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**ANNOUNCEMENT OF RESULTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

<b>FINANCIAL HIGHLIGHTS</b>			
<b>Results</b>	<b>Year ended 31 December</b>		<b>Change</b>
	<b>2019</b>	<b>2018</b>	
	<b>HK\$'000</b>	<b>HK\$'000</b>	
Revenue	<b>807,923</b>	831,939	-2.9%
Gross profit	<b>221,682</b>	178,453	24.2%
Gross profit margin	<b>27.4%</b>	21.5%	27.4%
Profit/(loss) for the year	<b>227,903</b>	(60,288)	N/A
Profit/(loss) attributable to:			
Shareholders of the Company	<b>234,793</b>	(25,091)	N/A
Non-controlling interests	<b>(6,890)</b>	(35,197)	-80.4%
Earnings/(loss) per share (HK cents)			
Basic and diluted	<b>12.33</b>	(1.32)	N/A
	<b>As at</b>	<b>As at</b>	
	<b>31 December</b>	<b>31 December</b>	
	<b>2019</b>	<b>2018</b>	
<b>Financial Position</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>Change</b>
Total cash and bank balances (including cash and cash equivalents, and pledged deposits)	<b>467,800</b>	300,921	55.5%
Bank and other borrowings	<b>216,442</b>	270,767	-20.1%
Gearing ratio	<b>13.1%</b>	18.2%	-28.0%
Net asset value per share (HK\$)	<b>0.94</b>	0.86	9.3%
Shareholders' funds per share (HK\$)	<b>0.87</b>	0.78	11.5%

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 2019 together with comparative amounts for the corresponding period in 2018 as follows:

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
REVENUE	4	807,923	831,939
Cost of sales		<u>(586,241)</u>	<u>(653,486)</u>
Gross profit		221,682	178,453
Other income and gains, net	4	515,858	18,273
Selling and distribution expenses		(125,545)	(167,943)
Administrative expenses		(151,868)	(138,385)
Other expenses less reversal, net		9,496	(49,912)
Fair value gains/(losses) on investment properties, net		(229,689)	90,773
Finance costs	5	(9,284)	(6,823)
Share of profits and losses of associates		<u>(1,931)</u>	<u>(4,365)</u>
PROFIT/(LOSS) BEFORE TAX	6	228,719	(79,929)
Income tax credit/(expenses)	7	<u>(816)</u>	<u>19,641</u>
PROFIT/(LOSS) FOR THE YEAR		<u>227,903</u>	<u>(60,288)</u>
ATTRIBUTABLE TO:			
Owners of the parent		234,793	(25,091)
Non-controlling interests		<u>(6,890)</u>	<u>(35,197)</u>
		<u>227,903</u>	<u>(60,288)</u>
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	8	<u>HK12.33 cents</u>	<u>HK(1.32) cents</u>

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

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	<b>2019</b> <b>HK\$'000</b>	2018 HK\$'000
PROFIT/(LOSS) FOR THE YEAR	<u>227,903</u>	<u>(60,288)</u>
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	(15,740)	(42,610)
Release of exchange reserve upon step acquisition from an associate to a subsidiary	(939)	–
Share of other comprehensive income/(loss) of an associate	<u>(137)</u>	<u>166</u>
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	<u>(16,816)</u>	<u>(42,444)</u>
Other comprehensive income/(loss) 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	(42,379)	15,628
Gain on property revaluation	–	17,145
Remeasurement of net pension scheme assets	<u>1,044</u>	<u>(687)</u>
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods	<u>(41,335)</u>	<u>32,086</u>
OTHER COMPREHENSIVE LOSS FOR THE YEAR	<u>(58,151)</u>	<u>(10,358)</u>
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	<u><u>169,752</u></u>	<u><u>(70,646)</u></u>
ATTRIBUTABLE TO:		
Owners of the parent	179,390	(28,981)
Non-controlling interests	<u>(9,638)</u>	<u>(41,665)</u>
	<u><u>169,752</u></u>	<u><u>(70,646)</u></u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		274,206	292,731
Investment properties	12	851,339	799,978
Properties under development		28,000	28,000
Prepaid land lease payments		–	85,571
Intangible assets		–	805
Right-of-use assets		105,714	–
Interests in associates		22,749	9,599
Equity investments designated at fair value through other comprehensive income		49,331	91,710
Deposits for purchases of properties, plant and equipment, and investment properties		9,962	12,269
Net pension scheme assets		4,694	3,687
Deferred tax assets		18,228	19,327
		<b>1,364,223</b>	1,343,677
<b>TOTAL non-current assets</b>			
<b>CURRENT ASSETS</b>			
Inventories		70,290	79,079
Trade and bills receivables	10	318,449	479,025
Prepayments, deposits and other receivables		77,495	92,724
Tax recoverable		106	1,761
Pledged deposits		2,426	5,055
Cash and cash equivalents		465,374	295,866
		<b>934,140</b>	953,510
<b>TOTAL current assets</b>			
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	11	166,287	226,374
Other payables and accruals		83,362	115,367
Due to an associate		2,800	2,800
Interest-bearing bank and other borrowings		216,442	270,121
Lease liabilities		2,673	–
Tax payable		12,539	12,574
		<b>484,103</b>	627,236
<b>TOTAL current liabilities</b>			
<b>NET CURRENT ASSETS</b>		<b>450,037</b>	326,274
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		<b>1,814,260</b>	1,669,951

	<b>2019</b> <b>HK\$'000</b>	2018 HK\$'000
<b>NON-CURRENT LIABILITIES</b>		
Interest-bearing bank and other borrowings	–	646
Lease liabilities	<b>703</b>	–
Deferred tax liabilities	<b>21,272</b>	31,412
Deferred income	<b>1,485</b>	1,808
Deposit received	<b>4,000</b>	–
	<hr/>	<hr/>
Total non-current liabilities	<b>27,460</b>	33,866
	<hr/>	<hr/>
Net assets	<b>1,786,800</b>	1,636,085
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<b>EQUITY</b>		
<b>Equity attributable to owners of the parent</b>		
Issued capital	<b>190,369</b>	190,369
Reserves	<b>1,460,699</b>	1,300,346
	<hr/>	<hr/>
	<b>1,651,068</b>	1,490,715
<b>Non-controlling interests</b>	<b>135,732</b>	145,370
	<hr/>	<hr/>
Total equity	<b>1,786,800</b>	1,636,085
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## NOTES TO FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, equiity 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 9	<i>Prepayment Features with Negative Compensation</i>
HKFRS 16	<i>Leases</i>
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i>
<i>Annual Improvements</i> <i>2015-2017 Cycle</i>	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Other than as explained below regarding the amendments to HKFRS 9 and HKAS 19, and Annual Improvements to *HKFRSs 2015-2017 Cycle*, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

#### (a) Adoption of HKFRS 16

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

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

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

### **New definition of a lease**

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

### **As a lessee – Leases previously classified as operating leases**

#### ***Nature of the effect of adoption of HKFRS 16***

The Group has lease contracts for various items of property, machinery, motor vehicles and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less (“short-term leases”) (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

#### ***Impacts on transition***

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position. This includes the lease assets recognised previously under finance leases of HK\$1,149,000 that were reclassified from property, plant and equipment.

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

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

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease

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

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

**Financial impact at 1 January 2019**

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

	<b>Increase/ (decrease) HK\$'000</b>
<b>Assets</b>	
Increase in right-of-use assets	<b>112,779</b>
Decrease in property, plant and equipment	<b>(20,246)</b>
Decrease in prepaid land lease payments	<b>(85,571)</b>
Decrease in prepayments, deposits and other receivables	<b>(2,889)</b>
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Increase in total assets	<b>4,073</b>
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<b>Liabilities</b>	
Increase in lease liabilities	<b>5,129</b>
Decrease in interest-bearing bank and other borrowings	<b>(1,056)</b>
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Increase in total liabilities	<b>4,073</b>
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The lease liabilities as at 1 January 2019 reconciled to the operating leases commitments as at 31 December 2018 is as follows:

	HK\$'000
<b>Operating lease commitments as at 31 December 2018</b>	1,120
Discounted operating lease commitments as at 1 January 2019	
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	(702)
Add: Payments for optional extension periods not recognised as at 31 December 2018	<u>3,912</u>
	4,330
Weighted average incremental borrowing rate as at 1 January 2019	<u>5.54%</u>
Discounted operating lease commitments as at 1 January 2019	4,073
Add: Finance lease liabilities recognised as at 31 December 2018	<u>1,056</u>
Lease liabilities as at 1 January 2019	<u><u>5,129</u></u>

- (b) Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continued to be measured at amortised cost in accordance with HKFRS 9. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.
- (c) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as “uncertain tax positions”). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether there were any uncertain tax positions. The Group determined that the interpretation did not have any significant impact on the financial position or performance of the Group.

### 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 and coating products and related services;
- (b) the property investment segment comprises:
  - (i) the investment in residential, commercial and industrial premises for their rental income potential; and
  - (ii) the development and sale of properties;
- (c) the iron and steel trading segment comprises the trading of iron and steel products and related investments; and
- (d) the others segment comprises, principally, 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, finance costs, as well as head office and corporate expenses are excluded from such measurement.

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 2019	Paint products HK\$'000	Property investment HK\$'000	Iron and steel trading HK\$'000	Others HK\$'000	Total HK\$'000
<b>Segment revenue:</b>					
Sales to external customers	713,328	22,515	72,080	–	807,923
Intersegment sales	–	5,287	–	–	5,287
Other revenue and gains	11,045	490,673	9,600	133	511,451
	<u>724,373</u>	<u>518,475</u>	<u>81,680</u>	<u>133</u>	<u>1,324,661</u>
<i>Reconciliation:</i>					
Elimination of intersegment sales					<u>(5,287)</u>
Total					<u><u>1,319,374</u></u>
<b>Segment results</b>					
	(18,818)	267,429	6,727	(1,791)	253,547
<i>Reconciliation:</i>					
Elimination of intersegment results					(559)
Interest income					4,407
Finance costs					(9,284)
Corporate and other unallocated expenses					<u>(19,392)</u>
Profit before tax					<u><u>228,719</u></u>

Year ended 31 December 2019	Paint products HK\$'000	Property investment HK\$'000	Iron and steel trading HK\$'000	Others HK\$'000	Total HK\$'000
<b>Segment assets</b>	989,773	986,510	66,014	49,487	2,091,784
<i>Reconciliation:</i>					
Elimination of intersegment receivables					(889)
Corporate and other unallocated assets					207,468
Total assets					<u>2,298,363</u>
<b>Segment liabilities</b>	456,080	27,307	23,441	508	507,336
<i>Reconciliation:</i>					
Elimination of intersegment payables					(889)
Corporate and other unallocated liabilities					5,116
Total liabilities					<u>511,563</u>
<b>Other segment information:</b>					
Share of profits and losses of associates	-	(1,818)	3,749	-	1,931
Interests in associates	-	2,786	19,963	-	22,749
Amortisation of intangible assets	815	-	-	-	815
Depreciation on property, plant and equipment	20,581	1,855	22	-	22,458
Corporate and other unallocated depreciation					79
					22,537
Depreciation on right-of-use assets	5,753	609	-	-	6,362
Corporate and other unallocated depreciation					11
					6,373
Capital expenditure	15,410	716,672	-	-	732,082
Corporate and other unallocated capital expenditure					103
					732,185*
Fair value losses on investment properties	-	229,689	-	-	229,689
Reversal of provision for impairment of trade and bills receivables	(27,490)	-	(1,468)	-	(28,958)
Impairment of an other receivable	-	2,100	-	-	2,100
Write-down of inventories to net realisable value, net	43	-	-	-	43

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

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

<b>Year ended 31 December 2018</b>	Paint products HK\$'000	Property investment HK\$'000	Iron and steel trading HK\$'000	Others HK\$'000	Total HK\$'000
<b>Other segment information:</b>					
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 on property, plant and equipment	19,547	2,402	26	–	21,975
Corporate and other unallocated depreciation					93
					22,068
Capital expenditure	135,578	2,326	8	–	137,912
Corporate and other unallocated capital expenditure					5
					137,917**
Fair value gains on investment properties	–	(90,773)	–	–	(90,773)
Impairment of trade receivables	30,055	–	1,649	–	31,704
Write-down of inventories to net realisable value	342	–	–	–	342

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

**Geographical information:**

## (a) Revenue from external customers

	<b>2019</b>	2018
	<b>HK\$'000</b>	HK\$'000
Hong Kong	<b>91,862</b>	63,260
Mainland China	<b>716,061</b>	768,679
	<b>807,923</b>	831,939

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

## (b) Non-current assets

	<b>2019</b>	2018
	<b>HK\$'000</b>	HK\$'000
Hong Kong	<b>1,004,993</b>	718,497
Mainland China	<b>286,978</b>	510,456
	<b>1,291,971</b>	1,228,953

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

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.

#### 4. REVENUE, OTHER INCOME AND GAINS, NET

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

	2019 HK\$'000	2018 HK\$'000
Revenue from contracts with customers		
Sale of paint and coating products	713,328	617,254
Sale of iron and steel products	72,080	192,317
Revenue from other sources		
Gross rental income from investment properties	22,515	22,368
	<u>807,923</u>	<u>831,939</u>
<b>Other income</b>		
Bank interest income	4,407	1,961
Dividend income from an equity investment designated at fair value through other comprehensive income	–	240
Government grants*	5,079	9,582
Recognition of deferred income	291	305
Rental income	3,023	2,053
Others	3,464	2,333
	<u>16,264</u>	<u>16,474</u>
<b>Gains, net</b>		
Recovery of amount due from an associate previously written off	–	433
Write-back of an other receivable	–	1,366
Gain on disposal of subsidiaries	490,412	–
Gain on acquisition of a subsidiary, previously held as an associate	9,125	–
Gain on disposal of property, plant and equipment, net	57	–
	<u>499,594</u>	<u>1,799</u>
Total other income and gains, net	<u>515,858</u>	<u>18,273</u>

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

## 5. FINANCE COSTS

An analysis of finance costs is as follows:

	2019 HK\$'000	2018 HK\$'000
Interest on bank loans	9,054	6,764
Interest on finance leases	–	59
Interest on lease liabilities	230	–
	<u>9,284</u>	<u>6,823</u>

## 6. PROFIT/(LOSS) BEFORE TAX

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

	2019 HK\$'000	2018 HK\$'000
Cost of inventories sold	586,241	653,486
Depreciation on property, plant and equipment	22,537	22,068
Depreciation on right-of-use assets	6,373	–
Amortisation of prepaid land lease payments	–	1,364
Amortisation of intangible assets	815	459
Write-down of inventories to net realisable value	43	342
Provision for/(reversal of provision for) impairment of trade and bills receivables*	(28,958)	31,704
Impairment of an other receivable*	2,100	–
(Gain)/loss on disposal of items of property, plant and equipment, net*	(57)	25
Write-off of items of property, plant and equipment*	850	297
Foreign exchange differences, net*	1,450	3,584
	<u>1,450</u>	<u>3,584</u>

\* These balances are included in “Other income and gains, net” for gains and “Other expenses less reversal, net” for losses in the consolidated statement of profit or loss.



## 7. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 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% (2018: 25%) during the year, except for subsidiaries of the Group which qualified as a High and New Technology Enterprise in Mainland China and a lower PRC corporate income tax rate of 15% (2018: 15%) had been applied during the year.

	2019 HK\$'000	2018 HK\$'000
Current – Hong Kong		
Charge for the year	1,163	1,119
Overprovision in prior years	(20)	(63)
Current – Elsewhere		
Charge for the year	912	2,206
Overprovision in prior years	(654)	–
Deferred	(585)	(22,903)
	<u>816</u>	<u>(19,641)</u>
Total tax charge/(credit) for the year	<u>816</u>	<u>(19,641)</u>

The share of tax attributable to an associate amounting to HK\$249,000 (2018: HK\$244,000) 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 and diluted earnings/(loss) per share amount is based on the profit for the year attributable to ordinary equity holders of the parent of HK\$234,793,000 (2018: loss of HK\$25,091,000), and the weighted average number of ordinary shares of 1,903,685,690 (2018: 1,903,685,690) in issue during the year.

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

## 9. DIVIDEND

	2019 HK\$'000	2018 HK\$'000
Proposed final – HK2.0 cents (2018: HK1.0 cent) per ordinary share	<u>38,074</u>	<u>19,037</u>

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

At the annual general meeting held on 5 June 2019, the Company's shareholders approved the distribution of the final dividend for the year ended 31 December 2018 of HK1.0 cent per share which amounted to approximately HK\$19,037,000.

## 10. TRADE AND BILLS RECEIVABLES

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

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

	2019 HK\$'000	2018 HK\$'000
Within three months	205,306	219,076
Over three months and within six months	74,475	97,835
Over six months	<u>38,668</u>	<u>162,114</u>
	<u>318,449</u>	<u>479,025</u>

## 11. TRADE AND BILLS PAYABLES

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

	2019 HK\$'000	2018 HK\$'000
Within three months	154,800	181,169
Over three months and within six months	11,251	41,581
Over six months	236	3,624
	<u>166,287</u>	<u>226,374</u>

Included in the Group's trade and bills payables is an amount due to the Group's associate of HK\$12,575,000 which is normally settled within two months repayable on similar credit terms with reference to those offered from the suppliers of the Group who are similar in size and stature.

The trade payables are unsecured, non-interest-bearing and are normally settled within two months. As at 31 December 2019, bills payable with an aggregate carrying amount of HK\$8,087,000 (2018: HK\$16,849,000) were secured by time deposits of HK\$2,426,000 (2018: HK\$5,055,000).

## 12. INVESTMENT PROPERTIES

	2019 HK\$'000	2018 HK\$'000
Carrying amount at beginning of year	799,978	683,923
Additions	1,370	747
Acquisitions of investment properties through acquisitions of subsidiaries	713,000	–
Disposal of subsidiaries	(418,230)	–
Fair value gains/(losses), net	(229,689)	90,773
Transfer from deposits for purchases of properties, plant and equipment, and investment properties	3,471	4,937
Transfer from owner-occupied properties	–	24,355
Transfer from prepaid land lease payments	–	4,390
Transfer to properties, plant and equipment	(14,129)	–
Exchange realignment	(4,432)	(9,147)
	<u>851,339</u>	<u>799,978</u>

The Group's investment properties were revalued on 31 December 2019 based on valuations performed by BMI Appraisals Limited, an independent professionally qualified valuer. Fair values of the Group's investment properties are generally derived by using the income capitalisation method or market comparison approach.

## **DIVIDEND**

The directors of the Company have resolved to recommend to the shareholders of the Company the payment of a final dividend of HK2.0 cents per share for the year ended 31 December 2019 (2018: HK1.0 cent) amounting to approximately HK\$38,074,000 (2018: 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, 23 June 2020 to the shareholders of the Company whose names appear on the Company's register of members on Thursday, 11 June 2020.

## **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 Monday, 1 June 2020 to Thursday, 4 June 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 29 May 2020.

For the purpose of determining shareholders' entitlement to the proposed final dividend, the register of members of the Company will be closed from Wednesday, 10 June 2020 to Thursday, 11 June 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 9 June 2020.

## **CHAIRMAN'S STATEMENT**

### **OVERVIEW**

During the year ended 31 December 2019, the business of the Group can be divided into three business segments. The largest segment of the Group is the paint and coating business carried out by CPM Group Limited ("CPM" and together with CPM's subsidiaries, the "CPM Group"), in which the Company holds 75% issued share capital. The Group is also active in enhancing the portfolio of investment property for the purposes of earning rental income as well as capital appreciation. The Group has also been engaged in iron and steel trading business. Except for the iron and steel business, the revenue of the Group generated from the paint and coating business and investment property business have experienced a modest growth and achieved a similar amount respectively as compared to the same for the year ended 31 December 2018.

The slowdown in the global economy in 2019 was primarily due to the ongoing trade tensions between China and the United States (“China-US trade tensions”). In 2019, the overall paint and coating market in Mainland China remained challenging. Price competitions, changes in raw materials prices and depreciation of Renminbi led to the fluctuations in the cost of sales, which in turn affected the gross profit margin of the Group during the year. On the other hand, the macroeconomic situation in Mainland China remained uncertain amid escalation of the China-US trade tensions, which has resulted in a less favourable business environment and reduced the average spending by the consumers in Mainland China. The CPM Group’s revenue in 2019 amounted to approximately HK\$713.33 million, representing an increase of 15.6%, as compared to the amount of revenue of approximately HK\$617.25 million in 2018. The amount of gross profit of the CPM Group in 2019 increased to approximately HK\$196.82 million, representing a significant increase of 30.4%, as compared to the amount of gross profit of approximately HK\$150.94 million in 2018.

Revenue contributed by the investment property business of the Group for the year ended 31 December 2019 amounted to approximately HK\$22.52 million, as compared to approximately HK\$22.37 million in 2018. The investment property business recorded other income and gain of approximately HK\$490.94 million mainly due to the gain on disposal of the subsidiaries holding the investment properties located in Sai Kung (the “Sai Kung Property”).

In view of the severe competitions and the sluggish economic conditions in the domestic economy in Mainland China, the revenue generated from the iron and steel trading business decreased by 62.5% for the year 2019 as compared to 2018.

In light of the foregoing, the amount of revenue for the year ended 31 December 2019 amounted to approximately HK\$807.92 million, representing a slight decrease of 2.9%, as compared to the amount of revenue in 2018. Gross profit increased by approximately HK\$43.23 million, representing an increase of 24.2%, as compared to the amount of gross profit in 2018. Profit attributable to the shareholders of the Company for the year ended 31 December 2019 amounted to approximately HK\$234.79 million as compared to the loss attributable to the shareholders of the Company of approximately HK\$25.09 million in 2018.

## **PROSPECTS**

The market sentiment and business outlook in Mainland China and Hong Kong have been plagued by the China-US trade tensions and more importantly, the outbreak of the coronavirus disease 2019 (“COVID-19”) around the world during the first quarter of 2020. Although the PRC and the Hong Kong governments have implemented various measures to combat the COVID-19, it is inevitable that the outbreak, which has become a global pandemic, will hit the economic prosperity of Mainland China and Hong Kong. The extent of such impact remains uncertain.

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

While maintaining its existing core business of paint operation through CPM, the directors of the Company will continue to develop and expand investment property business and explore other business opportunities to drive the continuous business development of the Group.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

During the year ended 31 December 2019, the Group is engage in the paint and coating business through CPM, a non wholly-owned listed subsidiary of the Company and the shares of which are listed on the Stock Exchange of Hong Kong Limited. The Group is also engaged in property investment business and iron and steel trading business. Detailed information on the paint and coating business is also set forth in the results announcement of CPM for the year ended 31 December 2019, and the following information on the paint and coating business is set forth for reference.

### **PAINT AND COATING PRODUCTS**

#### **General Industry Background**

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

Industrial paint and coating products, architectural paint and coating products, and general paint and coating and ancillary products accounted for 41.0% (2018: 46.2%), 40.2% (2018: 32.3%) and 18.8% (2018: 21.5%) of total revenue of paint business in 2019 respectively. The CPM Group continues to focus on Mainland China market which contributed to 89.5% (2018: 92.4%) of the total revenue in 2019.

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

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

### **Increase in Revenue Generated from the Paint and Coating Products**

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

### **Expansion of the Customer Base**

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

### **Geographical Analysis of the Amount of Revenue**

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

### **Sales Breakthrough in the Central China**

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

### **Regain the Market Share in Hong Kong**

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



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

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

## **Raw Materials**

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

## **Gross Profit and Gross Profit Margin**

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

## **Profitability Analysis**

The segment loss for the year ended 31 December 2019 amounted to approximately HK\$19.08 million for the year ended 31 December 2019, which was considerably less than the segment loss of approximately HK\$157.15 million for the year ended 31 December 2018. The CPM Group has implemented key business revamp measures and initiatives to improve the amount of loss making of the CPM Group. The objective of these business initiatives was to implement strategic plans to realign the strategic directions and priorities and to improve the efficiency of the business operations of the CPM Group. From the financial perspective, other than the significant reduction of the operating loss of the CPM Group for the year ended 31 December 2019, the EBITDA (which is the operating profit plus depreciation and amortisation) also recorded a positive amount of approximately HK\$8.76 million for the year ended 31 December 2019, as compared to the negative EBITDA of approximately HK\$135.36 million for the year ended 31 December 2018. This achievement is contributed by the CPM Group's appropriate business revamp measures and initiatives to respond to the dynamic market environment and the implementation of a better structure to promote the sales of the products of the CPM Group.

The CPM Group will continue to enhance the production activities at the production facilities in Shenzhen, so that such production facilities will become the principal production hub and the product research and development base of the CPM Group. In addition, the CPM Group discontinued the expansion plan of the production plant in Xinfeng and is strengthening the production activities at the Zhongshan Production Plant.

Furthermore, in order to increase the CPM Group's market share in Mainland China, extend the geographical sales in Mainland China and expand the customers bases, the CPM Group will continue to explore production cooperation with those selected paint and coating manufacturers on an Original Equipment Manufacturer (OEM) basis.

The CPM Group will evaluate new opportunities and challenges in Mainland China market, amid the emerging threat arising from the outbreak of the COVID-19 and the challenging business environment.

## **PROPERTY INVESTMENT**

Over past decades, the Group have acquired certain 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 2019, the Group held an investment property portfolio consisting of 14 (2018: 13) properties with Gross Floor Area of 264,180 square feet ("sq.ft.") (2018: 367,187 sq.ft.), including residential, commercial and industrial premises in Hong Kong and Mainland China, for generating stable recurring income and cash flows for long-term investment purposes.

Revenue for the year amounted to approximately HK\$22.52 million, as compared to the same of approximately HK\$22.37 million last year. The revenue was slightly increased in 2019. Segment profit amounted to approximately HK\$267.69 million, as compared to the same of approximately HK\$106.99 million last year. The significant increase in segment profit for the year was mainly due to the net-off effect of the gain on disposal of the subsidiaries which held the Sai Kung Property of approximately HK\$490.41 million and the net fair value losses on the investment properties of approximately HK\$229.69 million. The record of net fair value losses of the Group's investment properties for the year ended 31 December 2019 was mainly due to the decrease in the fair value of the investment property located in Wan Chai (the "Wan Chai Property") acquired by the Group in May 2019 as compared to the acquisition costs of the investment property of approximately HK\$530.00 million. The Wan Chai Property was leased to a hotel operator who runs the Wan Chai Property as a hotel. This reflected the general market conditions of hotel, residential, commercial and industrial investment property market in Hong Kong and Mainland China during the year.

As at 31 December 2019, the aggregate market value of investment properties held by the Group amounted to approximately HK\$851.34 million (2018: HK\$799.98 million), representing an increase of 6.40% when compared to 2018. Such increase was mainly due to the acquisition of investment properties during the year of approximately HK\$714.37 million, the disposal of Sai Kung Property of approximately HK\$418.23 million, the decrease in the net fair value of the Group's investment property portfolio in 2019 of approximately HK\$229.69 million, transfer to prepaid land premium and property, plant and equipment of approximately HK\$14.13 million, transfer from deposits for properties, plant and equipment, and investment properties of approximately HK\$3.47 million and the exchange realignment upon the depreciation of Renminbi assets.

The average occupancy rate for 2019 dropped to 76.9%, as compared to the same of 80.3% in 2018. The decrease in average occupancy rate was mainly due to the non-renewed tenants upon termination of respective tenancy agreements during the year. The recorded gross rental income (including inter-group rental income) was slightly dropped to approximately HK\$27.80 million in 2019, as compared to approximately HK\$28.04 million in 2018.

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

### **Disposal of Sai Kung Property and Acquisition of Wan Chai Property**

The transactions were completed on 31 May 2019, and the Group recorded a gain on disposal of approximately HK\$490.41 million. The net proceeds in the amount of approximately HK\$367.22 million (including the cash deposit received in advance and the net assets adjustments) had been received which strengthen the cash flows of the Group and allow the Group to enhance the its portfolio of residential and/or commercial properties in Hong Kong and/or the PRC. The Group intends to enhance the portfolio of its commercial/residential properties for the purpose of increasing the recurring income and the cash flows for long-term investment purpose. In addition, the Group had entered into an agreement with Tang's Living Guesthouse (Morrison Hill Road) Limited ("Tang's Living"), an independent third party of the Group, to leaseback the Wan Chai Property at a monthly rental of approximately HK\$1.33 million to Tang's Living for a term of three years with an option to renew the lease for two consecutive terms for an aggregate of six years at the then prevailing market rent.

### **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. The Group has 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 is valid for four 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. The Group 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. The submission of relevant updated assessments, reports, plans or measures within six months from the date of the 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 TPB.

5. The in-situ presentation of Pun Uk in its entirety, including feng shui pond in front of Pun Uk to the satisfaction of the director of the 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. The Group needs to apply to the Lands Department for a land exchange. It is noted that the Group has included a land exchange to effect the proposed development. Such application will be considered by the 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 the Lands Department at its sole discretion.

The Group has appointed respective professionals and submitted relevant assessments, reports, plans or measures to relevant government departments and parties for comments.

The Group has applied four times of extension of time for compliance with relevant approval conditions in relation to the submission of relevant assessments, reports, plans or measures to the TPB in relation to reply our responses to comments from relevant government departments and affected parties. The TPB has agreed to grant the extension from the original six months to thirty months until May 2020 and advised that no further extension would be granted unless under very special circumstances.

As at the date of this announcement, one of the relevant parties, Pok Oi Hospital, had rejected our proposed columbarium proposal and the remaining relevant parties, such as TPB, Planning Department, Transport Department, Hong Kong Police and Hospital Authority have not yet expressed their acceptance or rejection on the proposed columbarium proposal. The Group has made response to comments from all relevant parties to seek for their acceptance of the proposal.

#### **Acquisition of Ten Parking Spaces in Qingpu District, Shanghai, the PRC**

As disclosed in the interim report 2019 of the Company, ten parking spaces within a commercial building in Shanghai, the PRC for a cash consideration of RMB2.80 million were handed over to the Group in April 2019. The Group intends to lease out the parking spaces for rental income at the prevailing rates.

### **Acquisition of Two Parking Spaces in Zhongshan, the PRC**

In June 2019, the Group entered into an agreement with an independent property developer for the acquisition of two parking spaces in a residential building in Zhongshan, the PRC for a cash consideration of RMB0.18 million. The payment of the consideration was funded by the Group's internal financial resources. The parking spaces were handed over to the Group in August 2019. The Group intends to lease out the parking spaces for rental income at the prevailing rates.

### **Acquisition of Cigma International Investment Limited**

On 20 August 2019, Tatpo Corporation Limited ("Tatpo") entered into a letter of intent with Capitalkey Limited ("Capitalkey"), an independent third party of the Group, pursuant to which, Tatpo intended to acquire from Capitalkey seventy-five (75) ordinary shares of Cigma International Investment Limited ("Cigma"), a wholly-owned subsidiary of Capitalkey, representing the entire issued shares of Cigma. Cigma is the sole registered and beneficial owner of a 25-storey residential and commercial building located in Shanghai Street, Kowloon, Hong Kong (the "Shanghai Street Property").

The Group had then entered into a formal sale and purchase agreement with Capitalkey on 13 November 2019 for the acquisition of entire issued share capital of Cigma. The amount of consideration for the acquisition was approximately HK\$183.03 million including the net assets adjustments. The acquisition was completed on 18 December 2019.

In addition, the Group had entered into an agreement with Profit Harbour Holdings Limited, an independent third party of the Group, to leaseback the Shanghai Street Property at the annual rental of approximately HK\$5.40 million (inclusive of rates and government rent) for a period of three years. The Shanghai Street Property will enhance the investment property portfolio of the Group. Furthermore, the sale and leaseback arrangement on the Shanghai Street Property will provide an opportunity for the Group to receive a recurring rental income at a yield of about 3% per annum.

### **IRON AND STEEL TRADING AND RELATED INVESTMENTS**

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

In view of the severe competition and the sluggish economic conditions in the domestic economy in Mainland China, the sales for tinplate products significantly decreased by 62.5%, as compared to last year. The profit margin slightly increase to 3.3% for 2019. The China-US trade tensions brought an adverse effect on 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.

In July 2019, the Group had entered into an agreement with NCHK Tin Plate Limited (in liquidation) to acquire the remaining 50% interest in the share capital of an associate CNT Tin Plate Limited, for nominal cash consideration of HK\$1.00 in order to consolidate the control over this associate.

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

### **EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**

The Group has 12.5% equity interest in an investment holding company, Profitable Industries Limited (the "PIL Investment") whose core asset is 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 obtained a 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.

The Group has engaged an independent professional appraisal firm to perform valuation on the fair market value of the PIL Investment as at 31 December 2019 based on "Adjusted Net Asset Value" method which has taken into account, inter alia, property valuation of the Cemetery and a discount for the Group's minority holding in the PIL Investment. The fair market value of this equity investment as at 31 December 2019 was approximately HK\$41.66 million when compared with approximately HK\$81.60 million as at 31 December 2018. The decrease in fair value was recognised in other comprehensive income in accordance with the Group's accounting policy for equity investments which are considered strategic in nature.

## **OUTLOOK**

The outbreak of the COVID-19 across the world covering Asia, the United States, Europe and the Middle East has cast a shadow over the recovering global economy.

The U.S. Federal Reserve's emergency rate cut in early March 2020 and a further cut to near zero recently showed it worries about the COVID-19 that might bring negative impact to the economic growth of the United States.

The PRC government has adopted various measures to effectively control the further spreading of the COVID-19 which includes quarantine and close management to strengthening the community-based prevention and controlling work across the provinces in Mainland China, suspending the public transport within some cities in Mainland China as well as cutting airport and railway stations services to outgoing travellers in order to cut the source of infection. The PRC government has actively coordinated resources under a joint prevention and control mechanism to address the shortage of masks, amid the outbreak of the COVID-19, in order to increase the mask production capacity and supply; and the local governments have introduced measures to partially close off communities and tighten the entry restrictions, in order to support commercial enterprises with epidemic control and prevention conditions and to resume operation in February 2020 in most areas in Mainland China.

In addition, the PRC government has implemented various economic measures to deal with the pandemic including tax and tariffs reduction, new investment measures on infrastructure. The Group believe that the PRC government is able to control the epidemic in a short period of time and the domestic economy growth when the pandemic is over.

The economy of Hong Kong has inevitably and adversely affected by internal and external uncertainties. The year of 2020 will be a year full of challenging especially for certain business sectors, such as hotel, tourism, retail and catering. Nevertheless, Hong Kong's overall fundamental strengths remain solid, the Group will be looking for attractive opportunities for acquiring additional properties in order to diversify and broaden the investment portfolio of the Group.

The Group has been following the development of the COVID-19 and has implemented business continuity plans to minimise the disruption to the Group's operations and business and ensure that the Group's business remains viable during the pandemic.

The outbreak of the COVID-19 is a non-adjusting event after financial year end and does not result in any adjustments to the consolidated financial statements for the year ended 31 December 2019.

## **FINANCIAL REVIEW**

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



## **RESULTS**

The Group recorded a profit attributable to the shareholders of the Company of approximately HK\$234.79 million for the year, as compared to a loss attributable to the shareholders of approximately HK\$25.09 million last year. Revenue for the year amounted to approximately HK\$807.92 million, representing a decrease of 2.9%, as compared to the same of last year. Gross profit for the year amounted to approximately HK\$221.68 million, representing an increase of 24.2%, as compared to the same of last year. The gross profit margin increased by 5.9 percentage point (“pp”) from 21.5% in 2018 to 27.4% in 2019.

## **SEGMENT INFORMATION**

### **Business Segments**

#### **Paint Products**

Paint operation continued to contribute the largest revenue to the Group with revenue of approximately HK\$713.33 million, accounting for 88.3% of the Group’s total revenue. Segment revenue for the year increased by 15.6%, as compared to the same of last year. The gross profit margin increased by 3.1 pp from 24.5% in 2018 to 27.6% in 2019. The increase in gross profit margin was mainly due to the increase in the average selling prices of paint product and the cost saving in the improvement of production effectively. Segment loss for the year amounted to approximately HK\$19.08 million, representing a significant decrease of 87.9%, as compared to approximately HK\$157.15 million in 2018.

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 the paint and coating products.

#### **Property Investment**

Property investment operation reported revenue of approximately HK\$22.52 million, accounting for 2.8% of the Group’s total revenue. Segment profit for the year increased to approximately HK\$267.69 million, as compared to the same of approximately HK\$106.99 million last year. The significant increase in segment profit was mainly due to the net effect of the gain on disposal of Sai Kung. Properties of approximately HK\$490.41 million and the record of net fair value losses of the investment properties of approximately HK\$229.69 million.

#### **Iron and Steel Trading and Related Investments**

Iron and steel operation reported revenue of HK\$72.08 million, accounting for 8.9% of the Group’s total revenue. Revenue for the year decreased by 62.5%, as compared to the same of last year, as the demand on tin mill black plate in Mainland China decreased significantly during the year. Segment profit for the year amounted to approximately HK\$6.73 million, as compared to segment loss of approximately HK\$6.67 million last year. The record of segment profit for the year was mainly due to the record of gain on an acquisition of a subsidiary of approximate approximately HK\$9.13 million in 2019. The gross profit margin increased from 2.7% in 2018 to 3.3% in 2019 was mainly due to the decrease in the 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\$716.06 million (2018: HK\$768.68 million) and approximately HK\$91.86 million (2018: HK\$63.26 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\$465.37 million as at 31 December 2019, as compared to approximately HK\$295.87 million as at 31 December 2018. Bank and other borrowings amounted to approximately HK\$216.44 million as at 31 December 2019, as compared to approximately HK\$270.77 million as at 31 December 2018. 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 2019, approximately HK\$216.44 million (100%) was payable within one year.

Gearing ratio of the Group which was expressed as a percentage of total bank and other borrowings to Shareholders' fund was 13.1% as at 31 December 2019 compared with 18.2% as at 31 December 2018.

Liquidity ratio of the Group which was expressed as a percentage of current assets to current liabilities was 1.93 times as at 31 December 2019 compared with 1.52 times as at 31 December 2018.

For the year under review, the inventory turnover days<sup>1</sup> were 44 days which was same as that of 44 days in 2018. The trade and bills receivables turnover days<sup>2</sup> were decreased from 210 days in 2018 to 144 days in 2019.

## **Equity, Net Asset Value and Shareholders' Funds**

Shareholders' funds of the Group as at 31 December 2019 was approximately HK\$1,651.07 million compared with approximately HK\$1,490.72 million as at 31 December 2018. Net assets value per share as at 31 December 2019 was HK\$0.94 compared with HK\$0.86 as at 31 December 2018. Shareholders' funds per share as at 31 December 2019 was HK\$0.87 compared with HK\$0.78 as at 31 December 2018.

<sup>1</sup> The calculation of inventory turnover days is based on the closing balance of inventories divided by the cost of sales and multiplied by 365 days.

<sup>2</sup> The calculation of trade and bills receivables turnover days is based on the closing balance of trade and bills receivables divided by the revenue and multiplied by 365 days.

### **Contingent Liabilities**

At 31 December 2019, the banking facilities granted to various subsidiaries subject to guarantees given to banks by the Company were utilised to the extent of approximately HK\$9.19 million compared with approximately HK\$67.18 million as at 31 December 2018.

### **Pledge of Assets**

Certain property, plant and equipment, investment properties and cash deposits with an aggregate net book value of approximately HK\$377.82 million as at 31 December 2019 (31 December 2018: HK\$380.05 million) and the shares of a subsidiary were pledged as collaterals for bank and other borrowings and bills payable. At 31 December 2019, total outstanding secured bank and other borrowings amounted to approximately HK\$195.63 million compared with approximately HK\$169.21 million as at 31 December 2018 and bills payable amounted to approximately HK\$8.09 million as at 31 December 2019 compared with approximately HK\$16.85 million as at 31 December 2019 as at 31 December 2018.

## **TREASURY MANAGEMENT**

### **Funding and Treasury Policy**

The Group adopts a prudent approach to its funding and treasury policy, which aims at maintaining an optimal financial position for the Group and minimising 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 2019. The Group will continue to monitor its foreign currency exposure and requirements closely and arrange hedging facilities when necessary.

### **Capital Expenditure**

During the year under review, the Group invested a total sum of approximately HK\$19.19 million (2018: HK\$31.18 million) on the acquisition of property, plant and equipment and investment properties. In addition, the Group acquired investment properties through acquisition of subsidiaries during the year amounted to approximately HK\$713.00 million (2018: HK\$106.74 million).

## **HUMAN RESOURCES**

Headcount as at 31 December 2019 was 817 (31 December 2018: 886). Staff costs (excluding directors' emoluments) amounted to approximately HK\$152.99 million for the year as compared with approximately HK\$166.44 million last year. The Group has a comprehensive and competitive staff remuneration and benefits system which is based on the performance of individual employees. In addition, the Group also provides a staff option scheme.

## **PRINCIPAL RISKS AND UNCERTAINTIES**

### **FINANCIAL RISKS**

#### **Interest Rate Risk**

The Group is exposed to interest rate risk due to changes in interest rates of interest-bearing financial assets and liabilities. Interest-bearing financial assets are mainly deposits with banks which are mostly short-term in nature, whereas interest-bearing financing liabilities are mainly bank borrowings with primarily floating interest rates. The Group is therefore exposed to interest rate risk. The Group's policy is to obtain the most favourable 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, United States dollars and Renminbi. The Group also has significant investments in Mainland China and its statement of financial position can be affected by movements in the exchange rate between Hong Kong dollars and Renminbi.

#### **Credit Risk**

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

## **BUSINESS RISKS**

### **Market Risks**

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

### **Operational Risk**

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

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

## **ENVIRONMENTAL POLICIES AND PERFORMANCE**

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

- (1) effective monitoring of 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 of 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**

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

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES**

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

## **AUDIT COMMITTEE REVIEW**

The audit committee of the Company has met the external auditors of the Company, Messrs. Ernst and Young ("EY"), and reviewed the Group's annual results for the year ended 31 December 2019.

## **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 2019 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 2019, 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 did not have a nomination committee as the role and the function of such committee were performed by the full Board. On 11 July 2019, the Board established a nomination committee comprising Mr. Wu Hong Cho as chairman and Mr. Chong Chi Kwan and Mr. Zhang Xiaojing as members with written terms of reference in compliance with code provision A.5.1 of the Corporate Governance Code as contained in Appendix 14 to the Listing Rules.

## **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 2019.

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

Hong Kong, 27 March 2020

*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 and Mr. Zhang Yulin as non-executive directors; and Mr. Wu Hong Cho, Mr. Huang De Rui, Mr. Zhang Xiaojing, Ms. Lin Yingru, Mr. Cheng Wai Po, Samuel and Mr. Ko Kwok Fai, Dennis as independent non-executive directors.*