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CNT GROUP LIMITED

北海集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 701)

**ANNOUNCEMENT OF RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

FINANCIAL HIGHLIGHTS			
Results	Year ended 31 December		Change
	2016	2015	
	HK\$'000	HK\$'000	
Revenue	1,164,549	1,102,813	+5.6%
Gross profit	388,127	353,072	+9.9%
Gross profit margin	33.3%	32.0%	+4.1%
Profit attributable to shareholders of the Company	87,666	86,354	+1.5%
Earnings per share (HK cents)			
Basic	4.61	4.55	+1.3%
Diluted	4.61	4.54	+1.5%
	As at	As at	
	31 December	31 December	
	2016	2015	
Financial Position	HK\$'000	HK\$'000	Change
Total cash and bank balances (including cash and cash equivalents, structured deposits, pledged deposits and restricted cash)	367,311	512,732	-28.4%
Bank and other borrowings	165,918	205,350	-19.2%
Gearing ratio	13.7%	17.1%	-19.9%
Net asset value per share (HK\$)	0.78	0.77	+1.3%

The board of directors (the “Board”) of CNT Group Limited (the “Company”) announce the consolidated annual results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2016 together with comparative amounts for the corresponding year in 2015 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000
REVENUE	4	1,164,549	1,102,813
Cost of sales		(776,422)	(749,741)
Gross profit		388,127	353,072
Other income and gains, net	4	14,217	22,886
Selling and distribution expenses		(147,969)	(142,200)
Administrative expenses		(137,530)	(121,935)
Other expenses, net		(24,987)	(19,438)
Fair value gains on investment properties, net		20,042	30,131
Finance costs	5	(2,510)	(3,681)
Share of profits and losses of associates		2,263	(3,954)
PROFIT BEFORE TAX	6	111,653	114,881
Income tax expenses	7	(23,969)	(29,095)
PROFIT FOR THE YEAR		87,684	85,786
ATTRIBUTABLE TO:			
Owners of the parent		87,666	86,354
Non-controlling interests		18	(568)
		87,684	85,786
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	8	HK4.61cents	HK4.55 cents
Diluted	8	HK4.61cents	HK4.54 cents

Details of the proposed dividend for the year are disclosed in note 9.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

	2016 HK\$'000	2015 HK\$'000
PROFIT FOR THE YEAR	<u>87,684</u>	<u>85,786</u>
OTHER COMPREHENSIVE INCOME		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	(57,712)	(40,116)
Share of other comprehensive income of an associate	<u>100</u>	<u>122</u>
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods	<u>(57,612)</u>	<u>(39,994)</u>
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:		
Remeasurement of net pension scheme assets	339	(489)
Gains on properties revaluation	<u>-</u>	<u>96,863</u>
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	<u>339</u>	<u>96,374</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	<u>(57,273)</u>	<u>56,380</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u><u>30,411</u></u>	<u><u>142,166</u></u>
ATTRIBUTABLE TO:		
Owners of the parent	30,636	142,919
Non-controlling interests	<u>(225)</u>	<u>(753)</u>
	<u><u>30,411</u></u>	<u><u>142,166</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		265,785	275,956
Investment properties		644,323	569,937
Properties under development		28,000	28,000
Prepaid land lease payments		18,389	20,181
Interests in associates		11,851	11,076
Available-for-sale investments		96,083	96,083
Deposits for purchases of properties, and plant and equipment		8,662	32,477
Net pension scheme assets		2,372	2,178
Deferred tax assets		7,731	7,985
Total non-current assets		<u>1,083,196</u>	<u>1,043,873</u>
CURRENT ASSETS			
Inventories		79,466	62,464
Trade and bills receivables	10	497,235	354,360
Prepayments, deposits and other receivables		56,214	47,184
Structured deposits		98,666	160,549
Pledged deposits		2,268	3,179
Restricted cash		-	71,610
Cash and cash equivalents		266,377	277,394
Total current assets		<u>1,000,226</u>	<u>976,740</u>
CURRENT LIABILITIES			
Trade and bills payables	11	214,208	128,656
Other payables and accruals		154,042	145,164
Derivative financial instrument		-	10
Due to an associate		2,800	2,800
Interest-bearing bank and other borrowings		154,324	189,211
Tax payable		17,313	19,534
Total current liabilities		<u>542,687</u>	<u>485,375</u>
NET CURRENT ASSETS		<u>457,539</u>	<u>491,365</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,540,735</u>	<u>1,535,238</u>

	2016	2015
	HK\$'000	HK\$'000
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	11,594	16,139
Deferred tax liabilities	45,541	46,406
Deferred income	2,346	2,813
	<hr/>	<hr/>
Total non-current liabilities	59,481	65,358
	<hr/>	<hr/>
Net assets	1,481,254	1,469,880
	<hr/> <hr/>	<hr/> <hr/>
EQUITY		
Equity attributable to owners of the parent		
Issued capital	190,369	190,369
Reserves	1,287,267	1,275,668
	<hr/>	<hr/>
	1,477,636	1,466,037
Non-controlling interests	3,618	3,843
	<hr/>	<hr/>
Total equity	1,481,254	1,469,880
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NOTES TO FINANCIAL STATEMENTS

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, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, certain land and buildings classified as property, plant and equipment, structured deposits, a derivative financial instrument and net pension scheme assets, which have been measured at fair value. These financial statements are presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest thousand (“HK\$’000”) except when otherwise indicated.

2.1 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 10, HKFRS 12 and HKAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to HKFRS 11 HKFRS 14	<i>Accounting for Acquisitions of Interests in Joint Operations Regulatory Deferral Accounts</i>
Amendments to HKAS 1	<i>Disclosure Initiative</i>
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to HKAS 16 and HKAS 41	<i>Agriculture: Bearer Plants</i>
Amendments to HKAS 27 (2011) <i>Annual Improvements 2012-2014 Cycle</i>	<i>Equity Method in Separate Financial Statements Amendments to a number of HKFRSs</i>

The adoption of the above new and revised standards has had no significant financial effect on these financial statements.

2.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions²</i>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts²</i>
HKFRS 9	<i>Financial Instruments²</i>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture⁴</i>
HKFRS 15	<i>Revenue from Contracts with Customers²</i>
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers²</i>
HKFRS 16	<i>Leases³</i>
Amendments to HKAS 7	<i>Disclosure Initiative¹</i>
Amendments to HKAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses¹</i>
<i>Annual Improvements 2014-2016 Cycle</i>	<i>Amendments to HKFRS 12 Disclosure of Interests in Other Entities¹</i>
<i>Annual Improvements 2014-2016 Cycle</i>	<i>Amendments to a number of HKFRSs²</i>

¹ Effective for annual periods beginning on or after 1 January 2017

² Effective for annual periods beginning on or after 1 January 2018

³ Effective for annual periods beginning on or after 1 January 2019

⁴ No mandatory effective date yet determined but available for adoption

3. OPERATING SEGMENT INFORMATION

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

- (a) the paint products segment engages in the manufacture and sale of paint products and related services;
- (b) the property investment segment comprises:
 - (i) the investment in residential, commercial and industrial premises for their rental income potential; and
 - (ii) the development and sale of properties;
- (c) the iron and steel trading segment comprises the trading of iron and steel products and related investments; and
- (d) the others segment comprises, principally, the provision of advertising services and investment holding.

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

Segment assets exclude cash and cash equivalents, pledged deposits, restricted cash, structured deposits, deferred tax assets, net pension scheme assets and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude the interest-bearing bank and other borrowings, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted on mutually agreed terms.

Year ended 31 December 2016	Paint products HK\$'000	Property investment HK\$'000	Iron and steel trading HK\$'000	Others HK\$'000	Total HK\$'000
Segment revenue:					
Sales to external customers	937,450	33,798	193,301	–	1,164,549
Intersegment sales	–	6,041	–	3,370	9,411
Other revenue and gains	7,219	20,089	676	312	28,296
	<u>944,669</u>	<u>59,928</u>	<u>193,977</u>	<u>3,682</u>	<u>1,202,256</u>
<i>Reconciliation:</i>					
Elimination of intersegment sales					<u>(9,411)</u>
Total					<u><u>1,192,845</u></u>
Segment results	69,709	46,391	4,376	79	120,555
<i>Reconciliation:</i>					
Elimination of intersegment results					(213)
Interest income					2,672
Fair value gains on structured deposits					3,291
Finance costs					(2,510)
Corporate and other unallocated expenses					<u>(12,142)</u>
Profit before tax					<u><u>111,653</u></u>
Segment assets	766,562	759,392	84,499	96,041	1,706,494
<i>Reconciliation:</i>					
Elimination of intersegment receivables					(952)
Corporate and other unallocated assets					<u>377,880</u>
Total assets					<u><u>2,083,422</u></u>
Segment liabilities	341,779	8,211	19,836	228	370,054
<i>Reconciliation:</i>					
Elimination of intersegment payables					(952)
Corporate and other unallocated liabilities					<u>233,066</u>
Total liabilities					<u><u>602,168</u></u>

Year ended 31 December 2016	Paint products HK\$'000	Property investment HK\$'000	Iron and steel trading HK\$'000	Others HK\$'000	Total HK\$'000
Other segment information:					
Share of profits of associates	-	(1,590)	(673)	-	(2,263)
Interests in associates	-	960	10,891	-	11,851
Depreciation	18,174	2,468	17	3	20,662
Corporate and other unallocated depreciation					102
					20,764
Capital expenditure	26,081	40,257	66	-	66,404*
Fair value gains on investment properties	-	(20,042)	-	-	(20,042)
Provision for impairment of trade receivables	11,694	-	-	-	11,694
Write-back of inventories to net realisable value	(5,731)	-	-	-	(5,731)

Year ended 31 December 2015	Paint products HK\$'000	Property investment HK\$'000	Iron and steel trading HK\$'000	Others HK\$'000	Total HK\$'000
Segment revenue:					
Sales to external customers	867,997	22,541	212,275	–	1,102,813
Intersegment sales	–	15,938	–	7,279	23,217
Other revenue and gains	8,229	32,447	1,532	100	42,308
	<u>876,226</u>	<u>70,926</u>	<u>213,807</u>	<u>7,379</u>	<u>1,168,338</u>
<i>Reconciliation:</i>					
Elimination of intersegment sales					<u>(23,217)</u>
Total					<u><u>1,145,121</u></u>
Segment results					
	54,641	62,731	(661)	1,905	118,616
<i>Reconciliation:</i>					
Elimination of intersegment results					(383)
Interest income					5,675
Fair value gains on structured deposits					5,034
Finance costs					(3,681)
Corporate and other unallocated expenses					<u>(10,380)</u>
Profit before tax					<u><u>114,881</u></u>
Segment assets					
	647,011	707,481	47,647	96,057	1,498,196
<i>Reconciliation:</i>					
Elimination of intersegment receivables					(1,027)
Corporate and other unallocated assets					<u>523,444</u>
Total assets					<u><u>2,020,613</u></u>
Segment liabilities					
	256,342	5,958	13,767	690	276,757
<i>Reconciliation:</i>					
Elimination of intersegment payables					(1,027)
Corporate and other unallocated liabilities					<u>275,003</u>
Total liabilities					<u><u>550,733</u></u>

Year ended 31 December 2015	Paint products HK\$'000	Property investment HK\$'000	Iron and steel trading HK\$'000	Others HK\$'000	Total HK\$'000
Other segment information:					
Share of profits and losses of associates	–	(1,543)	5,497	–	3,954
Interests in associates	–	958	10,118	–	11,076
Depreciation	17,631	3,008	8	3	20,650
Corporate and other unallocated depreciation					99
					20,749
Capital expenditure	28,397	25,912	5	–	54,314
Corporate and other unallocated capital expenditure					357
					54,671*
Fair value gains on investment properties, net	–	(30,131)	–	–	(30,131)
Recovery of amounts due from an associate previously written off	–	–	(895)	–	(895)
Provision for impairment of trade receivables	5,465	–	–	–	5,465
Write-back of inventories to net realisable value	(2,074)	–	–	–	(2,074)

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

Geographical information:

(a) Revenue from external customers

	2016 HK\$'000	2015 HK\$'000
Hong Kong	111,176	82,443
Mainland China	1,053,373	1,020,318
Other countries	—	52
	<u>1,164,549</u>	<u>1,102,813</u>

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

(b) Non-current assets

	2016 HK\$'000	2015 HK\$'000
Hong Kong	605,872	589,820
Mainland China	371,138	347,807
	<u>977,010</u>	<u>937,627</u>

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

Information about a major customer:

During the year ended 31 December 2016 and 2015, no revenue from any single customer accounted for 10% or more of the total revenue of the Group.

4. REVENUE, OTHER INCOME AND GAINS, NET

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

	2016 HK\$'000	2015 HK\$'000
Revenue		
Sale of paint products and related services	937,450	867,997
Sale of iron and steel products	193,301	212,275
Gross rental income from investment properties	33,798	22,541
	<u>1,164,549</u>	<u>1,102,813</u>
Other income		
Bank interest income	2,672	5,675
Dividend income from an available-for-sale investment	240	–
Commission income	210	171
Government grants*	4,641	4,840
Recognition of deferred income	301	317
Others	2,852	5,895
	<u>10,916</u>	<u>16,898</u>
Gains, net		
Fair value gains:		
Structured deposits	3,291	5,034
Derivative instrument – transaction not qualifying as hedge	10	6
Gain on disposal of items of property, plant and equipment, net	–	53
Recovery of amounts due from an associate previously written off	–	895
	<u>3,301</u>	<u>5,988</u>
Total other income and gains, net	<u>14,217</u>	<u>22,886</u>

* Government grants have been received from certain government authorities of the People's Republic of China (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.

5. FINANCE COSTS

An analysis of finance costs is as follows:

	2016 HK\$'000	2015 HK\$'000
Interest on bank loans	2,463	3,675
Interest on finance leases	47	6
	<u>2,510</u>	<u>3,681</u>

6. PROFIT BEFORE TAX

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

	2016 HK\$'000	2015 HK\$'000
Cost of inventories sold	776,422	749,741
Depreciation	20,764	20,749
Amortisation of prepaid land lease payments	524	552
Foreign exchange differences, net*	613	3,206
Provision for impairment of trade receivables*	11,694	5,465
Write-back of inventories to net realisable value	(5,731)	(2,074)
Loss/(gain) on disposal of items of property, plant and equipment, net*	142	(53)
Write-off of items of property, plant and equipment*	609	155
	<u>609</u>	<u>155</u>

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

7. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

All subsidiaries of the Group established in Mainland China are subject to the PRC corporate income tax at a standard rate of 25% (2015: 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% (2015: 15%) had been applied during the year.

	2016 HK\$'000	2015 HK\$'000
Current – Hong Kong		
Charge for the year	4,250	4,170
Overprovision in prior years	(60)	(20)
Current – Elsewhere		
Charge for the year	20,506	18,255
Underprovision in prior years	3	37
Deferred	(730)	6,653
	<u>23,969</u>	<u>29,095</u>

The share of tax attributable to an associate amounting to HK\$303,000 (2015: HK\$294,000) is included in "Share of profits and losses of associates" in the consolidated statement of profit or loss.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent of HK\$87,666,000 (2015: HK\$86,354,000), and the weighted average number of ordinary shares of 1,903,685,690 (2015: 1,897,783,005) in issue during the year.

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

The calculation of the diluted earnings per share amount for the year ended 31 December 2015 was based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

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

	2016 HK\$'000	2015 HK\$'000
Earnings		
Profit attributable to ordinary equity holders of the parent	<u>87,666</u>	<u>86,354</u>
	Number of shares	
	2016	2015
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	1,903,685,690	1,897,783,005
Effect of dilution – weighted average number of ordinary shares:		
Share options	<u>–</u>	<u>4,203,416</u>
	<u>1,903,685,690</u>	<u>1,901,986,421</u>

9. DIVIDEND

	2016 HK\$'000	2015 HK\$'000
Proposed final – HK1.0 cent (2015: HK1.0 cent) per ordinary share	<u>19,037</u>	<u>19,037</u>

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. The actual amount will be accounted for as an appropriation of the distributable reserves in the year ending 31 December 2017.

At the annual general meeting held on 2 June 2016, the Company's shareholders approved the distribution of the final dividend for the year ended 31 December 2015 of HK1.0 cent per share which amounted to approximately HK\$19,037,000.

10. TRADE AND BILLS RECEIVABLES

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

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

	2016 HK\$'000	2015 HK\$'000
Within three months	424,748	254,316
Over three months and within six months	44,098	41,799
Over six months	28,389	58,245
	<u>497,235</u>	<u>354,360</u>

11. TRADE AND BILLS PAYABLES

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

	2016 HK\$'000	2015 HK\$'000
Within three months	212,648	127,720
Over three months and within six months	1,548	925
Over six months	12	11
	<u>214,208</u>	<u>128,656</u>

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

12. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified and the directors consider that such reclassifications will allow a more appropriate presentation of the consolidated statement of profit or loss and better reflect the nature of the transactions.

DIVIDEND

The directors of the Company have resolved to recommend to the shareholders of the Company the payment of a final dividend of HK1.0 cent per share (2015: HK1.0 cent) amounting to approximately HK\$19,037,000 (2015: approximately HK\$19,037,000). The final dividend, if approved by the shareholders of the Company at the forthcoming annual general meeting, will be paid on Wednesday, 21 June 2017 to the shareholders of the Company whose names appear on the Company's register of members on Thursday, 8 June 2017.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining shareholders' eligibility to attend and vote at the forthcoming annual general meeting of the Company, the register of members of the Company will be closed from Friday, 26 May 2017 to Thursday, 1 June 2017, both days inclusive, during the period no transfer of shares will be effected. In order to be entitled to attend and vote at the forthcoming annual general meeting of the Company, all transfers accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar in Hong Kong, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Thursday, 25 May 2017.

For the purpose of determining shareholders' entitlement to the proposed final dividend, the register of members of the Company will be closed from Wednesday, 7 June 2017 to Thursday, 8 June 2017, both days inclusive, during the period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar in Hong Kong, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 6 June 2017.

CHAIRMAN'S STATEMENT

In 2016, Mainland China had recorded its weakest economic growth since 1990. The gross domestic product ("GDP") growth rate of Mainland China was 6.7%, which was lower than 6.9% in the fourth quarter of 2015 but was within the target range of 6.5% to 7.0% set by the Chinese Government. In order to maintain economic stability, the Chinese Government was trying to rebalance its economy to adapt to slower growth for both domestic and export sides. The Chinese Government continued to implement the "supply-side structural reform" while appropriately expanding aggregate demand have boosted the domestic economy, and economic restructuring and liberalization have also generated new areas of growth.

RESULTS

The Group recorded a profit attributable to the shareholders of the Company for the year ended 31 December 2016 of approximately HK\$87.67 million (2015: approximately HK\$86.35 million), representing a slightly growth of 1.5% when compared with last year.

Revenue for the year amounted to approximately HK\$1,164.55 million, representing an increase of 5.6% when compared with last year. Gross profit increased by approximately HK\$35.06 million, representing an increase of 9.9% when compared with last year.

PROSPECTS

Looking forward, the operating environment will remain challenging under the current macro-environment. The Chinese Government has set a GDP growth target for 2017 at about 6.5%, which is lower than the actual growth rate of 2016. According to China's 2017 Government Work Report, there will be further reduction of excess capacity from supply side, de-leveraging of companies that are heavily leveraged, elimination of traditional manufactory sectors which are low value-added, and upgrading of public services and infrastructures. The reform in industrial structure and development strategy in different regions will keep pace, thus opportunities exist.

Paint Products

Amid the Chinese Government's call for destocking, the inventory of salable commodity housing kept hitting a low record in the Mainland China. The paint and coating industry was in favor of consumption expenditure on paint and coating products in 2016. Thus, sales value of paints and coatings in the Mainland China increased from RMB223.60 billion in 2010 to RMB432.70 billion in 2016 with a compound annual growth rate ("CAGR") of 11.6%, and sales volume of paints and coatings in the Mainland China increased from 11.30 million tonnes in 2010 to 17.90 million tonnes in 2016 with a CAGR of 7.9%.

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

Continuous Growth of Downstream Markets

The major downstream markets of paint and coating products are construction, furniture, automobile and decoration, which are closely related to people's livelihood and consumption. Steady growth of macro-economy and rising living standards of Mainland China's residences will continue to drive the growth of real-estate, decoration and automobile market, leading to increasing demand for paint and coating products. In addition, emerging markets such as windpower turbine and high-speed railway provide growing demand for specialized paint and coating products.

Diversified Demand and Upgrade of Consumption

With rising living standards, people are seeking for more personalization, better quality and safety in their choices for decoration and furniture, leading to increasing usage of environmental-friendly and high-quality paint and coating products.

Government Support on Environmental-friendly Paint and Coating Products

Production of environmental-friendly paint and coating products are encouraged by the Chinese Government. Supportive policies will encourage the development of environmental-friendly coatings and ensure healthy growth of the industry in the long term.

Increasing Application of Protective Coatings

Maintenance cost of industrial equipment contributes to a significant portion of production cost. With rising awareness of the important role of protective coatings and improvement of technology for protective functions such as anticorrosion and waterproof, protective coatings are expected to be adopted more widely in equipment production or refurbishing.

In addition, according to an industry research report a large market growth in the industrial wood coating products which are sold to wooden furniture factories is expected. From 2010 to 2016, the sales volume of industrial wood coating products increased with a CAGR of 8.9%. The sales volume of industrial wood coating products is expected to increase.

It is forecasted that the sales value of paint and coating products in Mainland China will reach RMB574.60 billion in 2021, with a CAGR of 5.7% from 2017 to 2021, and the sales volume of paints and coatings in Mainland China is expected to hit a record of 22.3 million tonnes in 2021, indicating a CAGR of 4.4% from 2017 to 2021. In addition, we will continue to strengthen our market position in Mainland China, expand our paint and coating product portfolio for selected market segments in selected geographical markets in Mainland China, and expand our production capacity for water-based paint and coating products.

Property Investment

Although buying sentiment in Hong Kong residential property improved steadily in 2016, the high bidding price for residential sites in Hong Kong in 2016 which was out of market expectations will push the price of residential property upward again.

The Hong Kong government proposed a new flat-rate of 15% stamp duty in November 2016 on non-first time buyers of residential properties in order to curb speculative activity. This measure caused transaction volumes to slump in December 2016.

The Federal Reserve of the U.S. raised interest rates by 0.25% in March 2017. It is expected that the interest rate will rise further in 2017 and the lending rate of Hong Kong borrowing may follow the trend of U.S.. With strong demand and limited supply of residential and commercial properties in Hong Kong, we expect the property price will grow steadily over 2017.

In the coming year, the Group will continue to study the feasibility to broaden the portfolio of the Group's property investment by acquiring additional properties in prime areas in Hong Kong and/or the PRC to earn stable recurring income and cash flow for long term investment purposes.

Iron and Steel Trading and Related Investments

The Group trades tinplate which is the main raw material for its tinplate packaging, and is mainly used to produce twopiece or threepiece beverage cans, food cans (including milk powder cans) and others.

According to the recent report on metal packaging container manufacturing industry in Mainland China, the sale revenue of metal package had been on a rising trend in the past five year from RMB570.15 billion in 2009 to RMB1,375.25 billion in 2015.

At present, the metal packaging industry in Mainland China has entered a period of steady development. According to a forecast for 2017 conducted by a research company, the metal packaging of twopiece or threepiece beverage cans will have a continued growth rate around 7.0% in 2017.

While maintaining its existing core business of paint operation, the Group continues to invest in iron and steel trading business as well as property investment in order to diversify and broaden the investment portfolio of the Group. Nevertheless, the Group will continue to focus on its paint operation and is committed to becoming a leading manufacturer of high quality green and safe paint products.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Paint Products

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

Industrial paint and coating products, architectural paint and coating products, and general paint and coating and ancillary products accounted for 56.3% (2015: 54.5%), 20.8% (2015: 19.8%) and 22.9% (2015: 25.7%) of the total revenue of paint business respectively in 2016. We continue to focus our market on Mainland China which contributed to approximately 91.5% (2015: 92.8%) of the total revenue of the paint business in 2016.

In light of the significant decrease in our revenue in 2015, we had taken a number of business initiatives to revamp our operating results. These business initiatives included the followings:

Adjustment in our pricing policy

Following the significant decrease in the amount of revenue in 2015, we had reduced the selling prices of our products for the purpose of providing incentives to our distributors. The other initiatives included the provision of additional discount to the distributors. We believed that the increased amount of purchase discount would motivate our distributors in promoting and selling our paint and coating products.

We also considered that our pricing strategy should focus on the medium to high-end customers. We had implemented an improved and flexible pricing strategy with focus on demand and supply dynamics and price incentives.

Appointment of new management team for sales and marketing in selected regions in Mainland China

We recognised that one of the reasons for the significant decrease in our revenue in Eastern China and Central China was the profit margin maintaining pricing strategy amid the increasing competitive retailing wood coating market in Mainland China. In order to strengthen our business presence in the Mainland China regions which recorded decreasing revenue, we recruited a new sales general manager to oversee our sales teams in Eastern China, Southwestern China, Northwestern China and Central China. New brand promotional strategies had been launched for the promotion of the existing paint and coating products in these regions. In addition, we have also strengthened our sales teams in these regions.

Re-arranging new distributors with streamlined distribution network

We are in the process of building up established business relationships with selected sizeable distributors in each region of Mainland China and those distributors will be responsible for establishing their own distribution network. For this purpose and in order to strengthen our business presence in Eastern China and Central China, we have held a series of meetings with the existing and new distributors in 2016 for sales promotion and introduction of new products.

We continue the process of appointing new distributors in Mainland China for the promotion and sales of our existing and new paint and coating products. Each of our distributors can access to sufficiently large regional market for the sales of our existing and new paint and coating products.

In order to expand our customer base, we have started strengthening the relationship with customers in the industrial wood coating market through connecting with manufacturers of a wide range of consumer goods, industrial products and home furniture and fitting and appointment of dedicated sales personnel to explore the market. This strategy is intended to reduce our reliance on the retailing wood coating market and promote our existing solvent-based paint and coating products, as well as the water-based and environmental-friendly paint and coating products, for wood coating application.

Launch of new water-based paint and coating products in Hong Kong and Mainland China

Since the launch of water-based architectural paint and coating products under the brands of “Resene” and “ZICERA” in Hong Kong, our dedicated sales team promoted these products to designers, architectural firms and renovation contractors which conduct interior and exterior renovation for residential and commercial premises. In 2016, we launched twelve new water-based paint and coating products and one non-paint wall cleaning product in Hong Kong and the Mainland China. We have plans to increase the production of water-based paint and coating products because of the industry trend and consumers’ preference as well as the implementation of restrictive regulations in Mainland China. We have also established a task force for promoting our water-based paint and coating products to customers in the industrial wood coating market and furniture manufacturers in Southern China and Eastern China. For the existing brands, our efforts are focused on promoting the environmental protection aspect of the existing paint and coating products of the Group. In this connection, we have launched promotional campaigns on the environmental protection and safety features of the paint and coating products such as waterborne liquid, chromate-free, powder, low-VOC and high-solids coating products. In 2016, we held a number of conferences and meetings with distributors on the new water-based paint and coating products.

As a result of the above business initiatives and improved operation environment, our revenue in 2016 in terms of Hong Kong dollars increased by 8.0% as compared with the revenue in 2015. As most of our sales are conducted in RMB and the reporting currency in our audited financial statements is Hong Kong dollars, given the fact that the RMB has depreciated by 5.8% during the year ended 31 December 2016, the increase in our revenue in 2016 in terms of RMB, as compared with the revenue in 2015, was 13.0%.

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

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

Although Mainland China's real GDP growth rate decreased from 9.5% in 2011 to 6.7% in 2016 and is expected to decrease further from 6.5% in 2017 to 6.0% in 2021, the nominal GDP increased from RMB41.10 trillion in 2010 to RMB75.00 trillion in 2016 with a CAGR of 10.5% and is expected to increase further to RMB108.70 trillion in 2021, representing a CAGR of 7.9% from 2017 to 2021. The rapid growth of Mainland China's economy has resulted in the increase in consumers' spending and acceleration of urbanization. As urbanization is one of the strategic focuses of the Chinese Government, Mainland China is in a stage of rapid development of urbanization. Due to the rapid economic development and the influx of migrants from rural area to cities, Mainland China's urban population has been steadily increasing. In 2016, the urbanization rate hit 57.5%. It is anticipated that the urbanization rate will continue to grow in the foreseeable future, fueling the growing demand for consumption and municipal construction. In 2021, it is estimated that this rate will reach 65.2%. The annual disposable income of urban households in Mainland China increased from RMB19,100 in 2010 to RMB33,600 in 2016 with a CAGR of 9.9%, and is expected to increase to RMB48,600 in 2021, representing a CAGR of 7.8%. Although the annual disposable income will continue to grow in the future, the growth rate will slow down due to the estimated reduction of the growth rate of Mainland China's GDP from 2017 to 2021. The increase of annual disposable income of urban households will drive the need for urban infrastructure, transportation system, and accommodation and consumer products. The increase in urban population as well as the ongoing improvement in household disposable income and living standard are expected to reinforce the demand for real estate and therefore produce a stable demand for paint products. We believe that our paint operation will benefit from the growth of Mainland China's economy.

Property Investment

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

In August 2015, we had entered into agreements with an independent property developer for the acquisition of two commercial premises in the first-tier city, Shanghai, the PRC during its pre-sale period at the consideration of approximately RMB20.20 million, which was financed by internal resources of the Group. These properties were handed over to us in December 2016. We have put these investment properties into market for leasing to earn rental income for long term investment purposes.

In April 2016, we had entered into an agreement with an independent property developer for the acquisition of a commercial premise in the first-tier city, Beijing, the PRC during its pre-sale period at the consideration of approximately RMB33.56 million, which was financed by internal resources of the Group. The property was handed over to us in November 2016. We have put these investment properties into market for leasing to earn rental income for long term investment purposes.

As at 31 December 2016, the aggregate market value of investment properties held by the Group amounted to approximately HK\$644.32 million, representing an increase of approximately 13.1% when compared to 2015. Such increase was mainly due to the increase in the net fair value of the Group's investment property portfolio for 2016 for approximately HK\$20.04 million and the acquisition of office premises mentioned above in the amount of approximately HK\$61.15 million.

We continued to maintain a high occupancy rate of about 95.0% (2015: 95.7%) and recorded gross rental income (including inter-group rental income) of approximately HK\$39.84 million in 2016 when compared to approximately HK\$38.48 million in 2015.

The review application under Section 17 of Town Planning Ordinance ("TPO") to seek the Town Planning Board's ("TPB") approval for a proposed columbarium on our existing land located in Au Tau, Yuen Long, Hong Kong was rejected in December 2014. We had lodged an appeal to the Appeal Board Panel (Town Planning) under Section 17B of TPO in February 2015. It is expected that the appeal hearing will be completed in the second quarter of 2017.

In May 2016, we submitted a planning application under Section 16 of TPO to seek TPB's approval for the proposed residential development on our existing warehouses located in Sai Kung, New Territories, Hong Kong (the "Land"). The purpose of applying for the change in the permitted usage of the Land is to secure a redevelopment opportunity for achieving a high investment return or enhancing the property portfolios of the Group. We have not made any final decision on the redevelopment of the Land. We will consider the prevailing and the anticipated property market conditions for different types of commercial, residential and industrial properties, the availability and the terms of the financial resources, the likely investment return, the long-term development plan as well as the interest of the Group and the shareholders of the Company as a whole.

The property industry in Mainland China has developed rapidly in the past decade and contributed to a significant portion of the Mainland China's GDP. The Chinese Government leverages the policies in real estate market as a tool to guide the macro-economy. In 2015 and 2016, the Chinese Government focused on destocking the real estate market and put forward favorable policies, such as reforming housing system by developing the lease market of real estates and increasing the amounts of loan from Housing Accumulation Fund to employees for purchasing their first house, to stimulate the real estate market. We believe the demand in real estate will remain on the rise and therefore we will continue to pay attention on the commercial and residential property markets in the Mainland China as well as Hong Kong and will consider the feasibility of acquiring additional properties in order to diversify and broaden the investment portfolio of the Group.

Iron and Steel Trading and Related Investments

Iron and steel industry is one of the major industrial sectors for the Mainland China's economy. Iron and steel products are categorized into two subclasses, namely, ferrous metals and non-ferrous metals. The Group is currently trading in ferrous metals and specializes in tinplate trading.

As a result of excess production capacity and fierce competition in the tinplate industry, revenue continued to drop by approximately HK\$18.97 million for the year 2015 to approximately HK\$193.30 million for the year 2016. Gross profit increased slightly to approximately HK\$6.97 million when compared with that of approximately HK\$6.11 million last year. The gross profit margin improved from approximately 2.9% in 2015 to approximately 3.6% in 2016.

Increasing consumer awareness on the recycling and environmental benefits of the tinplate packaging has led to a positive outlook for the industry. In addition, the Chinese consumer's demand is driven by the rising disposable incomes, urbanization, and brand exposure. Therefore, demand for tinplate products in Mainland China is expected to have a single digit growth in 2017.

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

Available-for-sale Investments

We have an effective interest of 12.2% (2015: 11.9%) in the cemetery project ("the Cemetery") situated in Sihui, Guangdong Province, the PRC. The Cemetery is operated under the name of "Fortune Wealth Memorial Park". Its principal activities are the development, construction, management and operation of a cemetery. The main types of products of the cemetery are outdoor grave lots, ordinary columbarium niches and luxury columbarium niches.

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

In the development aspect, the Cemetery has completed 12 graveyards with 5,485 grave plots and a mausoleum with 550 niches. In November 2016, the Cemetery further obtained the land use rights certificates to develop approximately 46.8 mu of land which is planned for the development of an additional 4,300 grave plots.

In the sales aspect, six sales offices are established in Guangzhou to promote the sales and marketing for the Cemetery. The establishment of sales offices together with the implementation of promotion campaign in Guangzhou can enhance the awareness and improve sales in the long run.

FINANCIAL REVIEW

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

RESULTS

The Group recorded a profit attributable to the shareholders of the Company of approximately HK\$87.67 million for the year when compared with that of approximately HK\$86.35 million last year. Revenue for the year amounted to approximately HK\$1,164.55 million, representing an increase of approximately 5.6% when compared with that of last year. Gross profit for the year amounted to approximately HK\$388.13 million, representing an increase of approximately 9.9% when compared with that of last year. The gross profit margin improved by 4.1% from 32.0% in 2015 to 33.3% in 2016.

SEGMENT INFORMATION

Business Segments

Paint Products

Paint operation continued to be the principal business of the Group with revenue of approximately HK\$937.45 million, accounting for approximately 80.5% of the Group’s total revenue. The revenue increased by 8.0% when compared with that of last year. Despite the reduction of average selling prices in 2016, the gross profit margin in 2016 was 37.1% which remained at a similar level when compared with 37.4% in 2015 as a result of the strict control on costs and expenses. Segment profit for the year amounted to approximately HK\$69.71 million, representing a significant increase of approximately 27.6% when compared with 2015.

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

Property Investment

Property investment operation reported revenue of approximately HK\$33.80 million, accounting for approximately 2.9% of the Group’s total revenue. Segment profit for the year decreased to approximately HK\$46.39 million when compared with that of approximately HK\$62.73 million last year. The drop in segment profit was mainly due to the decrease in the net fair value gains of the investment properties of approximately HK\$10.09 million and the incurrence of legal and professional fees of approximately HK\$6.42 million related to appealing the rejected proposed columbarium development in Au Tau, Yuen Long, Hong Kong.

Iron and Steel Trading and Related Investments

Iron and steel operation reported revenue of approximately HK\$193.30 million, accounting for approximately 16.6% of the Group's total revenue. Revenue for the year dropped by approximately 8.9% when compared with that of last year, as the iron and steel industry in Mainland China continued to suffer an over-supply as a result of excess production capacity. Segment profit for the year amounted to approximately HK\$4.38 million when compared with a loss of approximately HK\$0.66 million last year. The significant increase in segment result for the year was mainly due to the share of profit from an associate for 2016 amounted to approximately HK\$0.67 million when compared with a loss of approximately HK\$5.50 million in 2015.

Geographical segments

All of the Group's businesses are mainly operated in Mainland China and Hong Kong. Revenue from operations in Mainland China and Hong Kong amounted to approximately HK\$1,053.37 million (2015: HK\$1,020.32 million) and approximately HK\$111.18 million (2015: HK\$82.44 million) respectively in 2016.

LIQUIDITY AND FINANCIAL INFORMATION

The Group's business operation was generally financed by its internal funding and bank borrowings. Cash and cash equivalents amounted to approximately HK\$266.38 million as at 31 December 2016 when compared with approximately HK\$277.39 million as at 31 December 2015. Total cash and bank balances, including structured deposits, pledged deposits and restricted cash, amounted to approximately HK\$367.31 million as at 31 December 2016 when compared with approximately HK\$512.73 million as at 31 December 2015. Bank and other borrowings amounted to approximately HK\$165.92 million as at 31 December 2016 when compared with approximately HK\$205.35 million as at 31 December 2015. The Group's bank and other borrowings mainly carried interest at floating rates. Of the Group's total bank and other borrowings as at 31 December 2016, approximately HK\$154.32 million (93.0%) was payable within one year, approximately HK\$6.25 million (3.8%) was payable in the second year and approximately HK\$5.35 million (3.2%) was payable in the third to fifth years.

Gearing ratio of the Group which was expressed as a percentage of total bank and other borrowings to adjusted capital (as defined below) was 13.7% as at 31 December 2016 when compared with 17.1% as at 31 December 2015.

Liquidity ratio of the Group which was expressed as a percentage of current assets to current liabilities was 1.84 times as at 31 December 2016 when compared with 2.01 times as at 31 December 2015.

For the year under review, the inventory turnover days¹ were 33 days which was same as that of 33 days in 2015. The trade and bills receivables turnover days² were 133 days which was comparable with that of 132 days in 2015.

Equity and Net Asset Value

Shareholders' funds of the Group as at 31 December 2016 was approximately HK\$1,477.64 million when compared with approximately HK\$1,466.04 million as at 31 December 2015. Adjusted capital of the Group, being shareholders' funds less the unrealised leasehold land and building revaluation reserve and investment property revaluation reserve, as at 31 December 2016 was approximately HK\$1,215.01 million when compared with approximately HK\$1,203.41 million as at 31 December 2015. Net assets value per share as at 31 December 2016 was HK\$0.78 when compared with HK\$0.77 as at 31 December 2015.

Contingent liabilities

At 31 December 2016, the banking facilities granted to various subsidiaries subject to guarantees given to banks by the Company were utilized to the extent of approximately HK\$171.68 million when compared with HK\$214.53 million as at 31 December 2015.

Pledge of assets

Certain land and buildings, investment properties, restricted cash and cash deposits with aggregate net book value of HK\$571.58 million as at 31 December 2016 (31 December 2015: HK\$637.84 million) were pledged as collaterals for bank and other borrowings. At 31 December 2016, total outstanding secured bank and other borrowings amounted to HK\$143.34 million when compared with HK\$196.58 million as at 31 December 2015.

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

TREASURY MANAGEMENT

Funding and Treasury Policy

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

Foreign Currency Exposure

The Group's cash, bank balances and bank and other borrowings were mainly denominated in Hong Kong Dollars and Renminbi. The Group's results can be affected by movements in the exchange rate between Hong Kong Dollars and Renminbi. The Group did not have any hedging instrument to hedge the foreign currency exposure as at 31 December 2016. The Group will continue to monitor its foreign currency exposure and requirements closely and arrange hedging facilities when necessary.

Capital Expenditure

During the year under review, the Group invested a total sum of HK\$66.40 million (2015: HK\$54.67 million) on the acquisition of property, plant and equipment, investment properties and pre-sales office premises and the construction of new production lines.

HUMAN RESOURCES

Headcount as at 31 December 2016 was 1,051 (31 December 2015: 1,115). Staff costs (excluding directors' emoluments) amounted to HK\$179.22 million for the year as compared with HK\$170.36 million last year. The Group has a comprehensive and competitive staff remuneration and benefits system which is formulated on the performance of individual employees. In addition, the Group also provides a staff option scheme.

PRINCIPAL RISKS AND UNCERTAINTIES

FINANCIAL RISKS

Interest Rate Risk

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

Currency Rate Risk

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

Credit Risk

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

BUSINESS RISKS

Market Risks

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

Operational Risk

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

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

UPDATES ON THE PROPOSED SPIN OFF AND LISTING

As disclosed in the announcement of the Company dated 23 November 2016, a listing application form (Form A1) for the listing of, and permission to deal in, the shares in issue of and to be issued by CPM Group Limited (the "Proposed Spin-off and the Listing"), a wholly-owned subsidiary of the Company, on The Stock Exchange of Hong Kong Limited ("the Stock Exchange") was submitted to the Stock Exchange on 23 November 2016. Up to the date of this announcement, the Proposed Spin-off and the Listing is pending for the Stock Exchange's approval. The Board believes that the Proposed Spin-off and the Listing, if successful, will be beneficial to the Group as it will enhance the shareholder value, improve capital raising ability and increase the operational and financial transparency of its businesses.

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

- (1) effective monitoring on air emission and source of water pollution in accordance with the relevant statutory and regulatory requirements;
- (2) disposal of hazardous solid waste via qualified waste disposal service providers;
- (3) effective use of water and electricity; and
- (4) education to the staff on environmental protection laws and regulations to enhance their awareness on environmental protection.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

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

EVENTS AFTER THE REPORTING DATE

There is no significant subsequent event after the year end date of 31 December 2016.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S SHARES

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

AUDIT COMMITTEE REVIEW

The audit committee of the Company has met the external auditors of the Company, Messrs. Ernst and Young (“EY”), and reviewed the Group’s annual results for the year ended 31 December 2016.

REVIEW OF PRELIMINARY RESULTS ANNOUNCEMENT BY INDEPENDENT AUDITORS

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2016 as set out in this preliminary announcement have been agreed by EY, to the amounts as set out in the Group’s draft consolidated financial statements for the year. The work performed by EY in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by EY on this preliminary announcement.

CORPORATE GOVERNANCE

For the year ended 31 December 2016, the Company has complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”), except the following:

- (1) The non-executive directors of the Company and the independent non-executive directors of the Company are not appointed for a specific term. According to the Company’s bye-laws, they are subject to the requirement to retire by rotation at least once every three years. The Board considers that the requirement has the same effect of accomplishing the same objective as a specific term of appointment.
- (2) The Company does not have a nomination committee as the role and the function of such committee are performed by the full Board. The Board collectively reviews the structure, size and composition (including the skills, knowledge and experience) of the Board and the appointment of any new director. Also, the Board as a whole is responsible for approving the succession plan for the directors, including the chairman and the managing director.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Listing Rules (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 2016.

On behalf of the Board
Lam Ting Ball, Paul
Chairman

Hong Kong, 30 March 2017

As at the date of this announcement, the Board comprises Mr. Lam Ting Ball, Paul, Mr. Tsui Ho Chuen, Philip and Mr. Chong Chi Kwan as executive directors; Mr. Chan Wa Shek, Mr. Zhang Yulin and Mr. Hung Ting Ho, Richard as non-executive directors; and Sir David Akers-Jones, Mr. Danny T Wong, Dr. Steven Chow and Mr. Zhang Xiaojing as independent non-executive directors.