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 2018

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2018	2017	
Results	**HK$'000**	HK$'000	Change
Revenue	**831,939**	1,228,065	-32.3%
Gross profit	**178,453**	347,470	-48.6%
Gross profit margin	**21.5%**	28.3%	-24.0%
Profit/(loss) for the year	**(60,288)**	46,918	-228.5%
Profit/(loss) attributable to:			
Shareholders of the Company	**(25,091)**	37,516	-166.9%
Non-controlling interests	**(35,197)**	9,402	-474.4%
Earnings/(loss) per share (HK cents)			
Basic and diluted	**(1.32)**	1.97	-167.0%

	As at 31 December 2018	As at 31 December 2017	
Financial Position	**HK$'000**	HK$'000	Change
Total cash and bank balances (including cash and cash equivalents, and pledged deposits)	**300,921**	386,039	-22.0%
Bank and other borrowings	**270,767**	133,551	+102.7%
Gearing ratio	**22.3%**	10.2%	+118.6%
Net asset value per share (HK$)	**0.86**	0.93	-7.5%
Shareholders' funds per share (HK$)	**0.78**	0.82	-4.9%

The board of directors (the "Board") of CNT Group Limited (the "Company") announces the consolidated annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2018 together with comparative amounts for the corresponding year in 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2018

	Notes	**2018** **HK$'000**	2017 HK$'000
REVENUE	4	**831,939**	1,228,065
Cost of sales		**(653,486)**	(880,595)
Gross profit		**178,453**	347,470
Other income and gains, net	4	**18,273**	14,459
Selling and distribution expenses		**(167,943)**	(171,292)
Administrative expenses		**(138,385)**	(134,658)
Other expenses, net		**(49,912)**	(26,494)
Fair value gains on investment properties, net		**90,773**	27,799
Finance costs	5	**(6,823)**	(2,245)
Share of profits and losses of associates		**(4,365)**	3,214
PROFIT/(LOSS) BEFORE TAX	6	**(79,929)**	58,253
Income tax credit/(expenses)	7	**19,641**	(11,335)
PROFIT/(LOSS) FOR THE YEAR		**(60,288)**	46,918
ATTRIBUTABLE TO:			
Owners of the parent		**(25,091)**	37,516
Non-controlling interests		**(35,197)**	9,402
		(60,288)	46,918
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	8	**HK(1.32) cents**	HK1.97 cents

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**292,731**	276,075
Investment properties		**799,978**	683,923
Properties under development		**28,000**	28,000
Prepaid land lease payments		**85,571**	19,232
Intangible assets		**805**	–
Interests in associates		**9,599**	15,360
Equity investments designated at fair value through other comprehensive income		**91,710**	–
Available-for-sale investments		**–**	92,083
Deposits for purchases of properties, and plant and equipment, and investment properties		**12,269**	14,228
Net pension scheme assets		**3,687**	4,421
Deferred tax assets		**19,327**	5,617
Total non-current assets		**1,343,677**	1,138,939
CURRENT ASSETS			
Inventories		**79,079**	79,930
Trade and bills receivables	10	**479,025**	724,086
Prepayments, deposits and other receivables		**92,724**	60,044
Tax recoverable		**1,761**	1,233
Pledged deposits		**5,055**	3,269
Cash and cash equivalents		**295,866**	382,770
Total current assets		**953,510**	1,251,332
CURRENT LIABILITIES			
Trade and bills payables	11	**226,374**	304,705
Other payables and accruals		**115,367**	126,500
Due to an associate		**2,800**	2,800
Interest-bearing bank and other borrowings		**270,121**	132,525
Tax payable		**12,574**	16,892
Total current liabilities		**627,236**	583,422
NET CURRENT ASSETS		**326,274**	667,910
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,669,951**	1,806,849

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

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 ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, equity investments, and net pension scheme assets, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand ("HK$'000") except when otherwise indicated.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

Other than as explained below regarding the impact of HKFRS 9, HKFRS 15 and the amendments to HKFRS 15, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

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

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

Classification and measurement

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

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

	Note	Category	HKAS 39 Measurement Amount HK$'000	Re-classification HK$'000	ECL HK$'000	Adjustments HK$'000	HKFRS 9 Measurement Amount HK$'000	Category
Financial assets								
Equity investments designated at fair value through other comprehensive income		N/A	–	79,569	–	–	79,569	FVOCI[1]
From: Available-for-sale investments	(i)			79,569				
Available-for-sale investments		AFS[2]	92,083	(79,569)	–	(12,514)	–	N/A
To: Equity investments designated at fair value through other comprehensive income	(i)		–	(79,569)	–	–	–	
Trade and bills receivables		L&R[3]	724,086	–	(25,356)	–	698,730	AC[4]
Financial assets included in prepayments, deposits and other receivables		L&R	49,873	–	(700)	–	49,173	AC
Pledged deposits		L&R	3,269	–	–	–	3,269	AC
Cash and cash equivalents		L&R	382,770	–	–	–	382,770	AC
			1,252,081	–	(26,056)	(12,514)	1,213,511	
Financial liabilities								
Trade and bills payables		AC	304,705	–	–	–	304,705	AC
Financial liabilities included in other payables and accruals		AC	59,748	–	–	–	59,748	AC
Interest-bearing bank and other borrowings		AC	133,551	–	–	–	133,551	AC
Due to an associate		AC	2,800	–	–	–	2,800	AC
			500,804	–	–	–	500,804	

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

Notes:

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

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

Impairment

The following table reconciles the aggregate opening impairment allowances under HKAS 39 to the ECL allowances under HKFRS 9.

	Impairment allowances under HKAS 39 at 31 December 2017 HK$'000	Remeasurement HK$'000	ECL allowances under HKFRS 9 at 1 January 2018 HK$'000
Trade receivables	38,401	25,356	63,757
Financial assets included in prepayments, deposits and other receivables	–	700	700
	38,401	26,056	64,457

Impact on reserves and retained profits

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

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

(b) HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates.

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

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

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

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 follows:

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

(b) the property investment segment comprises:

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

  (ii) the development and sale of properties;

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

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

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

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

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

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

Intersegment sales and transfers are transacted on mutually agreed terms.

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

Year ended 31 December 2018	Paint products HK$'000	Property investment HK$'000	Iron and steel trading HK$'000	Others HK$'000	Total HK$'000
Other segment information:					
Share of profits and losses of associates	**–**	**(1,731)**	**6,096**	**–**	**4,365**
Interests in associates	**–**	**2,694**	**6,905**	**–**	**9,599**
Amortisation of intangible assets	**459**	**–**	**–**	**–**	**459**
Amortisation of prepaid land lease payments	**1,364**	**–**	**–**	**–**	**1,364**
Depreciation	**19,547**	**2,402**	**26**	**–**	**21,975**
Corporate and other unallocated depreciation					**93**
					22,068
Capital expenditure	**28,843**	**2,326**	**8**	**–**	**31,177**
Corporate and other unallocated capital expenditure					**5**
					31,182*
Fair value gains on investment properties	**–**	**(90,773)**	**–**	**–**	**(90,773)**
Impairment of trade receivables	**30,055**	**–**	**1,649**	**–**	**31,704**
Write-down of inventories to net realisable value	**342**	**–**	**–**	**–**	**342**

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

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

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

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

Geographical information:

(a) Revenue from external customers

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

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

(b) Non-current assets

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

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

Information about a major customer:

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

During the year ended 31 December 2017, 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 is as follows:

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

Revenue from contracts with customers

Disaggregated revenue information

For the year ended 31 December 2018

Segments	**Paint products HK$'000**	**Iron and steel products HK$'000**	**Total HK$'000**
Sale of goods	617,254	192,317	809,571
Geographical markets			
Hong Kong	46,852	–	46,852
Mainland China	570,402	192,317	762,719
Total revenue from contracts with customers	617,254	192,317	809,571

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

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

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

6. PROFIT/(LOSS) BEFORE TAX

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

	2018	2017
	HK$'000	HK$'000
Cost of inventories sold	**653,486**	880,595
Depreciation	**22,068**	20,795
Amortisation of intangible assets	**459**	–
Amortisation of prepaid land lease payments	**1,364**	513
Write-down/(write-back) of inventories to net realisable value	**342**	(2,841)
Impairment of trade receivables*	**31,704**	7,967
Impairment of an available-for-sale investment*	**–**	4,000
Loss on disposal of items of property, plant and equipment, net*	**25**	61
Write-off of items of property, plant and equipment*	**297**	558
Foreign exchange differences, net*	**3,584**	(3,446)

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

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

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

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

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

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

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

9. DIVIDEND

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

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

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

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 loss allowance, is as follows:

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

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:

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

The trade payables are unsecured, non-interest-bearing and are normally settled within two months. As at 31 December 2018, bills payable with an aggregate carrying amount of HK$16,849,000 (2017: HK$11,101,000) were secured by time deposits of HK$5,055,000 (2017: HK$3,269,000).

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 for the year ended 31 December 2018 (2017: HK1.0 cent) amounting to approximately HK$19,037,000 (2017: 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 Tuesday, 25 June 2019 to the shareholders of the Company whose names appear on the Company's register of members on Thursday, 13 June 2019.

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, 31 May 2019 to Wednesday, 5 June 2019, 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, 30 May 2019.

For the purpose of determining shareholders' entitlement to the proposed final dividend, the register of members of the Company will be closed from Wednesday, 12 June 2019 to Thursday, 13 June 2019, 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, 11 June 2019.

CHAIRMAN'S STATEMENT

In 2018, the growth of the China's economy was slow with the gross domestic product ("GDP") decreased by 1.5%, as compared with the amount of GDP in 2017. The slow growth was primarily due to the sluggish economic condition in the domestic economy in Mainland China as well as the trade tension between China and the United States since the second half of 2018. The dim prospects for the growth of the export business in Mainland China have resulted in less investments in the PRC manufacturing sector. The real property market in Mainland China did not perform well, which was primarily due to government policies on home prices and the less-than-expected increase in the domestic consumption power of general population in Mainland China. Like the other manufacturing industries in Mainland China, the paint and coating industry in Mainland China was also affected by general economic conditions in Mainland China as well as certain industry-specific factors, such as the growth of the PRC manufacturing sector, the PRC real property market as well as the environmental protection laws and regulations in Mainland China. According to the National Bureau of Statistics of China, the sales volume of paint and coating products in Mainland China decreased by 9.4% in 2018 as compared to the sales volume in 2017. Such unsatisfactory results was mainly caused by the decrease in the retail sales of construction and decorative paint and coating products by 22.9% and the decrease in the total domestic retail sales of furniture goods (including the paint and coating products for furniture manufacturing purpose) by 19.1%.

RESULTS

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

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

PROSPECTS

According to the publicly available information, China's economy is expected to make further downward adjustment in 2019 as domestic demand weakens and exports are affected by the recent trade tension between the United States and Mainland China. The International Monetary Fund predicted the GDP growth rate in Mainland China will be around 6.2% in 2019. In early March 2019, during the opening of the National People's Congress, the Chinese Premier Mr. Li Keqiang also mentioned that the China Government sets a low economic growth target for 2019 in a range of 6.0% to 6.5%.

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

PAINT PRODUCTS

CPM Group's products can be broadly divided into industrial paint and coating products, architectural paint and coating products and general paint and coating and ancillary products. Industrial paint and coating products are used in a wide range of applications, such as furniture painting, manufacturing and surface finishing for different kinds of materials, and are used by manufacturers, renovation contractors for property and infrastructure projects and household users. Architectural paint and coating products are used for wall, floor and exterior parts of buildings. CPM Group's architectural paint and coating products primarily focus 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 which can be used for both architectural and industrial purposes.

Industrial paint and coating products, architectural paint and coating products and general paint and coating and ancillary products accounted for 46.4% (2017: 55.8%), 32.4% (2017: 20.9%) and 21.2% (2017: 23.3%) of the total revenue of paint business respectively in 2018. CPM continues to focus on the Mainland China market which contributed to approximately 92.4% (2017: 91.3%) of the total revenue of its paint business.

Significant Decrease in Revenue

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

Furthermore, the decrease in such demand has further intensified the price competition, which had a negative impact on the sales volume of the principal paint and coating products of the CPM Group. The domestic and foreign paint and coating manufacturers are setting up new plants to increase their capacity to capture the potential growth in paint and coating market in Mainland China. However, due to the slow economic growth in Mainland China and the decrease of sale volume in the paint and coating products in Mainland China, these manufacturers failed to release their production capacity, which has led to an increase in supply and negative impact on bargaining power in 2018. It is important to note that some of the small and medium size paint and coating manufacturers had closed down in 2018, and there would be a disposal in 2019 by a famous paint and coating manufacturer in Shanghai, which engaged in the manufacture of and trading in solvents, coatings, inks and lubricants. The demand for solvent-based paint and coating products was also adversely affected by the increasingly stringent regulations on the use and storage of solvent-based paint and coating products in the target markets of the CPM Group in Mainland China.

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

Unexpected Soared in Raw Materials Costs

The raw materials used by the CPM Group include resins, solvents and other materials, of which resins and solvents accounted for a significant portion of the total cost of raw materials. As resins and solvents are the downstream products of crude oil, its market prices are generally correlated with the price of crude oil. The crude oil price has continued to soar and reached the year-high level in October 2018. The unexpected increase in crude oil price has led to the increase in the prices of solvent and resin, which are the principal raw materials of the CPM Group. The CPM Group's profit for the year was snatched away by the increasing price of raw materials. The overall percentage of raw material costs contributing to the revenue increased by 6.8 percentage point ("pp") from 60.4% to 67.2%.

Gross Profit and Gross Profit Margin of Paint Products

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

Profitability Analysis

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

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

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

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

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

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

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

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

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

In view of the stringent safety and environmental laws and regulations implemented in recent year by the Chinese Government and respective local authorities, CPM has established an "Environment, Health and Safety" team at its production plants for the purpose of monitoring and implementing all relevant measures to ensure full compliance with the applicable laws and regulations on safety as well as emission control. The implementation of stringent laws and regulations inevitable increase the operating costs for the compliance. However, CPM considers that such stringent requirements implemented by the Chinese Government would accelerate the healthy development of the paint and coating industry in Mainland China with emphasis on production safety and environmental protection.

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

Business Initiatives

In view of the substantial decrease of revenue, gross profit and gross profit margin for the year ended 31 December 2018, the CPM Group has formulated and implemented various business revamp measures and initiatives to improve the business operation and reduce the costs. These business initiatives include the following:

1. **Stabilising the Business Performance in the Short Term**

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

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

2. **Price Increment – Paint and Coating Products**

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

3. **Improvement in the Procurement and Sourcing Process**

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

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

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

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

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

5. **Integration of the Production Facilities in Mainland China**

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

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

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

PROPERTY INVESTMENT

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

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

HK$62.97 million. The net fair value gains of the Group's investment properties at the year end was approximately HK$90.77 million while the net fair value gains at the last year was approximately HK$27.80 million. This reflected the general market conditions of the residential, commercial and industrial investment property market in Hong Kong and Mainland China during the year.

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

Proposed Disposal and Proposed Acquisition

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

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

Background of Wan Chai Property

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

Transaction Structure Before and After Completion of the Proposed Share Exchange

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

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

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

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

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

Background of Sai Kung Property

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

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

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

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

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

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

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

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

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

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

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

Acquisition of Residential Premises in Zhongshan, the PRC

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

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

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

Proposed Columbarium Project in Yuen Long, Hong Kong

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

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

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

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

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

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

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

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

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

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

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

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

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

IRON AND STEEL TRADING AND RELATED INVESTMENTS

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

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

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

EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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

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

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

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

FINANCIAL REVIEW

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

RESULTS

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

SEGMENT INFORMATION

Business Segments

Paint Products

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

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

Property Investment

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

Iron and Steel Trading and Related Investments

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

Geographical Segments

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

LIQUIDITY AND FINANCIAL INFORMATION

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

Gearing ratio of the Group which was expressed as a percentage of total bank and other borrowings to adjusted capital (as defined below) was 22.3% as at 31 December 2018 compared with 10.2% as at 31 December 2017.

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

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

Equity, Net Asset Value and Shareholders' Funds

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

Contingent Liabilities

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

Pledge of Assets

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

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

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

TREASURY MANAGEMENT

Funding and Treasury Policy

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

Foreign Currency Exposure

The Group's cash, bank balances and bank and other borrowings were mainly denominated in Hong Kong dollar, Renminbi and United States dollar. The Group's results can be affected by movements in the exchange rate between Hong Kong dollar, Renminbi and United States dollar. The Group did not have any hedging instrument to hedge the foreign currency exposure as at 31 December 2018. The Group will continue to monitor its foreign currency exposure and requirements closely and arrange hedging facilities when necessary.

Capital Expenditure

During the year under review, the Group invested a total sum of HK$31.18 million (2017: HK$22.69 million) on the acquisition of property, plant and equipment, investment properties, construction of warehouses and intangible assets.

HUMAN RESOURCES

Headcount as at 31 December 2018 was 886 (31 December 2017: 1,039). Staff costs (excluding directors' emoluments) amounted to HK$166.44 million for the year as compared with HK$172.36 million last year. The Group has a comprehensive and competitive staff remuneration and benefits system which is 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, the United States dollars and Renminbi. The Group also has significant investments in Mainland China and its statement of financial position can be affected by movements in the exchange rate between Hong Kong dollars and Renminbi.

Credit Risk

The Group trades only with 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.

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

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

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

(3) effective use of water and electricity; and

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

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

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

UPDATE ON DERIVATIVE ACTION

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

EVENTS AFTER THE REPORTING DATE

There is no significant subsequent event after 31 December 2018.

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 Board 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 2018.

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 2018 as set out in the preliminary announcement have been agreed by EY, to the amounts 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 the preliminary announcement.

CORPORATE GOVERNANCE

For the year ended 31 December 2018, 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 of Hong Kong Limited (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 as 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 of the Company confirmed that they have complied with the required standard as set out in the Model Code and the Company's own code during the year ended 31 December 2018.

On behalf of the Board
CNT Group Limited
Lam Ting Ball, Paul
Chairman

Hong Kong, 28 March 2019

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