accordance with the local laws and regulations.

In order to enhance the quality of work and competency of employees, the Group conducts periodic performance appraisal and fairly assesses the level of awards, salary increment and/or promotion recommendations based on a number of criteria, including working experience, seniority, knowledge and skills, performance, contributions, etc. During the performance appraisal process, the department head discusses with employees to set goals and development plan for work, and organises appropriate training programs for employees to develop their potential.

The Group attaches importance to employees' health and work-life balance. Employees' work hours are set in compliance with local labour laws. 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 and ballgame competitions, such as table tennis and basketball competitions, encouraged employees to participate in different recreational activities, such as marathon races, and organised various courses for employees. The corporate culture department of the Shenzhen Production Plant provides a multi-purpose recreation centre with facilities, which includes badminton courts, billiard room, basketball court, fitness room and lounge for employees to use during their leisure time. The Group also pays attention to employees' family relationship and encourages them to cherish and seize opportunities to co-develop with their children. During the reporting period, the Shenzhen Production Plant organised various activities, such as family summer camping, scientific knowledge and experience activities to balance between career and family for better development.

Development and Training

An excellent corporate team is critical for the Group's sustainable and long-term business development. Therefore, the Group has established a stringent and comprehensive recruitment system, standards and procedures, introduced competition mechanism in order to explore and cultivate professional talents, and to encourage staff to continue the study and lifelong learning. Apart from aligning the Group's corporate business plan, the Group also aims to enhance the quality, technical skills and knowledge of employees through continuous training. New hires are required to participate in induction training with an aim to introduce corporate culture, industry knowledge, organisational structure, rules and regulations, environmental protection and workplace safety, etc. In accordance with "Guideline for 3-level Safety Education", new hires and employees who are transferred to a new position are required to participate a 3-level safety training to ensure the employees understand the national safety production laws and regulations, learn safety knowledge, acquaint themselves with the key safety production work of each position (please refer to the section headed "Health and Safety" below for details of workplace safety training). In addition to the induction training, the Group also established a comprehensive staff training plan with reference to the departmental human resources needs. The Group organised internal training activities and participated in external training held by professional organisations. The Group's human resources department manages and keeps proper records for the training programs, including training plan, training activities and participants. These comprehensive records are used as a reference for formulating training plan in future. During the reporting period, internal training covered procurement management, warehouse management, environmental management, financial management, quality management (please refer to the section headed "Product Responsibility" below for details), production safety management (please refer to the section headed "Health and Safety" below for details), etc., covering vendor evaluation requirements for toy paint, guidelines for finished goods warehouse, manual for environmental quality, professional financial knowledge, internal auditors training, etc. Topics of external training included safety training for the responsible person of major production plants, re-training of production management staff, and so on.

EMPLOYMENT AND LABOUR PRACTICES (continued)

Health and Safety

The Group cares about the employees' health and provides a safe working environment in order to protect employees from occupational hazards. To comply with "Production Safety Law of the People's Republic of China" and the applicable local safety production laws and regulations, the Group formulated the "Safety Responsibility Policy" 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 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 fulfil their job duties. During the reporting period, the Group organised various safety training programs, which include static electricity safety training, forklifts safety operation guideline, workflow of anti-corrosion coating test, preventive measures for dangerous chemical warehouse safety, training and drill for production safety emergency incident, re-training of safety policy and procedures, production safety, occupational hygiene and laws and regulations, fire safety incident, fire-fighting and safety equipment, volunteer fire brigade training, etc. The Group will continue to provide training to minimise occupational health and safety risks during the production process.

In order to implement the production safety policy of "Safety and Prevention First", the Group formulated a production safety emergency plan to stipulate the emergency management work, enhance the ability to respond to risks and prevent emergency incidents and protect the employees' safety and health, and public safety so as to reduce economic loss and the adverse impact on the environment and society. The Group continuously identifies the potential hazardous factors that may occur in workplace, like fire, explosion, poisoning, electric shock, mechanical injury, falls from height, noise and leakage of hazardous chemicals, and performs risk assessment and takes preventive measures in respect of likelihood of incident, severity level of the consequences of the incident and the frequency of employees exposing to hazardous sources in order to eliminate hazards source and to reduce the likelihood of an incident. In order to handle different types of emergencies effectively and to ensure the employees' safety at the scene of incident, the production safety emergency plan determined each department's responsibilities. After an incident occurred, the responsible departments arrive at the scene and understand when it has happened, the casualties and pollution caused, and to make a preliminary assessment as to its nature, time, location, causes, casualties and the impact on the surrounding environment, etc., so as to determine its severity level and to take appropriate measures to contain the damage. They also have to report to the safety production monitoring authority and to assist in the investigation of the government authorities.

The Group's safety and environmental protection department, production department and engineering department work together to prevent safety incident from happening. The safety and environmental protection department is responsible for the monitoring and management of workplace hazards by conducting several safety inspections each day with the production department regarding the corridors and safety exit, fire-fighting equipment, the storage of hazardous chemicals and waste paints, and the temperature and humidity in all paint and solvent production plants and warehouses to ensure potential safety hazards can be identified timely, and to take preventive measures to eliminate and control risk. To ensure equipment and facilities are in good condition and to control risk and prevent safety incidents from happening, the engineering department performs inspections on production equipment and fire facilities and provides status reports (including fire extinguishers, fire hose, etc.) to the management daily. If there is any malfunctioning of production equipment, repair work is required to be conducted immediately to ensure safe production, and to keep proper regular inspection and maintenance records.

EMPLOYMENT AND LABOUR PRACTICES (continued)

Health and Safety (continued)

Pursuant to the requirements of the "Production Safety Law of the People's Republic of China", "Law of the People's Republic of China on Prevention and Control of Occupational Diseases" and applicable local laws and regulations, the Group has established the "Occupational Health Management System". Based on various safety and occupational hazardous factors, for example, the production of paint involves the process of mixing various materials, in which the chemicals, including benzene, toluene, xylene and dust, etc., would affect the employees' health and provides its employees with protective equipment (such as face masks, earmuffs, uniforms, protective shoes and high altitude working safety belts, etc.) and supervises its employees to equip them according to guidelines, and performs inspections on an irregular basis to ensure the protective equipment are equipped properly. The Group engages a qualified agency to inspect the occupational hazards of each job position annually, and the inspection covers hazardous chemicals, noise, use of protective equipment and operation of protective facilities, and so on, and conduct remedial actions in accordance with the relevant recommendations so as to protect employees' health. Besides, new hires in Mainland China are required to conduct pre-employment medical checkup, and employees are required to perform medical checkup every year and to pass 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, about 99.86% of the employees in Mainland China underwent medical checkup, and the remaining 0.14% of the employees were on business trips and they will undergo medical checkup in due course. The Group will also conduct remedial actions according to the recommendations of the occupational hazards inspection report in the following year.

The occurrence of a fire accident in the warehouse of the Xinfeng Production Plant on 3 July 2019 resulted in the damage of consumables and facilities and fortunately there was no casualty. The Group reported the case to the relevant government departments immediately, suspended production activity, and formed a safety and remediation committee led by the deputy general manager of the Xinfeng Production Plant. The committee is responsible for safety production review, potential safety hazards discovery and cooperating with the local government department for the investigation. The Group has followed the specialists' recommendations and carried out remedial measures and obtained approval for production resumption on 8 August 2019. The Group will strengthen the safety measures and pay attention to accident prevention, enhance employees' safety training so as to prevent a similar incident from happening.

Except for the above, 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 the corporate social responsibility. The Group aims to develop with its suppliers on the basis of equality to achieve a win-win situation. Therefore, the Group has established strict internal rules and regulations, and 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, production scale, management system, production equipment, etc., and suppliers are categorised into approved vendors or substandard vendors according to the assessment result. The Group selects the best suppliers after conducting trial tests on new raw materials. The Group will re-assess the substandard suppliers if they could complete rectification work within a reasonable time. 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 a sound internal management system, achieve stability in product quality, make on-time delivery, comply with relevant laws and regulations 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's "Procedures for Raw Materials Inspection" provides guidance on quality inspection to ensure the raw materials can fulfill the internal and hazardous substance requirements. The Group establishes a supply chain management system with strict requirements to provide various reporting channels to its employees, suppliers, customers and other business parties to report any violations of laws or regulations. Prior to entering into the contract stage with key business partners, the Group conducts an assessment based on a variety of criteria, including attitude towards environmental and social issues. During the reporting period, the Group did not have significant issues relating to non-compliance or violations in this respect.

Product Responsibility

To achieve the philosophy of "quality, consumer and environmental protection first", the Group satisfies 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. The Group conducts customer satisfaction surveys continuously to understand their view on the Group's product and service quality. It also formulates "Procedures for Control of After-sales Services" to ensure that it can meet the customer's requirements in the after-sales services. Based on the concern on customers' complaints, the Group establishes a stringent customer complaints handling system to deal with complaints promptly, to analyse the root cause and to take rectification and preventive measures.

The Group believes that employees' quality has a positive impact on product quality, thereby regularly providing training courses relating to product quality, such as the requirements of IATF 16949 Quality Management System, raw materials quality check procedures, substandard products control procedures, phthalates limit under RoHS, etc. so as to ensure that the quality inspectors possess the latest skill and knowledge. The Group hopes that employees can gain a sense of satisfaction and accomplishment at work, seize every opportunity to improve the product quality with the Group together and move towards a higher quality goal.

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.

OPERATING PRACTICES (continued)

Product Responsibility (continued)

The production plants of the Group in Mainland China have obtained various international accreditation certificates, such as Labels for China Compulsory Certification and Labels for Environmental Labelling Products (Type I). The Group strictly complies with "Product Quality Law of the People's Republic of China", "Regulations of Use of China Environmental Labelling", "Regulation Concerning Management of Compulsive Product Certification" and applicable laws and regulations relating to product responsibility. In order to protect customers' legitimate rights effectively, the Group establishes "Guideline on Printing, Procurement, Custody and Use of Labels" and "Procedures for Product Labelling and Tracking" to monitor the use of each type of certification labels, and strictly prohibits employees from using labels on unauthenticated or substandard products, and selling such products in the market. These are to ensure product quality and to protect consumers' interests. Besides, 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" below for details).

During the reporting period, the Group's products and services did not involve in any significant issues relating to violations, nor did the Group receive any complaints concerning breaches of customer privacy and loss of data.

Anti-corruption

Maintaining an ethical working environment is one of the Group's 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 strictly regulate the behaviour of directors, management and employees. 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 abide by rules and regulations and does not tolerate any bribery act at all. Integrity is the key in the code of conduct for the sales and procurement department in view of their nature of work. Therefore, the Group established "Sales Department Management Policy", "Guidelines for the Code of Conduct of Salesperson" and "Anti-Corruption Commitment Letter for Procurement Staff" which set out guidelines for the sales and procurement staff to tackle the related issues and regulate misconduct behaviour. For example, salespersons are prohibited from making any promise with dealers by offering any discount, rewards or gifts, etc. on behalf of the Company without prior approval. The Group conducts disciplinary inspections and monitoring in the production and business process to ensure whistle-blowing channels, such as "Chairman's Mailbox", are in place for people to use in confidence, to lodge complaints regarding bahaviors in violation of rules, regulations and laws, such as the abuse of power for personal gains, bribery, blackmailing, frauds or money laundering. The Group is determined to combat corruption and contributes 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 is no litigation of corruption involving the Group or its employees.

COMMUNITY INVESTMENT

The Group emphasises on community involvement and advocates accountability in its corporate culture. Everyone is accountable to oneself, their family, their employer, and society. The Group believes that corporate development relies not only on the advanced technology, talented and hard-working employees, but also on close tie and development with the stakeholders. During the reporting period, the Group established scholarships and financial aid in Xinfeng No. 1 Middle School in China to support graduates who have been admitted to university and middle school students from modest background respectively. The Group participated in "6.30 Guangdong Poverty Day" by visiting and donating RMB100,000 to the needy elderly; sponsored the "Elderly Association of Heng Jiang Village of Jiangmen", the association aims to support the lonely and needy elderly, and organised various kinds of activities and training in order to enrich their lives. The Group will continuously encourage its employees to participate in more voluntary activities and services in the coming year.

AWARDS AND HONOURS

The Group has obtained the following major awards and honours in 2019:

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 "*Certificate for China Compulsory Product Certification (中國國家強制性產品認證證書)*".
- China Paint (Shenzhen) was awarded *"CNAS L1052 Laboratory Accreditation Certificate"*.
- China Paint (Shenzhen) was awarded "*GB/T 28001-2011/OHSAS 18001:2007 Occupational Health and Safety Management System Certificate*".
- China Paint (Shenzhen), China Paint (Xinfeng) and Hubei Giraffe were awarded "*GB/T 24001-2016/ ISO 14001:2015 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*".
- Various wood coating paint products for interior decoration of China Paint (Shenzhen), China Paint (Xinfeng) and Hubei Giraffe were awarded "*Certificate for China Environmental Labelling Production Certification (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 "*30 Years Co-development Partner of Association of Coating Industry in Guangdong Province (廣東省塗料行業協會30年共成長企業)".*
- China Paint (Shenzhen) was awarded "*Top 30 Coating Products Manufacturer in Guangdong Province (廣東塗料三十強企業)".*
- Paint products of "*Flower (菊花牌)*" of China Paint (Shenzhen) was awarded "*Innovative Coating Products for Construction Industry (華塗獎創新建築塗料品牌獎)*".
- Paint products of "*Flower (菊花牌)*" of China Paint (Shenzhen) was awarded "*Environmental Friendly Coating Products for Construction Industry (華塗獎環保建築塗料品牌獎)*".
- Paint products of "*Giraffe (長頸鹿牌)*" of China Paint (Shenzhen) was awarded "*Famous Brand in Guangdong Province (廣東省（行業類）名牌產品)*".
- Paint products of "*Giraffe (長頸鹿牌)*" of China Paint (Shenzhen) was awarded "*Outstanding Coating Brand in Wooden Products (傑出木器裝修塗料品牌獎)".*
- Paint products of "*Giraffe (長頸鹿牌)*" of China Paint (Shenzhen) was awarded "*Excellent Coating Products for Construction Industry in Guangdong Province (廣東優秀建築塗料品牌)".*

AWARDS AND HONOURS (continued)

Mainland China (continued)

➢ 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 "*Favorite Brand of Furniture Paint Products 2019 (2019油友喜愛的傢具漆品牌)*".

➢ Paint products of "*Toy Brand (玩具牌)*" of China Paint (Shenzhen) was awarded "*Excellent Coating Brand in Guangdong Province (廣東優秀工業塗料品牌)*".

➢ Paint products of "*Toy Brand (玩具牌)*" of China Paint (Shenzhen) was awarded "*Innovative Solution of Coating Products for Light Industry (輕工業塗料創新解決方案)*".

➢ Paint products of "*Blue Rocket (藍箭)*" of China Paint (Shenzhen) was awarded "*Influential Brand of Water-based Paint Products (水性工業漆影響力品牌)*".

VISION AND OUTLOOK

The business environment of paint and coating products changes from time to time. Factors like environmental protection, government policies, market trends, nurturing talent, etc. exert significant influence on the Group's operation. The major issues for the Group are to strengthen the position of its brand, to adjust its structure and to overcome new challenges. As a good corporate citizen, the Group strives to strike a balance between achieving corporate missions and business objectives and fulfilling its 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 build edge for the sustainable development of the Group.

Under the global trend of economic integration, the Group has a positive and optimistic view on its prospects and development in science and innovative technology. The Group will continue to comply with the stringent laws and regulations in environmental protection, allocate resources and undertake various environmental improvement projects, including improving emissions, waste water and solid waste treatment facilities. The Group will also put employee satisfaction and workplace safety as its top priority. The Group aims at attracting more talents through providing a safe workplace and competitive remuneration policy. As for product and service quality, the Group will continue to invest resources for further improvement to its products so as to meet the environmental standards. At the same time, the Group is committed to fulfilling its social responsibility by actively participating in charitable activities and promoting the community's sustainable development.

The Group always aspires to be 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	2019	2018
GREENHOUSE ("GHG") EMISSIONS			
Scope1 [1]:			
Total	Tonnes	254.36	273.08
Intensity [3]	Tonnes	0.01	0.01
Scope2 [2]:			
Total	Tonnes	3,025.85	3,145.87
Intensity [3]	Tonnes	0.10	0.12
AIR EMISSIONS			
Nitrogen Oxides	Tonnes	18.26	19.47
Sulfur oxide	Tonnes	1.72	1.84
Particles	Tonnes	2.96	3.21
HAZARDOUS WASTES			
Solid Wastes Generated:			
Total	Tonnes	86.63	249.60
Intensity [3]	Kilograms	2.77	9.74
NON-HAZARDOUS WASTES			
Solid Wastes Generated:			
Total	Tonnes	508.18	504.76
Intensity [3]	Tonnes	0.02	0.02
Waste Water Discharged:			
Total	Tonnes	9,655.00	10,701.92
Intensity [3]	Tonnes	0.31	0.42
PACKAGING MATERIALS USED FOR FINISHED GOODS			
Total	Tonnes	3,523.91	2,386.50
Intensity [3]	Tonnes	0.11	0.09
ENERGY AND WATER RESOURCES CONSUMPTION			
Electricity:			
Total	MWh	3,422.20	3,549.56
Intensity [3]	MWh	0.11	0.14
Diesel:			
Total	Tonnes	21.98	24.49
Intensity [3]	Kilograms	0.70	0.96
Gasoline:			
Total	Tonnes	59.36	62.82
Intensity [3]	Kilograms	1.90	2.45
Water Resources:			
Total	Cubic Meters	89,683.00	114,068.00
Intensity [3]	Cubic Meters	2.87	4.45

Notes:

1 Scope 1 refers to the direct GHG emissions from the Group's business, including combustion of gasoline and diesel.
2 Scope 2 refers to the indirect GHG emissions from the Group's business, including consumption of purchased electricity.
3 The emission/production/consumption intensities are calculated in terms of the production per tonne.

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

GENERAL DISCLOSURE/KEY PERFORMANCE INDICATORS ("KPIs")	REPORTING GUIDELINE	PAGE
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.	30-36
KPI A1.1	The types of emissions and respective emissions data.	49
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	49
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	49
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	49
KPI A1.5	Description of measures to mitigate emissions and results achieved.	30-36
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	30-36
ASPECT A2	**USE OF RESOURCES**	
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	37-40
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).	49
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	49
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	37-38
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	39
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	40
ASPECT A3	**THE ENVIRONMENT AND NATURAL RESOURCES**	
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	40-41
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	40-41

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

GENERAL DISCLOSURE/KEY PERFORMANCE INDICATORS ("KPIs")	REPORTING GUIDELINE	PAGE
	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.	41-42
ASPECT B2	**HEALTHY 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.	43-44
ASPECT B3	**DEVELOPMENT AND TRAINING**	
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	42
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.	41
ASPECT B5	**SUPPLY CHAIN MANAGEMENT**	
General Disclosure	Policies on managing environmental and social risks of the supply chain.	45
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.	45-46
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.	46
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.	46

Note:

1 Pursuant to Appendix 27 to the Listing Rules, the KPIs under "Subject Area B. Social" are recommended disclosures only. Therefore, the Group chooses not to disclose those KPIs in this report.

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. The Group is principally engaged in the manufacture and sale of paint and coating products and investment holding activities. Details of the activities of the principal subsidiaries are set out in note 1 to the financial statements. Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance can be found in the Chairman's Statement and Management Discussion and Analysis set out on pages 3 to 16 of this annual report. The discussion forms part of this directors' report.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2019 and the state of affairs of the Group at that date are set out in the financial statements on pages 64 to 146.

The Directors have resolved to recommend the payment of a final dividend of HK1.0 cent per Share to the Shareholders by way of distribution out of the contributed surplus. The final dividend, if approved by the Shareholders at the forthcoming AGM, will be paid on Tuesday, 23 June 2020 to the Shareholders whose names appear on the Company's register of members on Thursday, 11 June 2020.

MAJOR SUPPLIERS AND CUSTOMERS

In the year under review, purchases from the Group's five largest suppliers accounted for approximately 22% of the total purchases for the year and purchases from the largest supplier included therein amounted to 9%. Sales to the Group's five largest customers accounted for less than 12% of the total sales for the year.

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

SUMMARY OF FINANCIAL INFORMATION

The following table summarises the published results, assets, liabilities and non-controlling interest 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				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**713,328**	617,254	995,958	937,450	867,997
Profit/(loss) before tax	**(27,102)**	(162,509)	23,600	73,267	61,631
Income tax credit/(expense)	**(815)**	22,867	(6,585)	(17,801)	(19,701)
Profit/(loss) for the year	**(27,917)**	(139,642)	17,015	55,466	41,930
ATTRIBUTABLE TO:					
Owners of the parent	**(28,036)**	(139,260)	17,332	55,448	42,498
Non-controlling interest	**119**	(382)	(317)	18	(568)
	(27,917)	(139,642)	17,015	55,466	41,930

SUMMARY OF FINANCIAL INFORMATION (continued)

Assets, Liabilities and Non-controlling Interest

	31 December				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**989,774**	1,069,178	1,309,202	1,201,165	1,210,434
Total liabilities	**(456,081)**	(496,767)	(553,426)	(522,794)	(542,112)
Non-controlling interest	**(3,078)**	(3,023)	(3,566)	(3,618)	(3,843)
	530,615	569,388	752,210	674,753	664,479

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.

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 43 to the financial statements and in the consolidated statement of changes in equity respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company's reserves available for distribution, calculation in accordance with the Companies Law of the Cayman Islands, amounted to approximately HK$84,271,000.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$421,000.

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. Tsui Ho Chuen, Philip, Mr. Chua Joo Bin and Mr. Xia Jun 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	56	Executive Director and Managing Director	35	Qualified solicitor and more than 35 years' experience in the paint and coating industry
Li Guangzhong	50	Executive Director and Sales Director	27	More than 26 years' experience in the paint and coating industry
Wong Anders	47	Executive Director and Finance Director	12	More than 24 years' experience in finance and accounting
Non-executive Directors				
Lam Ting Ball, Paul	78	Non-executive Director and Chairman	47	More than 47 years' experience in management and the paint and coating industry
Chong Chi Kwan	52	Non-executive Director	14	More than 28 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	70	Independent Non-executive Director	3	More than 29 years' experience in banking experience in Canada and Asia Pacific Region
Chua Joo Bin	67	Independent Non-executive Director	3	More than 43 years' experience in finance and accounting
Xia Jun	64	Independent Non-executive Director	3	Qualified PRC lawyer with more than 30 years' experience in PRC legal practice

Senior management

Name	Age	Position held	Number of years of service	Business experience
Cao Hualong	49	General Manager – Production and Operation	5	More than 25 years' experience in the chemical, paint and coatings industry in the PRC
Lin Shu	66	Senior Assistant to Chairman	22	More than 20 years' experience in the paint and coating industry

Notes:

(1) Mr. Tsui Ho Chuen, Philip is a 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 a director of CNT Enterprises Limited and an executive director and the chairman of CNT Group Limited.

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

CHANGE IN DIRECTOR'S INFORMATION

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

(1) Ms. Chiu Kam Hing, Kathy resigned as an independent non-executive director of National Agricultural Holdings Limited with effect from 8 November 2019.

(2) Mr. Xia Jun ceased as an independent director of Cinda Property and Casualty Insurance Co., Ltd. (now known as Guoren Property and Casualty Insurance Co., Ltd.) since 31 December 2019.

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

DIRECTORS' INTERESTS IN SIGNIFICANT TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

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

CONTRACTS WITH CONTROLLING SHAREHOLDERS

Save as disclosed in note 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 2019 or subsisted as at 31 December 2019.

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 2019.

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 2019, 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 2019, 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 2019 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 under the Master Lease Agreement for each of the year ended 31 December 2017, 2018 and 2019 was not to exceed HK$3.576 million, HK$3.755 million and HK$3.943 million respectively.

The Group terminated the lease of one storage unit in Sai Kung under the Master Lease Agreement as a result of disposal of the said property by a subsidiary of CNT Group Limited during the year. The aggregate amount paid by the Group under the Master Lease Agreement in respect of the leasing transactions for the year ended 31 December 2019, which is subject to the annual review requirement under the Listing Rules, was approximately HK$3.104 million (78.7% of the annual cap of HK$3.943 million). On 26 September 2019, a subsidiary of the Company as tenant and a subsidiary of CNT Group Limited as landlord entered into a lease agreement for the lease of an office located in Guangzhou, the PRC for a term of one year commencing from 1 October 2019 to 30 September 2020 (the "New Lease Agreement") at a rent of HK$0.78 million per year. The New Lease Agreement was negotiated and entered into on an arm's length basis between the parties with reference to the prevailing market rent of a comparable class of commercial premises in the PRC and on normal commercial terms. As each of the applicable percentage ratio of the New Lease Agreement is less than 0.1%, it constitutes a de minimis transaction pursuant to Rule 14A.76(1) of the Listing Rules and is fully exempt from Shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules.

In addition, all the independent non-executive Directors have reviewed the Continuing Connected Transactions for the year ended 31 December 2019 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, was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants.

Based on the work performed, the Company's 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

CONTINUING CONNECTED TRANSACTIONS (continued)

(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.

Save as disclosed, the Company or its subsidiaries did not enter into any connected transaction or continuing connected transaction which should be disclosed pursuant to the requirements under Chapter 14A of the Listing Rules.

RELATED PARTY TRANSACTIONS

Details of related party transactions comprising the Continuing Connected Transactions and an exempted connected transaction under Chapter 14A of the Listing Rules are set out in note 39 to the financial statements.

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, 27 March 2020

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 64 to 146, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

KEY AUDIT MATTERS (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Expected credit losses ("ECL") for trade receivables	
As at 31 December 2019, the Group recorded trade receivables of HK$334.1 million before loss allowance of HK$57.5 million. 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 judgements and estimates and note 22 – Trade and bills receivables to the consolidated 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

27 March 2020

Consolidated Statement of Profit or Loss

Year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
REVENUE	6	**713,328**	617,254
Cost of sales		**(516,512)**	(466,311)
Gross profit		**196,816**	150,943
Other income and gains, net	6	**11,963**	13,442
Selling and distribution expenses		**(126,219)**	(169,164)
Administrative expenses		**(113,118)**	(107,603)
Other expenses less reversal, net		**12,170**	(44,352)
Finance costs	8	**(8,714)**	(5,775)
LOSS BEFORE TAX	7	**(27,102)**	(162,509)
Income tax credit/(expense)	11	**(815)**	22,867
LOSS FOR THE YEAR		**(27,917)**	(139,642)
ATTRIBUTABLE TO:			
Owners of the parent		**(28,036)**	(139,260)
Non-controlling interest		**119**	(382)
		(27,917)	(139,642)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	13	**HK(2.80) cents**	HK(13.93) cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2019

	Notes	**2019** **HK$'000**	2018 HK$'000
LOSS FOR THE YEAR		**(27,917)**	(139,642)
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(11,845)**	(29,506)
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:			
Remeasurement of net pension scheme assets	20	**1,044**	(687)
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		**1,044**	4,115
OTHER COMPREHENSIVE LOSS FOR THE YEAR		**(10,801)**	(25,391)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(38,718)**	(165,033)
ATTRIBUTABLE TO:			
Owners of the parent		**(38,773)**	(164,490)
Non-controlling interest		**55**	(543)
		(38,718)	(165,033)

Consolidated Statement of Financial Position

31 December 2019

	Notes	**2019 HK$'000**	2018 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**209,048**	220,890
Investment property	15	**15,393**	15,713
Right-of-use assets	16(b)	**87,138**	–
Prepaid land lease payments	16(a)	**–**	85,571
Intangible assets	17	**–**	805
Equity investment designated at fair value through other comprehensive income	18	**300**	300
Deposits for purchases of properties, plant and equipment	19	**9,522**	10,675
Net pension scheme assets	20	**4,694**	3,687
Deferred tax assets	30	**16,277**	19,008
Total non-current assets		**342,372**	356,649
CURRENT ASSETS			
Inventories	21	**56,158**	56,682
Trade and bills receivables	22	**304,494**	424,689
Prepayments, deposits and other receivables	23	**62,378**	70,878
Cash and cash equivalents	24	**224,372**	160,280
Total current assets		**647,402**	712,529
CURRENT LIABILITIES			
Trade payables	25	**145,626**	184,253
Other payables and accruals	26	**69,171**	66,299
Due to the Remaining Group	27	**–**	68
Interest-bearing bank and other borrowings	28	**215,340**	219,779
Lease liabilities	16(c)	**2,658**	–
Tax payable		**10,460**	11,531
Total current liabilities		**443,255**	481,930
NET CURRENT ASSETS		**204,147**	230,599
TOTAL ASSETS LESS CURRENT LIABILITIES		**546,519**	587,248

Consolidated Statement of Financial Position

31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
NON-CURRENT LIABILITIES			
Lease liabilities	16(c)	**631**	–
Interest-bearing bank and other borrowings	28	**–**	646
Deferred tax liabilities	30	**10,709**	12,383
Deferred income	31	**1,486**	1,808
Total non-current liabilities		**12,826**	14,837
Net assets		**533,693**	572,411
EQUITY			
Equity attributable to owners of the parent			
Issued capital	32	**100,000**	100,000
Reserves	33	**430,615**	469,388
		530,615	569,388
Non-controlling interest		**3,078**	3,023
Total equity		**533,693**	572,411

Tsui Ho Chuen, Philip
Director

Lam Ting Ball, Paul
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2019

		Attributable to owners of the parent													
	Notes	Issued capital HK$'000 (note 32)	Share premium account HK$'000	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 1 January 2018		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		-	-	-	-	-	-	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

Consolidated Statement of Changes in Equity

Year ended 31 December 2019

	Attributable to owners of the parent													
	Issued capital HK$'000 (note 32)	Share premium account HK$'000	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 1 January 2019	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
Profit/(loss) for the year	-	-	-	-	-	-	-	-	-	-	(28,036)	(28,036)	119	(27,917)
Other comprehensive income/(loss) for the year:														
Remeasurement of net pension scheme assets	-	-	-	-	-	-	-	-	-	-	1,044	1,044	-	1,044
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	(11,781)	-	-	(11,781)	(64)	(11,845)
Total comprehensive income/(loss) for the year	-	-	-	-	-	-	-	-	(11,781)	-	(26,992)	(38,773)	55	(38,718)
At 31 December 2019	100,000	94,614#	(15,017)#	2,630#	(18,616)#	(500)#	11,291#	10,485#	(34,144)#	28,866#	351,006#	530,615	3,078	533,693

** 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$430,615,000 (2018: HK$469,388,000) 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 2019

	Notes	2019 HK$'000	2018 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(27,102)**	(162,509)
Adjustments for:			
Finance costs	8	**8,714**	5,775
Bank interest income	6	**(692)**	(415)
Depreciation of property, plant and equipment	7	**20,580**	19,547
Depreciation of right-of-use assets	7	**5,753**	–
Amortisation of prepaid land lease payments	7	**–**	1,364
Amortisation of intangible assets	7	**815**	459
Recognition of deferred income	6	**(291)**	(305)
Losses/(gains) on disposal of items of property, plant and equipment, net	7	**(72)**	25
Write-off of items of property, plant and equipment	7	**850**	297
Write-down of inventories to net realisable value	7	**43**	342
Provision for/(reversal of provision for) impairment of trade receivables	7	**(27,490)**	30,055
Net pension benefit expenses	7	**37**	47
		(18,855)	(105,318)
Decrease/(increase) in inventories		**(694)**	11,237
Decrease in trade and bills receivables		**141,890**	195,331
Decrease/(increase) in prepayments, deposits and other receivables		**4,345**	(18,361)
Decrease in trade payables		**(35,503)**	(98,305)
Increase/(decrease) in other payables and accruals		**3,991**	(51,116)
Exchange realignment		**1,998**	6,008
Cash generated from/(used in) operations		**97,172**	(60,524)
Interest paid		**(8,743)**	(5,550)
Overseas taxes paid		**(951)**	(5,890)
Net cash flows from/(used in) operating activities		**87,478**	(71,964)

Consolidated Statement of Cash Flows

Year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(2,589)**	(24,963)
Proceeds from disposal of items of property, plant and equipment		**129**	364
Interest received		**692**	411
Deposits paid for purchases of property, plant and equipment		**(11,695)**	(2,989)
Acquisition of assets through acquisition of subsidiaries		**–**	(99,471)
Net cash flows used in investing activities		**(13,463)**	(126,648)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**200,027**	216,186
Repayment of bank loans		**(203,417)**	(94,107)
Decrease in an amount due to the Remaining Group		**(68)**	(3,098)
Principal portion of lease payments/finance lease rental payments	35(c)	**(2,825)**	(387)
Net cash flows from/(used in) financing activities		**(6,283)**	118,594
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**67,732**	(80,018)
Cash and cash equivalents at beginning of year		**160,280**	247,258
Effect of foreign exchange rate changes, net		**(3,640)**	(6,960)
CASH AND CASH EQUIVALENT AT END OF YEAR		**224,372**	160,280
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	**222,922**	160,280
Non-pledged time deposits with original maturity of less than three months when acquired		**1,450**	–
Cash and cash equivalent as stated in the consolidated statement of financial position		**224,372**	160,280

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 (collectively referred to as the "Group") were engaged in the manufacture and sale of paint and coating 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.

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
China Molybdenum & Vanadium Development Limited	Hong Kong	HK$1,000	–	100	Investment holding
The China Paint Manufacturing Company (1932) Limited	Hong Kong	Ordinary HK$200,000 Non-voting deferred HK$1,761,300	–	100	Manufacture and sale of paint products and investment holding
CNT Resene (Distribution) Limited	Hong Kong	HK$1	–	100	Sale of paint products
CNT Resene Limited	Hong Kong	HK$2	–	100	Manufacture and sale of paint products and investment holding
CP Industries (BVI) Limited*	British Virgin Islands ("BVI")	US$1,635,512	100	–	Investment holding
CP New Material Technology Holdings Limited (formerly known as Great Premium Investments Limited)	Hong Kong	HK$1	–	100	Investment holding
Majority Faith Corporation*	BVI	US$1	–	100	Investment holding

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
New Rainbow Ventures Limited*	BVI	US$1	–	100	Investment holding
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 enterprise 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 Group for the year ended 31 December 2019. 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 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except for the amendments to HKFRS 9 and HKAS 19, and *Annual Improvements to HKFRSs 2015-2017 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) 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 account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

HKFRS 16 did not have any significant impact on leases where the Group is the lessor.

The Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations.

New definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) **As a lessee – Leases previously classified as operating leases**

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of properties, motor vehicles and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and short-term leases (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019. The right-of-use assets were 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 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position. This includes the lease assets recognised previously under finance leases of HK$1,123,000 that were reclassified from property, plant and equipment.

For the leasehold land and buildings (that were held to earn rental income and/or for capital appreciation) previously included in investment properties and measured at fair value, the Group has continued to include them as investment properties at 1 January 2019. They continue to be measured at fair value applying HKAS 40.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) **As a lessee – Leases previously classified as finance leases**

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases. Accordingly, the carrying amounts of the right-of-use assets and the lease liabilities at 1 January 2019 were the carrying amounts of the recognised assets and liabilities (i.e., finance lease payables) measured under HKAS 17.

Financial impact at 1 January 2019

The impact arising from the adoption of HKFRS 16 at 1 January 2019 was as follows:

	Increase/ (decrease) HK$'000
Assets	
Increase in right-of-use assets	93,656
Decrease in property, plant and equipment	(1,123)
Decrease in prepaid land lease payments	(85,571)
Decrease in prepayments, deposits and other receivables	(2,889)
Increase in total assets	4,073
Liabilities	
Increase in lease liabilities	5,118
Decrease in interest-bearing bank and other borrowings	(1,045)
Increase in total liabilities	4,073

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	HK$'000
Operating lease commitments as at 31 December 2018	5,064
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	(4,645)
Add: Payments for optional extension periods not recognised as at 31 December 2018	3,912
	4,331
Weighted average incremental borrowing rate as at 1 January 2019	5.54%
Discounted operating lease commitments as at 1 January 2019	4,073
Add: Finance lease liabilities recognised as at 31 December 2018	1,045
Lease liabilities as at 1 January 2019	5,118

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) 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 assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continued to be measured at amortised cost in accordance with HKFRS 9. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

(c) 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. Upon adoption of the interpretation, the Group considered whether there were any uncertain tax positions. The Group determined that the interpretation did not have any significant impact on the financial position or performance of the Group.

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*[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[1]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 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 currently 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. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

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.

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.

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, investment property and deferred tax assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

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 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:

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are interests in land and buildings (including the leasehold property held as a right-of-use asset (2018: leasehold property under an operating lease) 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" for owned property 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 (applicable from 1 January 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (applicable from 1 January 2019) (continued)

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) *Right-of-use assets*

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Leasehold land	50 years
Properties	1 to 3 years
Motor vehicles	5 years
Other equipment	2 to 5 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) *Lease liabilities*

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) *Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases of properties (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (applicable from 1 January 2019) (continued)

Group as a lessee (continued)

(c) *Short-term leases and leases of low-value assets* (continued)
Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases.

Leases (applicable before 1 January 2019)

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Research and development costs

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

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

Investments and other financial assets

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" 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. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

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. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

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

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

Financial assets at fair value through profit or loss

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)

Derecognition of financial assets

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

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

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

General approach

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

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Simplified approach

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

Financial liabilities

Initial recognition and measurement

Financial liabilities of the Group are classified, at initial recognition, as financial liabilities at fair value through profit or loss, 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

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 (continued)

Subsequent measurement (continued)

Financial liabilities at amortised cost (loans and borrowings)

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

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

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

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

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

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

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue from contracts with customers

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

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

When the contract contains a financing component which provides the customer with 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.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Pension schemes and other retirement benefits

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

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

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

- the date of the scheme amendment or curtailment; and

- the date that the Group recognises restructuring-related costs.

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

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

- net interest expense or income

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

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

Dividends

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

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

Foreign currencies

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

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

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

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

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

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

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:

Property lease classification – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all the fair value of the commercial property, that it retains substantially all the significant risks and rewards incidental to ownership of these properties which are leased out and accounts for the contracts as operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

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 tax

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. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, 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 a 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.

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

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 2019 was HK$15,393,000 (2018: HK$15,713,000). 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 purposes, 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

	2019	2018
	HK$'000	HK$'000
Hong Kong	**75,167**	46,852
Mainland China	**638,161**	570,402
	713,328	617,254

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

(b) Non-current assets

	2019	2018
	HK$'000	HK$'000
Hong Kong	**2,454**	2,708
Mainland China	**318,647**	330,946
	321,101	333,654

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 2019 and 2018, no revenue from any single customer accounted for 10% or more of the total revenue of the Group.

6. REVENUE, OTHER INCOME AND GAINS, NET

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

	2019 HK$'000	2018 HK$'000
Revenue from contracts with customers	**713,328**	617,254

(i) Disaggregated revenue information

	2019 HK$'000	2018 HK$'000
Type of paint and coating products sold		
Industrial paint and coating products	**292,525**	285,288
Architectural paint and coating products	**286,456**	199,556
General paint and coating and ancillary products	**134,347**	132,410
	713,328	617,254
Timing of revenue recognition		
Goods transferred at a point in time	**713,328**	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.

	Note	2019 HK$'000	2018 HK$'000
Other income and gains, net			
Bank interest income		**692**	415
Gain on disposal of items of property, plant and equipment		**72**	–
Government grants*		**5,079**	9,459
Foreign exchange differences, net		**226**	–
Recognition of deferred income	31	**291**	305
Rental income from an investment property		**811**	–
Other rental income		**2,212**	2,053
Others		**2,580**	1,210
Total other income and gains, net		**11,963**	13,442

* 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. LOSS BEFORE TAX

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

	Notes	2019 HK$'000	2018 HK$'000
Cost of inventories sold		**516,512**	466,311
Depreciation of property, plant and equipment	14	**20,580**	19,547
Depreciation of right-of-use assets (2018: amortisation of prepaid land lease payments)	16(a), 16(b)	**5,753**	1,364
Amortisation of intangible assets	17	**815**	459
Minimum lease payments under operating leases in respect of land and buildings		**–**	8,646
Lease payments not included in the measurement of lease liabilities	16(d)	**6,457**	–
Direct operating expenses (including repairs and maintenance) arising on a rental-earning investment property		**714**	–
Auditor's remuneration:			
Audit related services		**2,801**	3,065
Other services		**357**	329
		3,158	3,394
Employee benefit expense (including directors' remuneration (note 9)):			
Wages, salaries, bonuses, allowances and welfare		**138,587**	149,027
Pension scheme contributions (defined contribution schemes)#		**14,439**	18,335
Net pension benefit expenses recognised (defined benefit schemes)	20	**37**	47
		153,063	167,409
Foreign exchange differences, net*		**(226)**	390
Write-down of inventories to net realisable value, net@		**43**	342
Provision for/(reversal of provision for) impairment of trade receivables	22	**(27,490)**	30,055
Loss/(gain) on disposal of items of property, plant and equipment, net*		**(72)**	25
Product improvement and development		**12,078**	22,923
Write-off of items of property, plant and equipment*	14	**850**	297

* These balances are included in "Other income and gains, net" for gains and "Other expenses less reversal, 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 2019 and 2018, 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:

	2019 HK$'000	2018 HK$'000
Interest on bank loans	**8,486**	5,716
Interest on finance leases	**–**	59
Interest on lease liabilities	**228**	–
	8,714	5,775

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:

	2019 HK$'000	2018 HK$'000
Fees	**1,600**	1,600
Other emoluments:		
Salaries, allowances and benefits in kind	**9,227**	8,759
Discretionary bonuses	**926**	601
Pension scheme contributions	**469**	488
	10,622	9,848
	12,222	11,448

(a) Independent non-executive Directors

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

	2019 HK$'000	2018 HK$'000
Chiu Kam Hing, Kathy	**200**	200
Chua Joo Bin	**200**	200
Xia Jun	**200**	200
	600	600

There were no other emoluments payable to the independent non-executive Directors during the year (2018: Nil).

9. DIRECTORS' REMUNERATION (continued)

(b) Executive Directors and non-executive Directors

2019	Fees HK$'000	Salaries, allowance and benefits in kind HK$'000	Discretionary bonuses HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Executive Directors:					
Tsui Ho Chuen, Philip	**200**	**5,640**	**730**	**350**	**6,920**
Wong Anders	**200**	**1,220**	**159**	**18**	**1,597**
Li Guangzhong	**200**	**2,367**	**37**	**101**	**2,705**
	600	**9,227**	**926**	**469**	**11,222**
Non-executive Directors:					
Lam Ting Ball, Paul	**200**	**–**	**–**	**–**	**200**
Chong Chi Kwan	**200**	**–**	**–**	**–**	**200**
	400	**–**	**–**	**–**	**400**
	1,000	**9,227**	**926**	**469**	**11,622**

2018	Fees HK$'000	Salaries, allowance and benefits in kind HK$'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

There was no arrangement under which a Director waived or agreed to waive any remuneration during the year (2018: Nil).

10. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid employees during the year included two Directors (2018: two), details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining three (2018: three) highest paid employees who are non-directors for the year are as follows:

	2019	2018
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**7,326**	7,452
Discretionary bonuses	**2,108**	946
Pension scheme contributions	**36**	130
	9,470	8,528

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

	Number of employees	
	2019	2018
HK$2,000,001 to HK$2,500,000	**–**	1
HK$2,500,001 to HK$3,000,000	**1**	1
HK$3,000,001 to HK$3,500,000	**1**	1
HK$3,500,001 to HK$4,000,000	**1**	–
	3	3

During the years ended 31 December 2019 and 2018, 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% (2018: 25%) during the year, except for a subsidiary 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% (2018: 15%) had been applied during the year.

	Note	**2019** **HK$'000**	2018 HK$'000
Current – Elsewhere			
Charge for the year		**815**	2,206
Overprovision in prior years		**(654)**	–
Deferred	30	**654**	(25,073)
Total tax charge/(credit) for the year		**815**	(22,867)

A reconciliation of the tax credit applicable to 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:

	2019 **HK$'000**	2018 HK$'000
Loss before tax	**(27,102)**	(162,509)
Tax at the statutory tax rate	**(4,472)**	(26,814)
Different tax rates for subsidiaries in the PRC, net	**(1,811)**	1,290
Adjustments in respect of current tax of previous periods	**(654)**	–
Income not subject to tax	**(642)**	(519)
Expenses not deductible for tax	**1,914**	3,283
Tax losses utilised from previous periods	**(1,568)**	(7)
Tax losses not recognised	**9,940**	12,433
Reversal of withholding taxes on the unremitted earnings	**(1,687)**	(12,811)
Others	**(205)**	278
Tax charge/(credit) at the Group's effective tax rate	**815**	(22,867)

12. DIVIDEND

	2019 HK$'000	2018 HK$'000
Proposed final – HK1.0 cent (2018: Nil) per ordinary share	**10,000**	–

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. The actual amount will be accounted for as an appropriation of the distributable reserves for the year ending 31 December 2020.

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

The calculation of basic and diluted loss per share amounts is based on the loss for the year attributable to ordinary equity holders of the parent of HK$28,036,000 (2018: HK$139,260,000) and the weighted average number of ordinary shares of 1,000,000,000 (2018: 1,000,000,000) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2019 and 2018.

14. PROPERTY, PLANT AND EQUIPMENT

	Ownership interests in properties held for own use 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 2019							
At 1 January 2019 (restated):							
Cost or valuation	294,134	54	17,415	148,769	35,409	17,736	513,517
Accumulated depreciation	(115,210)	–	(13,157)	(121,516)	(29,087)	(14,780)	(293,750)
Net carrying amount	178,924	54	4,258	27,253	6,322	2,956	219,767
At 31 December 2018, net of accumulated depreciation	178,924	54	4,258	27,253	6,363	4,038	220,890
Effect of adoption of HKFRS 16	–	–	–	–	(41)	(1,082)	(1,123)
At 1 January 2019 (restated)	178,924	54	4,258	27,253	6,322	2,956	219,767
Additions	–	459	497	325	1,317	–	2,598
Disposals	–	–	–	(48)	(9)	–	(57)
Write-off (note 7)	–	–	–	(706)	(144)	–	(850)
Transfer from deposits for purchases of properties, plant and equipment (note 19)	–	12,183	–	12	464	–	12,659
Depreciation provided during the year (note 7)	(10,984)	–	(1,525)	(4,795)	(2,080)	(1,196)	(20,580)
Transfer	–	(11,753)	11,753	–	–	–	–
Exchange realignment	(3,458)	(306)	(121)	(524)	(54)	(26)	(4,489)
At 31 December 2019, net of accumulated depreciation	164,482	637	14,862	21,517	5,816	1,734	209,048
At 31 December 2019:							
Cost or valuation	288,066	637	29,270	138,357	34,256	17,358	507,944
Accumulated depreciation	(123,584)	–	(14,408)	(116,840)	(28,440)	(15,624)	(298,896)
Net carrying amount	164,482	637	14,862	21,517	5,816	1,734	209,048

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 2018							
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)
Transfer	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

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 31 December 2018 were as follows:

	2018 HK$'000
Furniture, fixtures and equipment	41
Motor vehicles	1,082
	1,123

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.

Had the Group's ownership interests in properties held for own use (2018: leasehold land and buildings) been carried at historical cost less accumulated depreciation and impairment, their total carrying amounts at 31 December 2019 and 2018 would have been nil.

At 31 December 2019, certain of the above ownership interests in properties held for own use (2018: leasehold land and buildings) with aggregate net carrying amounts of HK$6,897,000 (2018: HK$7,362,000) were pledged to secure general banking facilities granted to the Group (note 28).

15. INVESTMENT PROPERTY

	Notes	**2019** **HK$'000**	2018 HK$'000
Carrying amount at 1 January		**15,713**	–
Transfer from an owner-occupied property	14	**–**	11,175
Transfer from prepaid land lease payments	16(a)	**–**	4,390
Exchange realignment		**(320)**	148
Carrying amount at 31 December		**15,393**	15,713

The Group's investment property is an industrial property located at No. 22 Jinshui Road, Economic Development District, Xuzhou City, Jiangsu Province, the PRC. The Directors have determined that the investment property consists of one class of asset, i.e., industrial in the PRC, based on the nature, characteristics and risks of the property. The Group's investment property was revalued on 31 December 2019 based on valuation performed by BMI Appraisals Limited, an independent professionally qualified valuers, at HK$15,393,000. 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 as at 31 December 2019 and 2018**
Industrial property in Mainland China	Level 3	Income capitalisation method	Prevailing market rents (per sq.m. and per month)	RMB25 (2018: RMB25)
			Capitalisation rates	5.5% to 6.0% (2018: 5.5% to 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	
		2019	2018
	Notes	**HK$'000**	HK$'000
Carrying amount at 1 January		**15,713**	–
Transfer from an owner-occupied property	14	**–**	11,175
Transfer from prepaid land lease payments	16(a)	**–**	4,390
Exchange realignment		**(320)**	148
Carrying amount at 31 December		**15,393**	15,713

The investment property is leased to third parties under operating leases, further summary details of which are included in note 16 to the financial statements.

16. LEASES

The Group as a lessee

The Group has lease contracts for various items of land, properties, motor vehicles and other equipment used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of properties generally have lease terms between 1 and 3 years, while motor vehicles generally have lease terms of 5 years. Other equipment generally has lease terms between 2 and 5 years or less and/or is individually of low value. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) *Prepaid land lease payments (before 1 January 2019)*

	Notes	HK$'000
Carrying amount at 1 January 2018		19,232
Acquisition of assets through acquisition of subsidiaries	34	76,794
Recognised during the year	7	(1,364)
Transfer to an investment property	15	(4,390)
Exchange realignment		(1,812)
Carrying amount at 31 December 2018		88,460
Current portion included in prepayments, deposits and other receivables		(2,889)
Non-current portion		85,571

(b) *Right-of-use assets*

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Properties	**Prepaid land lease payments**	**Motor vehicles**	**Other equipment**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2019	4,073	88,460	1,082	41	93,656
Additions	1,001	–	–	–	1,001
Depreciation charge	(2,484)	(2,880)	(382)	(7)	(5,753)
Disposal	–	–	–	(9)	(9)
Exchange realignment	(4)	(1,753)	–	–	(1,757)
At 31 December 2019	2,586	83,827	700	25	87,138

16. LEASES (continued)

The Group as a lessee (continued)

(c) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	2019 Lease liabilities HK$'000	2018 Finance lease payables HK$'000
Carrying amount at 1 January	**5,118**	1,398
New leases	**1,001**	34
Accretion of interest recognised during the year	**228**	59
Payments	**(3,053)**	(446)
Exchange realignment	**(5)**	–
Carrying amount at 31 December	**3,289**	1,045
Analysed into:		
Current portion	**2,658**	399
Non-current portion	**631**	646

The maturity analysis of lease liabilities (2018: finance lease payables) is disclosed in note 42 to the financial statements.

(d) The amounts recognised in profit or loss in relation to leases are as follows:

	2019 HK$'000
Interest on lease liabilities	**228**
Depreciation charge of right-of-use assets	**5,753**
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019 (included in cost of sales, selling and distribution expenses and administrative expenses)	**6,457**
Total amount recognised in profit or loss	**12,438**

(e) The total cash outflow for leases is disclosed in note 35(c) to the financial statements.

16. LEASES (continued)

The Group as a lessor

The Group leases its investment property (note 15) consisting of an industrial property and an insignificant portion of buildings in Mainland China (note 14) under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Rental income from the investment property and an insignificant portion of buildings recognised by the Group during the year were HK$811,000 (2018: Nil) and HK$2,212,000 (2018: 2,053,000), respectively, details of which are included in note 6 to the financial statements.

At 31 December 2019, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2019 **HK$'000**	2018 HK$'000
Within one year	**1,956**	854
After one year but within two years	**1,956**	854
After two years but within three years	**1,473**	854
After three years but within four years	**796**	854
After four years but within five years	**–**	854
	6,181	4,270

17. INTANGIBLE ASSETS

	Notes	2019 HK$'000	2018 HK$'000
Licences			
Cost and net carrying amount at 1 January		**805**	–
Acquisition of assets through acquisition of subsidiaries	34	**–**	1,279
Amortisation provided during the year	7	**(815)**	(459)
Exchange realignment		**10**	(15)
Carrying amount at 31 December		**–**	805
At 31 December:			
Cost		**1,265**	1,265
Accumulated amortisation		**(1,265)**	(460)
Net carrying amount		**–**	805

18. EQUITY INVESTMENT DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 HK$'000	2018 HK$'000
Equity investment designated at fair value through other comprehensive income		
Unlisted club membership debenture, at fair value	**300**	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

	Note	2019 HK$'000	2018 HK$'000
Carrying amount at 1 January		**10,675**	8,972
Transfer to property, plant and equipment	14	**(12,659)**	(795)
Additions		**11,695**	2,989
Exchange realignment		**(189)**	(491)
Carrying amount at 31 December		**9,522**	10,675

As at 31 December 2019 and 2018, 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% of 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 2019, by Grant Sherman Appraisal Limited, an independent professional actuarial advisor, using the projected unit credit actuarial valuation method.

20. NET PENSION SCHEME ASSETS (continued)

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

	2019	2018
Discount rate	**1.8%**	1.9%
Expected rate of salary increases	**2.5%**	2.5%

The actuarial valuation showed that the market value of scheme assets was HK$7,593,000 (2018: HK$8,006,000), and that the actuarial value of these assets represented 262% (2018: 185%) of the benefits that had accrued to qualifying employees.

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

	Increase in rate %	**Increase/ (decrease) in net pension scheme assets** HK$'000	**Decrease in rate** %	**Increase/ (decrease) in net pension scheme assets** HK$'000
2019				
Discount rate	**5**	**10**	**5**	**(11)**
Future salary increase	**5**	**(16)**	**5**	**15**
2018				
Discount rate	5	28	5	(26)
Future salary increase	5	(37)	5	36

20. NET PENSION SCHEME ASSETS (continued)

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:

	2019	2018
	HK$'000	HK$'000
Current service cost	**127**	129
Interest income	**(90)**	(82)
Net pension benefit expenses recognised in administrative expenses	**37**	47

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

	2019	2018
	HK$'000	HK$'000
Carrying amount at 1 January	**4,319**	4,838
Current service cost	**127**	129
Interest cost	**63**	78
Remeasurements:		
– Actuarial gains arising from changes in demographic assumptions	**(164)**	(344)
– Actuarial losses/(gains) arising from changes in financial assumptions	**19**	(52)
– Experience adjustments	**73**	(73)
Benefit paid	**(1,538)**	(257)
Carrying amount at 31 December	**2,899**	4,319

20. NET PENSION SCHEME ASSETS (continued)

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

31 December 2019

		Pension cost credited/(charged) to profit or loss				Remeasurement gains/(losses) in other comprehensive income					
	1 January 2019 HK$'000	Service cost HK$'000	Net interest income/ (expense) HK$'000	Sub-total included in profit or loss HK$'000	Benefit paid HK$'000	Return on scheme assets (excluding amounts included in net interest expense) HK$'000	Actuarial changes arising from changes in demographic assumptions HK$'000	Actuarial changes arising from changes in financial assumptions HK$'000	Experience adjustments HK$'000	Sub-total included in other comprehensive income HK$'000	31 December 2019 HK$'000
Fair value of scheme assets	8,006	–	153	153	(1,538)	972	–	–	–	972	7,593
Defined benefit obligations	(4,319)	(127)	(63)	(190)	1,538	–	164	(19)	(73)	72	(2,899)
Net pension scheme assets	3,687	(127)	90	(37)	–	972	164	(19)	(73)	1,044	4,694

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$'000	Sub-total included in other comprehensive income HK$'000	31 December 2018 HK$'000
Fair value of scheme assets	9,259	–	160	160	(257)	(1,156)	–	–	–	(1,156)	8,006
Defined benefit obligations	(4,838)	(129)	(78)	(207)	257	–	344	52	73	469	(4,319)
Net pension scheme assets	4,421	(129)	82	(47)	–	(1,156)	344	52	73	(687)	3,687

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

20. NET PENSION SCHEME ASSETS (continued)

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

	2019 **HK$'000**	2018 HK$'000
Equities, quoted in active markets	**5,163**	5,884
Bonds	**2,278**	1,898
Money market instruments	**152**	224
	7,593	8,006

At 31 December 2019, the weighted average duration of the defined benefit obligations at the end of the reporting period was 6 years (2018: 8 years).

21. INVENTORIES

	2019 **HK$'000**	2018 HK$'000
Raw materials	**32,602**	36,033
Work in progress	**4,172**	4,766
Finished goods	**19,384**	15,883
	56,158	56,682

22. TRADE AND BILLS RECEIVABLES

	2019 HK$'000	2018 HK$'000
Trade receivables	**334,053**	485,103
Impairment	**(57,453)**	(86,787)
	276,600	398,316
Bills receivable	**27,894**	26,373
	304,494	424,689

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:

	2019 HK$'000	2018 HK$'000
Within three months	**191,356**	175,121
Over three months and within six months	**74,470**	87,684
Over six months	**38,668**	161,884
	304,494	424,689

22. TRADE AND BILLS RECEIVABLES (continued)

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

	Note	2019 HK$'000	2018 HK$'000
At beginning of year		**86,787**	59,967
Amount written off as uncollectible		**–**	(471)
Provision for/(reversal or provision for) impairment of trade receivables	7	**(27,490)**	30,055
Exchange realignment		**(1,844)**	(2,764)
At end of year		**57,453**	86,787

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.

22. TRADE AND BILLS RECEIVABLES (continued)

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 2019

	Credit–impaired receivables	Current	Past due: Less than 3 months	Past due: 3 to 6 months	Past due: Over 6 months	Total
Expected credit loss rate	**100.0%**	**6.0%**	**7.8%**	**18.9%**	**32.4%**	**17.2%**
Gross carrying amount (HK$'000)	**17,294**	**155,206**	**72,867**	**26,784**	**61,902**	**334,053**
Expected credit losses (HK$'000)	**17,294**	**9,358**	**5,691**	**5,065**	**20,045**	**57,453**

As at 31 December 2018

	Credit–impaired receivables	Current	Past due: Less than 3 months	Past due: 3 to 6 months	Past due: Over 6 months	Total
Expected credit loss rate	100.0%	4.6%	8.5%	16.2%	26.7%	17.9%
Gross carrying amount (HK$'000)	17,654	161,577	91,361	30,111	184,400	485,103
Expected credit losses (HK$'000)	17,654	7,352	7,748	4,885	49,148	86,787

None of the bills receivable was either past due or impaired as at 31 December 2019 and 2018. There was no recent history of default for bills receivable.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2019 HK$'000	2018 HK$'000
Prepayments	**2,583**	5,180
Deposits and other receivables	**59,795**	65,698
	62,378	70,878

The financial assets included in the above balances related to receivables for which there was no recent history of default and past due amounts. As at 31 December 2019 and 2018, the loss allowance was assessed to be minimal.

24. CASH AND CASH EQUIVALENTS

	2019 HK$'000	2018 HK$'000
Cash and bank balances	**222,922**	160,280
Time deposits:		
– with original maturity of less than three months when acquired	**1,450**	–
	224,372	160,280

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$185,883,000 (2018: HK$111,314,000). 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:

	2019	2018
	HK$'000	HK$'000
Within three months	**143,964**	145,005
Over three months and within six months	**1,426**	35,624
Over six months	**236**	3,624
	145,626	184,253

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

26. OTHER PAYABLES AND ACCRUALS

		2019	2018
	Notes	**HK$'000**	HK$'000
Deferred income	31	**297**	303
Contract liabilities	(a)	**3,294**	1,588
Other payables	(b)	**32,993**	38,127
Accruals		**32,587**	26,281
Carrying amount at 31 December		**69,171**	66,299

Notes:

(a) Details of contract liabilities are as follows:

	31 December 2019	31 December 2018	1 January 2018
	HK$'000	HK$'000	HK$'000
Short-term advances received from customers			
Sale of paint and coating products	**3,294**	1,588	1,391

Contract liabilities include advances received to deliver the paint and coating products. The increase in contract liabilities in 2019 and 2018 was mainly due to the increase in sales orders received from customers in relation to sales of paint and coating products near year end whereas the Group had not yet delivered the products to the customers.

(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 as at 31 December 2018 was unsecured, interest-free and repayable on demand. The carrying amount of the balance approximated to the fair value.

28. INTEREST-BEARING BANK AND OTHER BORROWINGS

	31 December 2019			31 December 2018		
	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
Bank loans – secured	**3.5-4.4**	**2020**	**189,689**	3.5-4.4	2019	98,000
Bank loans – unsecured	**7.2**	**2020**	**20,808**	3.3-7.2	2019	85,726
Import loans – secured	**3.0-3.8**	**2020**	**4,843**	5.7	2019	19,819
Import loans – unsecured			**–**	3.3-4.0	2019	15,835
			215,340			219,779
Non-current						
Finance lease payables (note 29)			**–**	2.5-8.8	2020–2023	646
			215,340			220,425

	2019 HK$'000	2018 HK$'000
Analysed into:		
Bank loans and import loans repayable:		
Within one year or on demand	**215,340**	219,380
Other borrowings repayable:		
Within one year	**–**	399
In the second year	**–**	417
In the third to fifth years, inclusive	**–**	229
	–	1,045
	215,340	220,425

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

Notes:

(a) The above bank loans of HK$194,532,000 (2018: HK$187,654,000) containing a repayment on-demand clause were already included in total current liabilities as at 31 December 2019. Accordingly, for the purpose of the above analysis, the bank loans due for repayment after one year, were analysed into bank loans and import loans repayable within one year or on demand as at the end of the reporting periods.

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 2019 and 31 December 2018:

	2019	2018
	HK$'000	HK$'000
Analysed into:		
Bank loans and import loans repayable:		
Within one year	**187,740**	173,380
In the second year	**27,600**	18,400
In the third to fifth years, inclusive	**–**	27,600
	215,340	219,380

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

(i) the Group's ownership interests in properties held for own use (2018: leasehold land and buildings) with an aggregate net book value at the end of reporting period of HK$6,897,000 (2018: HK$7,362,000) (note 14);

(ii) an investment property and certain portion of a building and carparks held by the Remaining Group as at 31 December 2019 (2018: Nil); and

(iii) charges over shares of an indirect subsidiary of the Company as at 31 December 2019 and 2018.

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

	2019	2018
	HK$'000	HK$'000
United States dollars ("US$")	**4,595**	–
RMB	**20,808**	51,545
HK$	**189,937**	168,880
	215,340	220,425

29. FINANCE LEASE PAYABLES

The Group leases a motor vehicle and certain of its office equipment for its operations. These leases were classified as finance leases prior to HKFRS 16 becoming effective on 1 January 2019 and had 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.

As at 31 December 2018, the total future minimum lease payments under finance leases and their present values were as follows:

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

30. DEFERRED TAX

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

Deferred tax liabilities

	Lease assets		Revaluation of properties		Withholding taxes		Total	
	2019 HK$'000	2018 HK$'000	**2019 HK$'000**	2018 HK$'000	**2019 HK$'000**	2018 HK$'000	**2019 HK$'000**	2018 HK$'000
At beginning of the year:	**–**	–	**2,075**	458	**10,308**	24,696	**12,383**	25,154
Effect of adoption of HKFRS 16	**589**	–	**–**	–	**–**	–	**589**	–
	589	–	**2,075**	458	**10,308**	24,696	**12,972**	25,154
Deferred tax credited to the statement of profit or loss during the year*	**(303)**	–	**–**	–	**(1,686)**	(14,388)	**(1,989)**	(14,388)
Deferred tax charged to the statement of comprehensive income during the year	**–**	–	**–**	1,601	**–**	–	**–**	1,601
Exchange realignment	**(1)**	–	**(33)**	16	**45**	–	**11**	16
At end of the year	**285**	–	**2,042**	2,075	**8,667**	10,308	**10,994**	12,383

Deferred tax assets

	Lease liabilities		Impairment of trade receivables		Losses available for offsetting against future taxable profit		Depreciation in excess of related depreciation allowance		Accruals		Total	
	2019 HK$'000	2018 HK$'000	**2019 HK$'000**	2018 HK$'000	**2019 HK$'000**	2018 HK$'000	**2019 HK$'000**	2018 HK$'000	**2019 HK$'000**	2018 HK$'000	**2019 HK$'000**	2018 HK$'000
At beginning of the year:	**–**	–	**7,383**	3,234	**7,776**	–	**3,085**	3,362	**764**	1,965	**19,008**	8,561
Effect of adoption of HKFRS 16	**589**	–	**–**	–	**–**	–	**–**	–	**–**	–	**589**	–
	589	–	**7,383**	3,234	**7,776**	–	**3,085**	3,362	**764**	1,965	**19,597**	8,561
Deferred tax credited/(charged) to the statement of profit or loss during the year*	**(295)**	–	**(2,986)**	4,276	**–**	7,703	**651**	(104)	**(13)**	(1,190)	**(2,643)**	10,685
Exchange realignment	**(1)**	–	**(157)**	(127)	**(159)**	73	**(59)**	(173)	**(16)**	(11)	**(392)**	(238)
At end of the year	**293**	–	**4,240**	7,383	**7,617**	7,776	**3,677**	3,085	**735**	764	**16,562**	19,008

* Net deferred tax charged (2018: credited) to the consolidated statement of profit or loss for the year ended 31 December 2019 amounted to HK$654,000 (2018: HK$25,073,000) (note 11).

30. DEFERRED TAX (continued)

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2019	2018
	HK$'000	HK$'000
Net deferred tax assets recognised in the consolidated statement of financial position	**16,277**	19,008
Net deferred tax liabilities recognised in the consolidated statement of financial position	**10,709**	12,383

The Group has estimated tax losses arising in Hong Kong of HK$347,223,000 (2018: HK$330,788,000), subject to the agreement by the Hong Kong Inland Revenue Department, that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group has estimated tax losses arising in Mainland China of HK$141,415,000 (2018: HK$97,147,000) that will expire in one to five years for offsetting against future taxable profits arising in Mainland China of the company in which the losses arose.

As at 31 December 2019, deferred tax asset of HK$7,617,000 (2018: HK$7,776,000) was recognised for unused tax losses of a subsidiary arising in Mainland China of HK$50,780,000 (2018: HK$51,840,000) to the extent that it is probable that taxable profits 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 2019, deferred tax liabilities of HK$8,667,000 (2018: 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 2019 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	2019 HK$'000	2018 HK$'000
Carrying amount at 1 January		**2,111**	2,535
Recognised during the year	6	**(291)**	(305)
Exchange realignment		**(37)**	(119)
Carrying amount at 31 December		**1,783**	2,111
Portion classified as current liabilities	26	**(297)**	(303)
Non-current portion		**1,486**	1,808

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").

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

	2019 HK$'000	2018 HK$'000
Authorised:		
8,000,000,000 (2018: 8,000,000,000) ordinary shares of HK$0.10 each	**800,000**	800,000
Issued and fully paid:		
1,000,000,000 (2018: 1,000,000,000) ordinary shares of HK$0.10 each	**100,000**	100,000

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 68 and 69 of this Annual Report.

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, the 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 did not carry out any significant business transactions prior to the date of the acquisition.

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

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

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

35. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

i. During the year ended 31 December 2019, 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$12,659,000 (2018: HK$795,000).

ii. During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of HK$1,001,000 and HK$1,001,000, respectively in respect of lease arrangement for properties (2018: Nil).

iii. 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.

(b) Changes in liabilities arising from financing activities

	2019		
	Interest-bearing bank borrowings HK$'000	**Finance lease payables/ Lease liabilities HK$'000**	**Amount due to the Remaining Group HK$'000**
At 31 December 2018	**219,380**	**1,045**	**68**
Effect of adoption of HKFRS 16	**–**	**4,073**	**–**
At 1 January 2019 (restated)	**219,380**	**5,118**	**68**
Changes from financing cash flows	**(3,390)**	**(2,825)**	**(68)**
New leases	**–**	**1,001**	**–**
Interest expenses	**–**	**228**	**–**
Interest paid classified as operating cash flows	**–**	**(228)**	**–**
Foreign exchange movement	**(650)**	**(5)**	**–**
At 31 December 2019	**215,340**	**3,289**	**–**

	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

35. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2019
	HK$'000
Within operating activities	**6,685**
Within financing activities	**2,825**
	9,510

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

As lessee - as at 31 December 2018

The Group leased certain of its properties under operating lease arrangements. Leases for properties were 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
Within one year	5,004
In the second to fifth years, inclusive	60
	5,064

38. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 37 above, the Group had the following capital commitments at the end of the reporting period:

	2019 HK$'000	2018 HK$'000
Contracted, but not provided for:		
Purchases of land use rights*	**1,742**	1,778
Construction and purchases of items of property, plant and equipment	**6,316**	3,979
	8,058	5,757

* 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 (2018: RMB6,658,000) had been paid by the Group as at 31 December 2019.

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	2019 HK$'000	2018 HK$'000
Rental expenses paid to the Remaining Group	(i)	**–**	3,713
Lease payments paid to the Remaining Group	(i)	**3,288**	–
Pledge fees paid to the Remaining Group	(ii)	**262**	–

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

(ii) Pledge fees were charged by the Remaining Group for pledging certain properties in Hong Kong as securities for certain banking facilities granted to the Group 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 is also 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 as at 31 December 2018 were 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 ended on 31 December 2019. The annual rental payables excluding building management fees and government rent and rates were HK$3,755,000 and HK$3,943,000 for 2018 and 2019, respectively.

(d) Compensation of key management personnel of the Group

	2019 HK$'000	2018 HK$'000
Short term employment benefits	**11,796**	12,982
Post-employment benefits	**541**	642
Total compensation paid to key management personnel	**12,337**	13,624

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 2019

Financial assets

	Financial assets at amortised cost HK$'000	Financial assets at fair value through other comprehensive income HK$'000	Total HK$'000
Equity investment designated at fair value through other comprehensive income	**–**	**300**	**300**
Trade and bills receivables	**304,494**	**–**	**304,494**
Financial assets included in prepayments, deposits and other receivables	**4,800**	**–**	**4,800**
Cash and cash equivalents	**224,372**	**–**	**224,372**
	533,666	**300**	**533,966**

40. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

31 December 2019 (continued)

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade payables	**145,626**
Financial liabilities included in other payables and accruals	**28,689**
Lease liabilities	**3,289**
Interest-bearing bank borrowings	**215,340**
	392,944

31 December 2018

Financial assets

	Financial assets at amortised cost HK$'000	Financial assets at fair value through other comprehensive income HK$'000	Total HK$'000
Equity 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

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

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 2019				
Equity investment designated at fair value through other comprehensive income	**–**	**300**	**–**	**300**
At 31 December 2018				
Equity investment designated at fair value through other comprehensive income	–	300	–	300

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 (2018: 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 payables, other payables and accruals, and lease liabilities, 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.

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 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$'000**
2019		
HK$	**50**	**900**
RMB	**50**	**(920)**
HK$	**(50)**	**(900)**
RMB	**(50)**	**920**

	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

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 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$'000**
2019		
If HK$ weakens against RMB	**5**	**(655)**
If HK$ strengthens against RMB	**(5)**	**655**

	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

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

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. The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2019

	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*	**–**	**–**	**–**	**334,053**	**334,053**
Bills receivable	**27,894**	**–**	**–**	**–**	**27,894**
Financial assets included in prepayments, deposits and other receivables					
– Normal**	**4,800**	**–**	**–**	**–**	**4,800**
Cash and cash equivalents					
– Not yet past due	**224,372**	**–**	**–**	**–**	**224,372**
	257,066	**–**	**–**	**334,053**	**591,119**

As at 31 December 2018

	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 receivable	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 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".

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

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

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

	On demand or within one year HK$'000	**In the second to fifth years HK$'000**	**Total HK$'000**
2019			
Trade payables	**145,626**	**–**	**145,626**
Financial liabilities included in other payables and accruals	**28,689**	**–**	**28,689**
Interest-bearing bank borrowings*	**216,838**	**–**	**216,838**
Lease liabilities	**2,719**	**682**	**3,401**
	393,872	**682**	**394,554**

	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

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

* Included in the above interest-bearing bank borrowings of the Group are certain bank loans with carrying amount as at 31 December 2019 of HK$194,532,000 (2018: HK$187,654,000), 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, 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 2019	168,493	28,367	196,860
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.

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 2019 and 2018.

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

	2019 HK$'000	2018 HK$'000
Bank and other borrowings	**215,340**	220,425
Equity attributable to owners of the parent	**530,615**	569,388
Gearing ratio	**40.6%**	38.7%

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:

	2019	2018
	HK$'000	HK$'000
NON-CURRENT ASSET		
Investment in a subsidiary	**27,094**	27,094
CURRENT ASSETS		
Prepayments	**249**	312
Due from subsidiaries	**148,415**	133,931
Cash and cash equivalents	**10,293**	30,546
Total current assets	**158,957**	164,789
CURRENT LIABILITIES		
Other payables and accruals	**964**	1,604
Due to fellow subsidiaries	**816**	833
Total current liabilities	**1,780**	2,437
NET CURRENT ASSETS	**157,177**	162,352
Net assets	**184,271**	189,446
EQUITY		
Issued capital	**100,000**	100,000
Reserves (note)	**84,271**	89,446
Total equity	**184,271**	189,446

Note:

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

	Share premium account	**Contributed surplus**	**Accumulated losses**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2018	94,614	27,094	(26,890)	94,818
Loss for the year	–	–	(5,372)	(5,372)
At 31 December 2018 and 1 January 2019	94,614	27,094	(32,262)	89,446
Loss for the year	–	–	(5,175)	(5,175)
At 31 December 2019	94,614	27,094	(37,437)	84,271

44. EVENT AFTER THE REPORTING PERIOD

The outbreak of the novel coronavirus disease ("COVID-19") in early 2020 has certain impacts on the operations and business of the Group in the PRC. The Group has closely monitored the development of the COVID-19 outbreak and has implemented business continuity plans to minimise the disruption to the operations and business of the Group and ensure that the Group's business remain viable during the epidemic. The extent of the impact depends on the duration of the epidemic and the implementation of relevant policies and protective measures by respective governments.

The Group will pay close attention to any significant changes of situation and evaluate their impact on the financial position and operating results of the Group. Based on the current assessment, the Directors consider that the COVID-19 outbreak is a non-adjusting event after the end of the reporting period and does not result in any adjustments to these financial statements.

45. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, the Group adopted HKFRS 16 on 1 January 2019 using the modified retrospective approach. Under this approach, the comparative amounts in the financial statements were not restated and continued to be reported under the requirements of the previous standard, HKAS 17, and related interpretations.

In addition, certain comparative amounts have been re-presented to confirm with the current year's presentation.

46. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors of the Company on 27 March 2020.

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