CNT GROUP LIMITED
北 海 集 團 有 限 公 司

(Incorporated in Bermuda with limited liability)
(Stock Code : 701)

Annual Report **2019**

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

Tsui Ho Chuen, Philip
Chan Wa Shek
Zhang Yulin

Independent Non-executive Directors

Wu Hong Cho
Huang De Rui
Zhang Xiaojing
Lin Yingru
Cheng Wai Po, Samuel
Ko Kwok Fai, Dennis

AUDIT COMMITTEE

Wu Hong Cho *(AC Chairman)*
Huang De Rui
Chan Wa Shek

REMUNERATION COMMITTEE

Wu Hong Cho *(RC Chairman)*
Lam Ting Ball, Paul
Huang De Rui

NOMINATION COMMITTEE

Wu Hong Cho *(NC Chairman)*
Chong Chi Kwan
Zhang Xiaojing

COMPANY SECRETARY

Fok Pik Yi, Carol

AUDITORS

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

SHARE REGISTRARS

Hong Kong
Tricor Tengis Limited
Level 54, Hopewell Centre
183 Queen's Road East, Hong Kong

Bermuda
Conyers Corporate Services (Bermuda) Limited
Clarendon House, 2 Church Street
Hamilton HM 11, Bermuda

PRINCIPAL BANKERS

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

REGISTERED OFFICE

Clarendon House, 2 Church Street
Hamilton HM 11, Bermuda

PRINCIPAL OFFICE

Unit E, 28th Floor, CNT Tower, 338 Hennessy Road
Wanchai, Hong Kong

WEBSITE

www.cntgroup.com.hk

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, fluctuations in raw materials prices and the depreciation of Renminbi led to the fluctuations in the costs of sales, which in turn affected the gross profit margin 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.

Chairman's Statement

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 (the "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.

BUSINESS REVIEW

During the year ended 31 December 2019, the Group is engaged 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. 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 annual report 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 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 of CPM Group 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.

PAINT AND COATING PRODUCTS (continued)

General Industry Background (continued)

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 CPM Group's 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.

PAINT AND COATING PRODUCTS (continued)

Regain the Market Share in Hong Kong

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

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

For the year ended 31 December 2019, the 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 China 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.

PAINT AND COATING PRODUCTS (continued)

Profitability Analysis

The segment loss for the year ended 31 December 2019 amounted to approximately HK$18.82 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 production plant in Zhongshan.

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 base, 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, hotel, serviced apartment and industrial properties in Hong Kong and Mainland China, for generating stable recurring income and cash flows for long-term investment purposes.

PROPERTY INVESTMENT (continued)

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$267.43 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 6.4% 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.

PROPERTY INVESTMENT (continued)

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 the TPB.

PROPERTY INVESTMENT (continued)

Proposed Columbarium Project in Yuen Long, Hong Kong (continued)

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 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 report, 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.

PROPERTY INVESTMENT (continued)

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$183.08 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 (the "Profit Harbour"), 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 term of three years. Profit Harbour runs the Shanghai Street Property as serviced apartments. 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% in 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 The 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.

Management Discussion and Analysis

OUTLOOK (continued)

The PRC government has stepped up the efforts and 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 believes 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 businesses and ensure that the Group's businesses remain 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$18.82 million, representing a significant decrease of 88.0%, 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$267.43 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 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.

Management Discussion and Analysis

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[1] were 44 days which was same as that of 44 days in 2018. The trade and bills receivables turnover days[2] 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.

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 compared with approximately HK$16.85 million as at 31 December 2018.

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

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

TREASURY MANAGEMENT

Funding and Treasury Policy

The Group adopts a prudent approach in 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) in 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$153.03 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 deteriorates which resulted in 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 works for the paint business of the Group with the aims of "Prevention First, Protect the Environment, Comply with Laws and Regulations, and Environmental Sustainability":

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

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

(3) effective use of water and electricity; and

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

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

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

UPDATE ON DERIVATIVE ACTION

As at the date of this report, 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.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Board recognises the importance of and benefit from good corporate governance practices and has devoted considerable efforts to develop the best corporate governance practices appropriate to the businesses of the Group. During the year ended 31 December 2019, the Company has applied the principles and complied with the code provisions as set out in the CG Code, except the following:

(1) The non-executive Directors and the independent non-executive Directors are not appointed for a specific term. According to the 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.

THE BOARD

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

Executive Directors

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

Non-executive Directors

Tsui Ho Chuen, Philip
Chan Wa Shek
Zhang Yulin
Hung Ting Ho, Richard *(Retired on 5 June 2019)*

Independent Non-executive Directors

Wu Hong Cho
Huang De Rui
Zhang Xiaojing
Lin Yingru *(Appointed on 11 July 2019)*
Cheng Wai Po, Samuel *(Appointed on 8 October 2019)*
Ko Kwok Fai, Dennis *(Appointed on 8 October 2019)*

The biographical details of the Directors and the relationships among them, if any, are set out in the "Biographies of Directors and Senior Management" on pages 45 to 47.

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

THE BOARD (continued)

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

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

The Board meets regularly to discuss and review the Group's overall strategy, the operation and financial performance of the Group and other duties of the Board. The attendance record of each Director at the regular Board meetings and general meetings of the Company during the year is set out below:

Directors	Number of regular Board meetings attended/held	Number of general meetings attended/held
Executive Directors		
Lam Ting Ball, Paul	4/4	2/2
Chong Chi Kwan	4/4	2/2
Non-executive Directors		
Tsui Ho Chuen, Philip	4/4	2/2
Chan Wa Shek	4/4	1/2
Zhang Yulin	1/4	0/2
Hung Ting Ho, Richard (Note 1)	1/1	2/2
Independent Non-executive Directors		
Wu Hong Cho	4/4	2/2
Huang De Rui	4/4	1/2
Zhang Xiaojing	3/4	0/2
Lin Yingru (Note 2)	2/2	N/A
Cheng Wai Po, Samuel (Note 3)	1/1	N/A
Ko Kwok Fai, Dennis (Note 4)	1/1	N/A

Notes:

(1) Mr. Hung Ting Ho, Richard retired as a non-executive Director on 5 June 2019.

(2) Ms. Lin Yingru was appointed as an independent non-executive Director on 11 July 2019.

(3) Mr. Cheng Wai Po, Samuel was appointed as an independent non-executive Director on 8 October 2019.

(4) Mr. Ko Kwok Fai, Dennis was appointed as an independent non-executive Directors on 8 October 2019.

THE BOARD (continued)

Board meetings are scheduled to be held at approximately quarterly intervals and as required by business needs. At least 14 days' notice of a regular Board meeting is given to all Directors who are given an opportunity to include matters for discussion in the agenda. Agenda and accompanying Board papers are sent to all Directors at least 3 days before the date of a regular Board meeting. Draft and final versions of minutes of regular Board meetings are circulated to all Directors for their comments and records respectively. All Directors are kept informed in a timely manner of major changes that may affect the Group's businesses, including relevant rules and regulations. Written procedures are also in place for the Directors to obtain independent professional advice in performing their duties at the expense of the Company in appropriate circumstances.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Board is responsible for the appointment of Directors and will take into consideration criteria such as expertise, experience, integrity and commitment of the candidates as recommended by the Nomination Committee when considering new Director appointments. The Company has a nomination policy and a set of procedures and the process and criteria for selecting candidates for directorship of the Company has been in place. In assessing the suitability of a proposed candidate, the Nomination Committee will consider a number of criteria, such as expertise, experience, education background and integrity, having due regard to the board diversity policy of the Company. The Nomination Committee will review the curriculum vitae of the proposed candidate to assess whether the proposed candidate is qualified for the appointment before making recommendation to the Board for consideration.

All Directors appointed by the Board are subject to re-election at the first general meeting after their appointment. Every Director (including the non-executive Directors) is required to be re-elected at least once every three years at AGM pursuant to the Bye-laws.

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

DIRECTORS' TRAINING

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

Directors	Type of training
Executive Directors	
Lam Ting Ball, Paul	A,D
Chong Chi Kwan	A,B,D
Non-executive Directors	
Tsui Ho Chuen, Philip	A,D
Chan Wa Shek	A,D
Zhang Yulin	A,D
Independent Non-executive Directors	
Wu Hong Cho	A,B,D
Huang De Rui	A,B,D
Zhang Xiaojing	A,D
Lin Yingru	A,D
Cheng Wai Po, Samuel	A,D
Ko Kwok Fai, Dennis	A,C,D

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

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

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

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

BOARD COMMITTEES

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

BOARD COMMITTEES (continued)

Audit Committee

During the year, the Audit Committee consisted of three non-executive Directors (the majority of whom are independent): Mr. Wu Hong Cho (AC Chairman), Mr. Huang De Rui and Mr. Chan Wa Shek.

The Audit Committee met twice during the year to review with the Company's external auditors the reporting of financial and other information to the Shareholders (including the 2018 annual results and the 2019 interim results before recommending them to the Board for approval), the accounting principles and practices adopted by the Group, the effectiveness and objectivity of the audit process, the effectiveness of the risk management and internal control systems of the Group, and the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function. The Audit Committee resolved by resolutions in writing to approve (i) the fees, terms and conditions of engaging the Company's external auditors to audit and report on the financial statements of the Group for the year ended 31 December 2018; (ii) the fees, terms and conditions of engaging the Company's external auditors as the reporting accountant to report on the respective financial information of Nigon Hong Kong Limited in connection with a major transaction and very substantial disposal of the Company, which was approved by the Shareholders in May 2019; and (iii) the scope and extent of the agreed-upon procedures engagement with respect to the unaudited consolidated financial statements of the Group for the six months ended 30 June 2019. The Audit Committee also keeps under review the independence and objectivity of the Company's external auditors and the non-audit services provided by the Company's external auditors to the Group. The attendance record of each committee member is set out below:

Directors	**Number of committee meetings attended/held**
Wu Hong Cho *(AC Chairman)*	2/2
Huang De Rui	2/2
Chan Wa Shek	2/2

Remuneration Committee

During the year, the Remuneration Committee comprised two independent non-executive Directors and one executive Director: Mr. Wu Hong Cho (RC Chairman), Mr. Lam Ting Ball, Paul and Mr. Huang De Rui.

The remuneration of the executive Directors is determined by the Remuneration Committee and the remuneration of the non-executive Directors is determined by the Board on the recommendation of the Remuneration Committee, by reference to their duties and responsibilities, performance, experiences, time commitment, market conditions and the corporate goals and objectives as set by the Board. No Director is involved in deciding his/her own remuneration. Senior management of the Company comprises all the executive Directors only. Details of their remuneration are set out in note 8 to the financial statements. During the year, the Remuneration Committee held one meeting to review and approve the remuneration policy and the remuneration packages of the Directors. The Remuneration Committee resolved by resolution in writing to approve the payment of a discretionary bonus to an executive Director. The attendance record of each committee member is set out below:

Directors	**Number of committee meeting attended/held**
Wu Hong Cho *(RC Chairman)*	1/1
Lam Ting Ball, Paul	1/1
Huang De Rui	1/1

BOARD COMMITTEES (continued)

Nomination Committee

On 11 July 2019, the Nomination Committee was established by the Board comprising two independent non-executive Directors and one executive Director: Mr. Wu Hong Cho (NC Chairman), Mr. Chong Chi Kwan and Mr. Zhang Xiaojing.

The Nomination Committee did not hold any meeting since its establishment. The Nomination Committee resolved by resolution in writing to recommend to the Board the appointments of Mr. Cheng Wai Po, Samuel and Mr. Ko Kwok Fai, Dennis as independent non-executive Directors having considered a range of diversity perspectives, including gender, educational background, professional experience, skills and knowledge in accordance with the board diversity policy of the Company and the independence of each of Mr. Cheng Wai Po, Samuel and Mr. Ko Kwok Fai, Dennis pursuant to Rule 3.13 of the Listing Rules.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibility for maintaining sound and effective risk management and internal control systems of the Group and reviewing the effectiveness of such systems. The risk management and internal control systems are designed to facilitate the effectiveness and efficiency of operations, safeguard assets against unauthorised use and disposition, ensure the maintenance of proper accounting records and the truth and fairness of the financial statements, and ensure compliance with relevant legislation and regulations. The systems can only provide reasonable and not absolute assurance against material misstatement or loss as it is designed to manage, rather than eliminate the risk of failure, to achieve business objectives.

For long-term growth and sustainability, effective risk management is a fundamental part of the Group's business strategy. The Board is responsible for managing risks lies initially with the business functions concerned, working within the overall strategy and establishing risk tolerance. Each department of the Group is responsible for identifying its own risks and designing, implementing and monitoring the relevant risk management and internal control systems. In addition, the Board has conducted a half-yearly review of the effectiveness of the Group's risk management and internal control systems during the year with a view to enhance its risk management and internal control systems and considered them effective and adequate.

INTERNAL AUDIT

Internal control system shall allow monitoring of the Company's overall financial position, safeguard its assets against major losses and misappropriation, provide reasonable assurance against material fraud and errors, and monitor and correct non-compliances efficiently.

Through the Company's outsourced internal auditors, the Board has conducted a review of the effectiveness of the internal control system of the Group which covers all material controls, including operational, financial and compliance controls and risk management functions.

During the year, the Company appointed the outsourced internal auditors. The outsourced internal auditors of the Company review the major operational, financial and compliance controls and risk management functions of the Group on a continuing basis and aim to cover all major operations of the Group on a rotational basis. The outsourced internal auditors of the Company present their internal audit plan annually to the Managing Director for approval.

POLICY ON DISCLOSURE OF INSIDE INFORMATION

The Company has a policy on disclosure of inside information which sets out the system in place for monitoring the developments of our business so that potential inside information can be escalated to the Board so as to decide whether announcement in relation to such inside information is to be made, in order to comply with the Listing Rules and the SFO.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance duties with defined terms of reference as follows: (a) to develop and review the Company's policies and practices on corporate governance; (b) to review and monitor the training and continuous professional development of Directors and senior management; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to the employees and Directors; and (e) to review the Company's compliance with the CG Code and disclosure in the corporate governance report.

During the year and up to the date of the report, the Board has performed the corporate governance functions of the Group in accordance with its terms of reference.

CODES FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in the Model Code. After specific enquiry by the Company, all Directors confirmed that they have complied with the required standard set out in the Model Code and the Company's own code during the year ended 31 December 2019.

The Company also adopted a code on no less exacting terms than the Model Code to regulate dealings in the securities of the Company by certain employees of the Group who are considered to be likely in possession of inside information in relation to the Company or its securities.

EXTERNAL AUDITORS' REMUNERATION

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

Services rendered to the Group	**Remuneration**
	HK$
Audit services	4,790,000
Non-audit services	1,511,000
	6,301,000

The non-audit services rendered by the Company's external auditors to the Group included professional services in connection with preparation of the Company's circular, performance of agreed-upon procedures on the 2019 interim financial statements, the preliminary results announcement for the year ended 31 December 2019, the audit examination of the statement on details of contributions of the Group's occupational retirement schemes and performance of a review on continuing connected transactions for the year ended 31 December 2019.

RESPONSIBILITY STATEMENTS

The Directors are responsible for the preparation of financial statements which give a true and fair view. In preparing the financial statements for the year ended 31 December 2019, the Directors have selected appropriate accounting policies and applied them consistently, made judgements and estimates that are prudent and reasonable, and have prepared the financial statements on a going concern basis.

The statement by the Company's external auditors about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on pages 54 to 58.

COMMUNICATION WITH SHAREHOLDERS

The Company endeavors to maintain a high level of transparency in communicating with the Shareholders. Information in relation to the Group is disseminated to the Shareholders in a timely manner through a number of communication channels including interim and annual reports, announcements and circulars.

The 2019 AGM provided an opportunity for communication between the Shareholders and the Board, at which the chairmen of the Board, the Audit Committee and the Remuneration Committee had attended to answer questions from the Shareholders. Details of the procedures for conducting a poll were explained at the commencement of the meeting. In accordance with the Listing Rules, the votes of Shareholders at the meeting were taken by poll and the poll results were published on the websites of each of the Company and Hong Kong Exchanges and Clearing Limited after the meeting. A separate resolution was proposed at the meeting on each substantial issue, including the re-election of Directors.

At the special general meeting of the Company held on 9 May 2019, the Chairman and the AC Chairman had attended the special general meeting to answer the Shareholders' questions. The resolutions were approved by the Shareholders by way of poll. The Company announced the result of the poll in the manner prescribed under the Listing Rules.

DIVIDEND POLICY

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

SHAREHOLDERS' RIGHTS

Convening a special general meeting

Pursuant to bye-law 58 of the Bye-laws, a special general meeting may be convened by the Board upon requisition by any Shareholder(s) holding not less than one-tenth (10%) of the paid up capital of the Company carrying the right of voting at general meetings of the Company, by written requisition to the Board or the Company Secretary, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition. The Board shall arrange to hold such general meeting within two months after the deposit of such written requisition. If within twenty-one days of the deposit of such written requisition, the Board fails to proceed to convene such special general meeting, the Shareholder(s) may do so in accordance with the provisions of the Companies Act.

SHAREHOLDERS' RIGHTS (continued)

Putting forward proposals at general meetings

Shareholders may submit a requisition to move a resolution at a general meeting pursuant to the Companies Act. The number of Shareholders necessary for a requisition shall be: (a) any number of Shareholders representing not less than one-twentieth (5%) of the total voting rights of all Shareholders having at the date of the requisition a right to vote at the meeting; or (b) not less than one hundred (100) Shareholders holding the Shares.

The requisition specifying the proposal, duly signed by the Shareholders concerned, together with a statement of not more than one thousand (1,000) words with respect to the matter referred to in the proposal must be deposited at the registered office of the Company. The Company would take appropriate actions and make necessary arrangements, and the Shareholders concerned would be responsible for the expenses incurred in giving effect thereto in accordance with the Companies Act.

Making enquiries to the Board

Shareholders may send their enquiries to the Board in writing for the attention of the Company Secretary to the Company's office in Hong Kong at Unit E, 28th Floor, CNT Tower, 338 Hennessy Road, Wanchai, Hong Kong or by fax at (852) 2792 7341.

CONSTITUTIONAL DOCUMENTS

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

On behalf of the Board
CNT Group Limited

Lam Ting Ball, Paul
Chairman
Hong Kong, 27 March 2020

Environmental, Social and Governance Report

ABOUT THIS REPORT

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

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

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

[#] CPM Group Limited is a non-wholly owned subsidiary of the Company and a company listed on the Stock Exchange. The environmental, social and governance report covering the business of the manufacture and sale of paint and coating products has been separately prepared by CPM Group Limited. Therefore, the business of CPM Group Limited and its subsidiaries has not been addressed in the ESG report.

Environmental, Social and Governance Report

STAKEHOLDERS' ENGAGEMENT

The Group is committed to maintaining the sustainable development of its businesses and providing support to environmental protection and the communities in which it operates. The Group maintains a close tie with its stakeholders, including government/regulatory organisations, shareholders/investors, employees, customers, suppliers, community, etc. and strives to balance their opinions and interests through constructive communications in order to determine the directions of its sustainable development. The Group assesses and determines its environmental, social and governance risks, and ensures that the relevant risk management measures and internal control systems are operating properly and effectively. The following table shows the management's response to the stakeholders' expectations and requests:

Stakeholders	Expectations and requests	Management response
Government/ regulatory organisations	➤ Compliance with the laws and regulations ➤ Fulfill tax obligation	➤ Uphold integrity and operational compliance ➤ Pay tax on time, and in return contributing to society ➤ Establish a comprehensive and effective internal control system
Shareholders/investors	➤ Return on investment ➤ Information transparency ➤ Corporate governance system	➤ Management possesses relevant experience and professional knowledge in business sustainability ➤ Maintain the highest standards of openness, probity and accountability ➤ Ensure transparent and efficient communications by dispatching information on the websites of the Stock Exchange and the Company ➤ Continue to focus and improve the risk management and internal control system
Employees	➤ Labour rights ➤ Career development ➤ Compensation and welfare ➤ Health and workplace safety	➤ Set up contractual obligations to protect labour rights ➤ Encourage employees to participate in continuous education and professional training to enhance competency ➤ Establish a fair, reasonable and competitive remuneration scheme ➤ Pay attention to occupational health and workplace safety
Customers	➤ High-quality products and customer services ➤ Timely delivery ➤ Reasonable price/rent	➤ Provide high-quality products and services continuously in order to maintain customers' satisfaction ➤ Establish an effective, efficient and green supply chain system ➤ Formulate comprehensive quality assurance process and recall procedures ➤ Ensure proper contractual obligations are in place
Suppliers	➤ Stable demand ➤ Good relationship with the Company ➤ Corporate reputation	➤ Ensure fulfilment of contractual obligations ➤ Establish policies and procedures in supply chain management ➤ Promote fair and open competition ➤ Establish and maintain the long-term co-operating relationship with quality suppliers ➤ Stringent in selecting suppliers
Community	➤ Environmental protection ➤ Community involvement ➤ Economic development	➤ Pay attention to the problem of climate change ➤ Encourage employees to actively participate in charitable activities and voluntary services ➤ Ensure good and stable financial performance and business growth

MATERIALITY MATRIX

During the reporting period, the Group has evaluated a number of environmental, social and operational related issues, and assessed their importance to stakeholders and the Group through various channels. This assessment helps to ensure that the Group's business objectives and development direction are in line with the expectations and requirements of its stakeholders. The matters of concern of the Group and stakeholders are presented in the following materiality matrix:

Materiality Matrix

Importance to Stakeholders	Low	Medium	High
High	◆ Anti-discrimination ◆ Protecting labour rights	◆ Talent management ◆ Staff training and promotion opportunities ◆ Staff compensation and welfare	➢ Customers' satisfaction level ➢ Product and customer service quality ➢ Product safety ➢ Suppliers management ◆ Occupational health and workplace safety
Medium	➢ Community involvement	➢ Anti-corruption ◇ Air and greenhouse gas emissions	➢ Operational compliance ➢ Customers' data and privacy security measures
Low	◆ Preventive measures for child and forced labour ◇ Utilisation of water resources ◇ Generation of non-hazardous wastes	◇ Energy conservation	

Importance to the Group

◇ Environmental ◆ Employee ➢ Operational

ENVIRONMENTAL PROTECTION

The Group always adheres to the management philosophy of sustainable development and devotes to improving its environmental performance. To maintain a balance between efficient operation and environmental protection, the Group has established a set of comprehensive environmental protection policies which cover air and greenhouse gas emissions reduction, energy efficiency, water conservation, and hazardous and non-hazardous waste management. The Group has also formulated corresponding indicators and various measures to manage natural resources and mitigate the potential impact on the environment.

Emissions Management

The Group recognises the close link between energy consumption and greenhouse gas reduction and undertakes various energy conservation measures (please refer to the section headed "Management of Use of Resources" below for details) to reduce energy consumption, improve energy efficiency and minimise the negative impact on the environment. Waste management carried out by the Group mainly involves domestic waste collection and waste paper recycling (please refer to the section headed "Management of Use of Resources" for details). The Group does not produce any hazardous waste nor causes any air pollutant in its ordinary course of business. The impact of solid waste disposal and wastewater discharge on the environment is insignificant.

The Group strictly abides by the "Environmental Protection Law of the People's Republic of China", the "Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste", the "Law of the People's Republic of China on the Prevention and Control of Water Pollution", the Waste Disposal Ordinance, the Water Pollution Control Ordinance in Hong Kong, and other applicable laws and regulations of environmental protection in the Mainland China and Hong Kong. The Group regularly keeps track of the latest environmental protection laws and regulations in order to strengthen its environmental policies and measures accordingly.

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

Management of Use of Resources

In terms of resources management, the Group believes that operation and environmental protection are closely related. To minimise the adverse impact of its products, operations and services on the environment, the Group continuously and timely identifies issues arisen from its business activities. Hence, the Group is committed to promoting its corporate culture on resources conservation by constantly reminding its employees the preciousness of resources, and implementing various measures to encourage its staff to build a habit of conservation and make the best use of resources.

1. Energy Conservation

Electricity of the Group is mainly used in office illumination and other electrical appliances. The Group sets up a series of measures to save energy in order to raise the electricity effectiveness of electrical appliances and encourages its employees to change their habit of using electrical appliances. For example, selecting electrical appliances with energy efficiency labels or with better energy efficiency; switching off office equipment, such as computers, photocopiers, printers, air-conditioners at night time and during weekends when they are not in use for further minimising the energy consumed by equipment in "Standby" mode. The Group also focuses on keeping all electronic appliances well-maintained so as to extend the life of the equipment.

Gasoline is mainly used in vehicles. The Group repairs and maintains vehicles regularly to improve energy efficiency, and to reduce the extra fuel use and exhaust air emissions resulting from the failure of vehicle parts. Drivers are required to turn off the engines while the vehicles are stationary according to the Motor Vehicle Idling (Fixed Penalty) Ordinance in Hong Kong.

ENVIRONMENTAL PROTECTION (continued)

Management of Use of Resources (continued)

2. Water Conservation

Water consumption of the Group is mainly used for drinking and sanitary. Water used for sanitary is supplied and managed by the property management company. Although the Group does not face any water supply problem, it recognises the scarcity of resources the environment could offer and always encourages employees to cherish water usage, such as reducing unnecessary water consumption in toilets and pantry by posting water-saving tips and repairing water supply facilities to reduce water wastage.

3. Paper Conservation

Various measures have been introduced and implemented to save or reduce the wastage of paper. The Group encourages its employees to distribute files in electronic format and to make photocopies and/or print documents on both sides of the papers, so as to minimise the unnecessary photocopying and printing. The Group also encourages employees to fully utilise papers by reusing one-side used papers and envelopes; collecting double-sided wasted papers for recycling and tracking photocopier papers by electronic log. During the reporting period, the Group consumed approximately 0.73 tonnes of paper (2018: 0.78 tonnes).

The Environment and Natural Resources

As a socially responsible enterprise, the Group fully understands its responsibility to minimise the adverse impact of its business operations on the environment. Resources consumption in office mainly includes the use of electricity, water and paper, and fuel consumed by office vehicles. Hence, the Group focused on environmental education and advocacy among its employees. Various resources saving measures have been implemented to raise the employees' awareness on resources conservation. The Group also encourages its employees to make full use of resources in order to maximise their effectiveness and to avoid wastage (please refer to the section headed "Management of Use of Resources" above for details).

The Group believes that a robust response to climate change requires concerted efforts of all stakeholders. Therefore, it will continuously identify and address stakeholders' expectations to optimise its environmental measures in order to achieve sustainable developments and create long-term values for the stakeholders and society as a whole.

EMPLOYMENT AND LABOUR PRACTICES

Employees are the core assets of the Group for establishing the Group's foundation of success and long-term development. The Group is committed to providing an equitable, non-discriminatory, harmonious, safe and diversified working environment with mutual respect, trust and teamwork. The Group encourages creativity, flexibility and commitment to accomplish its corporate mission.

1. Talent Selection

The Group is a fair opportunity employer and respects personal privacy. It has established and implemented a fair treatment policy. The appropriate candidates will be selected based on their education background, work experience, knowledge, competence and skills, desirable personality traits, physical fitness and development potential. Impartial opportunities are provided for employment to all individuals, regardless of their ethnic group, religion, nationality, gender, age, marital status or disability. The policy applies to all phases of the employment relationship, including but not limited to hiring, promotion, performance appraisal, training, personal development and termination.

2. Labour Standards

The Group cherishes human rights and prohibits any unethical hiring practices, including child and forced labour, by conducting background checks and reference checks during its hiring process. Employees' consent for work overtime is required to avoid forced overtime work, and the employees are compensated as appropriate in accordance with the applicable labour laws and regulations. During the reporting period, the Group did not hire any applicant under the legal working age in order to comply with the local laws and regulations in respect of the child and forced labour.

3. Compensation and Welfare

The Group examines the salary levels of employees regularly to ensure it is up to the market standard. The Group benchmarks up-to-date remuneration data in the industry and strives to establish a fair, reasonable and competitive remuneration scheme. Salary levels are determined for employees base on their knowledge, skills, experiences and education background with reference to the work requirements. Basic remuneration and benefits of employees include basic salary, paid holidays and insurance, etc. Other benefits include medical insurance, dental subsidy, festivals red packets, maternity subsidy and messing allowance, etc. All employees are entitled to rest days and holidays, such as annual leaves, sick leaves, maternity leaves and paternity leaves. The Group conducts periodic performance appraisal and fairly assesses bonuses, salaries increment and/or promotion recommendations based on several criteria, including but not limited to work experience, seniority, knowledge, skills and performance. To comply with the local labour laws and regulations, the Group provides social security benefits to all employees. The employees in Mainland China participate in the "Five Insurances and Housing Provident Fund", while the employees in Hong Kong participate in the Mandatory Provident Fund Scheme. The Group also compensates the dismissed employees in accordance with the applicable laws and regulations.

The Group pays attention to employees' health and establishes policy and procedures with the concept of work-life balance. The Group adopts a five-day workweek to allow its employees to spend more time with their family and to participate in social activities. In order to enhance the cohesion between employees and help them to build up a sense of belonging, the Group organised festive activities, such as Chinese New Year lunch.

EMPLOYMENT AND LABOUR PRACTICES (continued)

4. Development and Training

An excellent corporate team is vital to the Group's sustainable and long-term business development. Therefore, the Group establishes a long-term talents development training strategy and encourages staff to continue the study and lifelong learning. Continuous training does not only enhances the professional knowledge and skills of employees but also provides reasonable assurance that the employees have sufficient technical knowledge, professional skills and ethics to perform duties efficiently and impartially. On-the-job training is provided to new employees. Besides, the human resources department works together with the supervisors of each department to provide new employees with the introduction of the organisational structure, corporate culture, rules and regulations, industry knowledge and job responsibilities to new employees. The latest industry information and related legislation updates in connection with the operations of the Group are dispatched to the staff from time to time.

5. Health and Safety

As the operations of the Group are mainly executed in an office setting while no labour intensive work is involved, the occupational health and safety risks are relatively low. However, the Group still recognises that one of its core values is to protect and promote the health, workplace safety and well-being of the individual in the working environment. The Group has been continuously taking employees' health and workplace safety as its priority and has been creating a comfortable and hassle-free environment for its employees.

The Group adopts a comprehensive preventive approach on staff health and workplace safety, including illness and injury prevention. The Group has clear evacuation procedures to enable employees to take sensible and immediate action in case of fire accident. All employees of the Group take part to give unconditional support to build and maintain a healthy and smoke-free working environment. Smoking is absolutely prohibited in the office areas, toilets or staircase.

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

OPERATING PRACTICES

Supply Chain Management

The Group conveys its concern on environmental issues and expects its suppliers and business partners to implement similar practices. The Group also serves to maintain long-term, stable and strategic cooperative relationships with leading suppliers, and co-develop with its suppliers on the basis of equality to achieve a win-win situation. In order to establish an effective, efficient and green supply chain system, the Group selects suppliers and service providers with good credit history, reputation, high-quality product or service, proven track records of environmental compliance and sound commitment to social responsibility. The Group conducts regular performance reviews of its suppliers and service providers with an aim to control its product and service quality effectively.

Product and Service Responsibility

1. **Trading of Iron and Steel Products**

   Customers are always the Group's priority. The Group is committed to providing its customers with good quality products and customer services. In order to strengthen the product quality control, maintain the credibility and protect the customer rights and interests, the Group follows stringent procedures in vendor management to monitor and manage the product quality level and the suppliers' performance closely. In addition, the Group has established a sound customer relationship management system. Customer service representatives are responsible for handling customer recalls and complaints promptly.

2. **Property Investment**

   Tenants' satisfaction is vital to the Group's sustainable development and its long-term business growth. The Group is dedicated to providing high-quality and professional services with the highest degree of integrity to its tenants, and the Group always seeks to exceed its customers' expectations. The Group has formulated policy and procedures in achieving this aim. The Group values opinions from its tenants and offers proactive customer service.

   Confidentiality is one of the Group's core values. The Group handles the personal data of customers and tenants with integrity in accordance with the requirements under the Personal Data (Privacy) Ordinance in Hong Kong and other applicable laws and regulations. For any confidential information obtained through business relationships, all employees are strictly prohibited from disclosing any information to third parties without specific prior authority unless there is a legal or professional right or duty to do so. Employees are subject to disciplinary punishment in case of violations.

During the reporting period, there was no violation or non-compliance incident relating to product and service responsibility that had a significant impact on the Group nor any complaints concerning breaches of customer or tenant privacy and loss of data.

OPERATING PRACTICES (continued)

Anti-corruption

Maintaining an ethical working environment is one of the Group's core values. The Group has adopted a zero-tolerance approach for all kinds of corruption, bribery and extortion situation. Therefore, the Group has established and implemented different policies and procedures, employees' handbook and job instructions to require directors, management and staff to demonstrate integrity, conduct business with high integrity and follow the requirements in business ethics and culture in order to avoid any bribery. Employees who violate the rules are severely penalised. Besides, the Group has established and implemented whistle-blowing channel to ensure that the whistleblower can report incidences, such as abuse of power for personal gains, briberies, blackmailing, fraud and money laundering, in strict confidence. The Group is dedicated to anti-corruption and determinant in combating corruption and contributing to build a clean society.

During the reporting period, there was no legal action against the Group and its employees for corruption.

COMMUNITY INVESTMENT

The Group paid tax in accordance with applicable laws and regulations and spare no effort in easing local employment pressure. The Group helps employees to prepare and plan for their retirement by paying the Five Insurances and Housing Provident Fund and Mandatory Provident Fund Scheme for the employees in the Mainland China and Hong Kong respectively as retirement benefits. The Group runs its business with good practices, actively promotes green energy-saving and environmental-friendly concepts, and achieves a good development order; and to some certain extent, the Group has contributed to social stability and building a harmonious community.

VISION OUTLOOK

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

The Group will endeavour to optimise measures to enhance employees' awareness on environmental protection and reduction of carbon emissions. The Group will also put employee satisfaction and occupational safety as its top priority. The Group aims at attracting more talents through providing a safe workplace and competitive remuneration scheme. As for product and service quality, the Group offers customers and tenants with high-quality products and services by continuously taking into account the opinions of its customers and tenants and feedback in making its operational decisions. On the aspect of community investment, the Group is committed to fulfilling its social responsibility by participating in charitable activities and promoting sustainable development in the community.

The Group always aspires to be a respectable enterprise. Through implementing sustainable business strategies and improving the business performance, the Group will continue to create more meaningful long-term value for itself and its stakeholders.

Environmental, Social and Governance Report

SUMMARY OF ENVIRONMENTAL DATA AND PERFORMANCE

	Unit	Notes	2019	2018
Greenhouse Gas Emissions:				
Scope 1:		1		
Total	Tonnes		**27.19**	18.35
Intensity	Tonnes (per no. of employee)		**1.16**	0.73
Scope 2:		2		
Total	Tonnes		**2.09**	2.60
Intensity	Tonnes (per no. of employee)		**0.09**	0.10
Air Emissions:		1		
Nitrogen oxides	Tonnes		**2.31**	1.56
Sulfur oxides	Tonnes		**0.18**	0.12
Particles	Tonnes		**0.24**	0.17
Energy Consumption:				
Electricity:		2		
Total	Kilowatt Hours ("kWh")		**2,644.00**	3,289.00
Intensity	kWh (per no. of employee)		**112.91**	131.56
Petrol:		1		
Total	Tonnes		**8.76**	5.91
Intensity	Tonnes (per no. of employee)		**0.37**	0.24

Notes:

1 Scope 1 refers to the direct greenhouse gas emissions from the Group's business, including combustion of petrol. The increase in Scope 1 emission and air emissions in 2019 was mainly due to the increase in petrol consumption by approximately 48.22%. As several projects were in progress during the reporting period, the increase of the number of meetings held outside the Group's office which increased the frequency of vehicles usage. Besides, as Liantang-Heung Yuen Wai Control Point is scheduled to open in 2020, the company drivers have practised driving to the new control point more frequently which led to the increase in fuel consumption.

2 Scope 2 refers to the indirect greenhouse gas emissions from the Group's business, including the consumption of purchased electricity. The decrease in Scope 2 emission was due to the reduction of electricity consumption by 19.61% in 2019. As more meetings were held outside the Group's office and lesser staff stayed in the office which led to a decrease in electricity consumption during the reporting period.

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

GENERAL DISCLOSURES/ KEY PERFORMANCE INDICATORS ("KPIs")	REPORTING GUIDE	PAGE
A. ENVIRONMENTAL		
ASPECT A1	**EMISSIONS**	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	32
KPI A1.1	The types of emissions and respective emissions data.	38
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	38
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	N/A [1]
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	38
KPI A1.5	Description of measures to mitigate emissions and results achieved.	32
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	32
ASPECT A2	**USE OF RESOURCES**	
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	32-33
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	38
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	N/A [2]
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	32
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	33
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	N/A [1]
ASPECT A3	**THE ENVIRONMENT AND NATURAL RESOURCES**	
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	33
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	33

Environmental, Social and Governance Report

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

GENERAL DISCLOSURES/ KEY PERFORMANCE INDICATORS ("KPIs")	REPORTING GUIDE	PAGE
	B. SOCIAL [3]	
ASPECT B1	**EMPLOYMENT**	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	34-35
ASPECT B2	**HEALTH AND SAFETY**	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	35
ASPECT B3	**DEVELOPMENT AND TRAINING**	
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	35
ASPECT B4	**LABOUR STANDARDS**	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	34
ASPECT B5	**SUPPLY CHAIN MANAGEMENT**	
General Disclosure	Policies on managing environmental and social risks of the supply chain.	36
ASPECT B6	**PRODUCT RESPONSIBILITY**	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	36

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

GENERAL DISCLOSURES/ KEY PERFORMANCE INDICATORS ("KPIs")	REPORTING GUIDE	PAGE
	B. SOCIAL [3] (continued)	
ASPECT B7	**ANTI-CORRUPTION**	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	37
ASPECT B8	**COMMUNITY INVESTMENT**	
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	37

Notes:

1 The ESG Report mainly covers the Group's principal activities in the trading of iron and steel products and related investment and property investment which do not involve any production process. Goods are delivered directly from suppliers to customers. No packaging material is used, and hence no solid waste or hazardous waste is generated from handling damaged goods.

2 The Group's water consumption mainly comes from its leased office, and no record of water consumption by the Group's leased unit is available from the property management company.

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

Report of the Directors

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

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. The Group is principally engaged in the manufacture and sale of paint and coating products, property investment (including the investment properties for rental income potential or for sale, and the proposed columbarium development in Hong Kong), iron and steel trading and investment holding activities. Details of the activities of the principal subsidiaries and associates are set out in notes 1 and 18 to the financial statements respectively. Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance can be found in the Chairman's Statement and Management Discussion and Analysis set out on pages 5 to 19 of this annual report. The discussion forms part of this directors' report.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2019 and the state of affairs of the Group at that date are set out in the financial statements on pages 59 to 176.

The Directors have resolved to recommend the payment of a final dividend of HK2.0 cents per Share to the Shareholders by way of distribution out of the retained profits. The final dividend, if approved by the Shareholders at the forthcoming AGM, will be paid on Tuesday, 23 June 2020 to the Shareholders whose names appear on the Company's register of members on Thursday, 11 June 2020.

MAJOR SUPPLIERS AND CUSTOMERS

In the year under review, purchases from the Group's five largest suppliers accounted for approximately 31% of the total purchases for the year and purchases from the largest supplier included therein amounted to 10%. Sales to the Group's five largest customers accounted for less than 30% of the total sales for the year.

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

SUMMARY OF FINANCIAL INFORMATION

The following table summarises the published results, assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate. This summary does not form part of the audited financial statements.

	Year ended 31 December				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
Revenue	**807,923**	831,939	1,228,065	1,164,549	1,102,813
Operating profit/(loss)	**230,650**	(75,564)	55,039	109,390	118,835
Share of profits and losses of associates, net	**(1,931)**	(4,365)	3,214	2,263	(3,954)
Profit/(loss) before tax	**228,719**	(79,929)	58,253	111,653	114,881
Income tax credit/(expenses)	**(816)**	19,641	(11,335)	(23,969)	(29,095)
Profit/(loss) for the year	**227,903**	(60,288)	46,918	87,684	85,786
ATTRIBUTABLE TO:					
Owners of the parent	**234,793**	(25,091)	37,516	87,666	86,354
Non-controlling interests	**(6,890)**	(35,197)	9,402	18	(568)
	227,903	(60,288)	46,918	87,684	85,786

	At 31 December				
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
Total assets	**2,298,363**	2,297,187	2,390,271	2,083,422	2,020,613
Total liabilities	**(511,563)**	(661,102)	(629,168)	(602,168)	(550,733)
Non-controlling interests	**(135,732)**	(145,370)	(191,618)	(3,618)	(3,843)
	1,651,068	1,490,715	1,569,485	1,477,636	1,466,037

Report of the Directors

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

INVESTMENT PROPERTIES

Details of movements in the investment properties of the Group during the year are set out in note 14 to the financial statements. Further details of the Group's investment properties are set out on pages 177 to 179.

PROPERTIES UNDER DEVELOPMENT

Details of movements in the properties under development of the Group during the year are set out in note 15 to the financial statements. Further details of the Group's properties under development are set out on page 179.

SHARE CAPITAL

Details of the Company's share capital during the year are set out in note 32 to the financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF THE SHARES

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 48 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

The distributable reserves of the Company as at 31 December 2019, calculated under The Companies Act, amount to HK$663,004,000. In addition, the Company's share premium account may be distributed in the form of fully paid bonus shares.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$471,000.

DIRECTORS

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

Executive Directors

Lam Ting Ball, Paul
Chong Chi Kwan

Non-executive Directors

Tsui Ho Chuen, Philip
Chan Wa Shek
Zhang Yulin
Hung Ting Ho, Richard *(retired on 5 June 2019)*

Independent Non-executive Directors

Wu Hong Cho
Huang De Rui
Zhang Xiaojing
Lin Yingru *(appointed on 11 July 2019)*
Cheng Wai Po, Samuel *(appointed on 8 October 2019)*
Ko Kwok Fai, Dennis *(appointed on 8 October 2019)*

In accordance with the Bye-laws, Mr. Zhang Yulin, Mr. Wu Hong Cho, Ms. Lin Yingru, Mr. Cheng Wai Po, Samuel and Mr. Ko Kwok Fai, Dennis will retire from office at the forthcoming AGM and, being eligible, will offer themselves for re-election.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Directors

Name	Age	Position held	Number of years of service	Business experience
Executive Directors				
Lam Ting Ball, Paul	78	Chairman	47	More than 47 years' experience in the paint industry
Chong Chi Kwan	52	Managing Director	14	More than 28 years' experience in auditing, finance, accounting and management

Report of the Directors

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Directors (continued)

Name	Age	Position held	Number of years of service	Business experience
Non-executive Directors				
Tsui Ho Chuen, Philip	56	Non-executive Director	35	Qualified solicitor
Chan Wa Shek CBE, ISO	89	Non-executive Director	13	Former Commissioner of Correctional Services of Hong Kong
Zhang Yulin	56	Non-executive Director	13	More than 23 years' experience in finance and management
Independent Non-executive Directors				
Wu Hong Cho	74	Independent Non-executive Director	3	Practicing solicitor in Hong Kong with more than 12 years' experience in private practice
Huang De Rui	74	Independent Non-executive Director	16	More than 45 years' experience in finance, accounting and management
Zhang Xiaojing	65	Independent Non-executive Director	7	More than 37 years' experience in engineering and management
Lin Yingru	61	Independent Non-executive Director	8.5 months	More than 28 years' experience in aviation and business management
Cheng Wai Po, Samuel	60	Independent Non-executive Director	5 months	More than 27 years' experience in the public transport industry
Ko Kwok Fai, Dennis	54	Independent Non-executive Director	5 months	More than 28 years' experience in management and accounting

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Senior management

The businesses of the Group are under the direct responsibility of two executive Directors, namely, Mr. Lam Ting Ball, Paul and Mr. Chong Chi Kwan, who are regarded as the senior management of the Company.

Notes:

(1) Mr. Lam Ting Ball, Paul is the chairman and a non-executive director of CPM Group Limited, a non-wholly owned subsidiary of the Company and a company listed on the Stock Exchange.

(2) Mr. Tsui Ho Chuen, Philip is the sole director and shareholder of Prime Surplus Limited, a substantial shareholder of the Company. He is also the managing director and an executive director of CPM Group Limited.

(3) Mr. Chong Chi Kwan is a non-executive director of CPM Group Limited.

(4) Mr. Zhang Yulin is a director and an employee of Broadsino Investment Company Limited, which is interested in 5.15% of the total number of Shares in issue of the Company.

(5) Mr. Wu Hong Cho was an executive Director from July 1992 to January 2000 and has been appointed as an independent non-executive Director since 19 July 2017.

CHANGE IN DIRECTORS' INFORMATION

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

(1) Mr. Cheng Wai Po, Samuel has been appointed as an independent non-executive Director with effect from 8 October 2019.

(2) Mr. Ko Kwok Fai, Dennis has been appointed as an independent non-executive Director with effect from 8 October 2019.

(3) Mr. Huang De Rui has changed his English name from "Danny T Wong" to "Huang De Rui" since 10 December 2019.

(4) Details of changes in the Directors' remuneration are set out in note 8 to the financial statements.

DIRECTORS' INTERESTS IN SIGNIFICANT TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

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

DIRECTORS' SERVICE CONTRACTS

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

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

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in the section headed "Share Options" below, at no time during the year was the Company, its holding company, any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

PERMITTED INDEMNITY PROVISION AND DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

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

The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors, the Company Secretary and other officers of the Company throughout the year.

EQUITY-LINKED AGREEMENTS

There was no equity-linked agreement that has been entered into by the Company in this financial year. Nor was there any equity-linked agreement entered into by the Company in the past which still subsisted in this financial year, save as disclosed in the section headed "Share Options" below.

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

As at 31 December 2019, the interests of the Directors in the Shares and underlying shares of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the SFO were as follows:

		Number of Shares					
Name	**Capacity**	**Personal interests**	**Family interests**	**Corporate interests**	**Other interests**	**Total**	**Percentage of the total number of Shares in issue**
Tsui Ho Chuen, Philip	Interest of controlled corporation	–	–	500,715,620 (Note)	–	500,715,620	26.30%
Ko Kwok Fai, Dennis	Beneficial owner	503,374	–	–	–	503,374	0.02%

Note: The 500,715,620 Shares were beneficially owned by Prime Surplus Limited. Mr. Tsui Ho Chuen, Philip is the sole director and shareholder of Prime Surplus Limited.

Save as disclosed above, as at 31 December 2019, none of the Directors or chief executives of the Company had any interest or short position in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code, or which were recorded in the register required to be kept by the Company under Section 352 of the SFO. Nor any of the Directors and the chief executives of the Company had any interest in, or had been granted any right to subscribe for the securities of the Company and its associated corporations (within the meaning of Part XV of the SFO) or had exercised any such right during the year under review.

SHARE OPTIONS

The Company's existing Share Option Scheme was adopted on 28 June 2012. Its key terms are summarised below:

(i) The purpose of the Share Option Scheme is to provide the Company with a flexible and effective means to recognise and acknowledge the contributions which the participants of the Share Option Scheme have made or will make to the Group and to provide the participants with an opportunity to have a personal stake in the Company and a direct economic interest with a view to providing rewards, motivations or incentives to the participants for recognition of their contributions to the Group and to utilise their performance and efficiency and to make contributions for the benefit of the Group, retaining the existing employees and recruiting additional human resources that are valuable to the Group for attaining the long-term development and growth of the Group, and building of common objectives of the Group and the participants for the betterment of business and profitability of the Group.

SHARE OPTIONS (continued)

(ii) The participants of the Share Option Scheme include any employee, proposed employee, director, supplier, customer and securities holder of the Company, its subsidiaries or any entity in which the Group holds an equity interest; any person or entity that provides research, development or other technological support to such companies; any adviser or consultant to any area of business or business development of such companies; and any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group.

(iii) The total number of Shares available for issue under the Share Option Scheme is 188,840,569 which represents 9.92% of the total number of Shares in issue as at the date of this report.

(iv) The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other schemes of the Company (including the exercised, cancelled and outstanding options) to each participant in any 12-month period must not exceed 1% of the total number of Shares in issue for the time being unless it is separately approved by the Shareholders in general meeting.

(v) An option may be exercised in accordance with the terms of the Share Option Scheme at any time during the period for the exercise of an option to be notified by the Board to the grantee and such period shall be determined by the Board in its discretion, but in any event such period shall not be more than 10 years from the date of grant.

(vi) The subscription price of a Share in respect of any option granted shall be determined by the Board at its absolute discretion provided that it shall not be less than the highest of: (a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (b) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant; and (c) the nominal value of the Shares.

(vii) The Share Option Scheme remains in force until 27 June 2022.

No share option has so far been granted under the Share Option Scheme since its adoption.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 31 December 2019, the register maintained by the Company under Section 336 of the SFO and the public information showed that the following persons (other than the Directors) had interests in the Shares and underlying shares of the Company:

Name	Notes	**Capacity**	**Number of Shares**	**Number of underlying shares** (unlisted and physically settled equity derivative)	**Percentage of the total number of Shares in issue**
10% or more of the total Shares in issue					
Prime Surplus Limited	1	Beneficial owner	500,715,620	–	26.30%
Ho Mei Po, Mabel	2	Interest of spouse	500,715,620	–	26.30%
Chinaculture.com Limited	3	Beneficial owner	370,266,867	–	19.45%
Chuang's China Investments Limited	3	Interest of controlled corporation	370,266,867	–	19.45%
Profit Stability Investments Limited	3	Interest of controlled corporations	370,266,867	–	19.45%
Chuang's Consortium International Limited	3	Interest of controlled corporations	370,266,867	–	19.45%
Evergain Holdings Limited	3	Interest of controlled corporations	370,266,867	–	19.45%
Chong Shaw Swee, Alan	3	Interest of controlled corporations	370,266,867	–	19.45%
Chong Ho Pik Yu	3	Interest of spouse	370,266,867	–	19.45%
Below 10% of the total Shares in issue					
Broadsino Investment Company Limited	4	Beneficial owner	98,000,000	–	5.15%
Rapid Growth Ltd.	5	Trustee	–	98,000,000	5.15%
Polygold Holdings Limited	5	Interest of controlled corporation	–	98,000,000	5.15%
Xie Jian Ming	5	Interest of controlled corporations	–	98,000,000	5.15%

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO (continued)

Notes:

(1) The 500,715,620 Shares were beneficially owned by Prime Surplus Limited. This interest is duplicated in the interests of Mr. Tsui Ho Chuen, Philip as disclosed in the section headed "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" above.

(2) Ms. Ho Mei Po, Mabel is the wife of Mr. Tsui Ho Chuen, Philip and was taken to be interested in 500,715,620 Shares in which her spouse was interested under the SFO.

(3) The shareholding of 19.45% was based on the disclosure in the interim report of Chuang's Consortium International Limited for the six months ended 30 September 2019. The number of Shares is based on the shareholding percentage and the total number of Shares in issue of the Company as of 31 December 2019. The Company has not been informed on any increase in the number of Shares held by Chuang's Consortium International Limited.

The references to the 370,266,867 Shares relate to the same block of 370,266,867 Shares beneficially interested by Chinaculture.com Limited.

Chinaculture.com Limited was a wholly-owned subsidiary of Chuang's China Investments Limited, which in turn was a 60.71% owned subsidiary of Profit Stability Investments Limited. Chuang's Consortium International Limited held 100% equity interest in Profit Stability Investments Limited. Evergain Holdings Limited was interested in 50.07% of the issued share capital of Chuang's Consortium International Limited. Mr. Chong Shaw Swee, Alan was interested in 100% of the issued share capital of Evergain Holdings Limited. Mrs. Chong Ho Pik Yu is the wife of Mr. Chong Shaw Swee, Alan.

Chuang's China Investments Limited, Profit Stability Investments Limited, Chuang's Consortium International Limited, Evergain Holdings Limited, Mr. Chong Shaw Swee, Alan and Mrs. Chong Ho Pik Yu were all deemed under the SFO to be interested in these 370,266,867 Shares which were owned by Chinaculture.com Limited.

(4) These Shares were beneficially owned by Broadsino Investment Company Limited. Pursuant to an option granted by Rapid Growth Ltd., Broadsino Investment Company Limited has a right to sell all or part of these Shares to Rapid Growth Ltd. exercisable at any time during the term of the option.

(5) The references to the interests in 98,000,000 underlying shares of the Company relate to the same block of 98,000,000 underlying shares of the Company interested by Rapid Growth Ltd. by virtue of an option granted by Rapid Growth Ltd. to Broadsino Investment Company Limited as disclosed in note (4) above.

Rapid Growth Ltd. was a wholly-owned subsidiary of Polygold Holdings Limited, which in turn was wholly owned by Mr. Xie Jian Ming.

Polygold Holdings Limited and Mr. Xie Jian Ming were all deemed under the SFO to be interested in these 98,000,000 underlying shares of the Company which were taken to be interested by Rapid Growth Ltd..

Save as disclosed above, the Company has not been notified by any person (other than the Directors) who had interests or short positions in the Shares or underlying shares of the Company as at 31 December 2019 which were required to be disclosed to the Company under Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITORS

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

On behalf of the Board
CNT Group Limited

Lam Ting Ball, Paul
Chairman
Hong Kong, 27 March 2020

Independent Auditor's Report

EY 安永

To the shareholders of CNT Group Limited
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of CNT Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 59 to 176, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

KEY AUDIT MATTERS (continued)

Key Audit Matters	How our audit addressed the Key Audit Matters
Expected credit losses ("ECL") for trade receivables	
As at 31 December 2019, the Group recorded trade receivables of HK$340.9 million before loss allowance of HK$61.2 million. Significant management judgement and estimation were required in assessing the ECL for the trade receivables, with reference to the grouping of various customer segments, ageing profile of the trade receivables balances, and past repayment history of customers and forecast economic conditions. Disclosures in relation to trade receivables are included in note 3 – Significant accounting judgements and estimates and note 23 – Trade and bills receivables to the consolidated financial statements.	Our audit procedures included understanding and assessing the Group's policy on determining the loss allowance in accordance with the requirements of HKFRS 9, including an evaluation of management judgements on (i) the level of disaggregation of categories for collective assessment; and (ii) the use of available credit risk information, including historical and forward-looking information. We have reviewed management's assumptions used to determine the ECL through testing of the underlying information on the ageing reports generated by the Group's financial reporting system and assessing the repayment history of the debtors as well as the forward-looking factors with reference to the related publicly available information. We also assessed the related disclosures in the consolidated financial statements.
Fair value of investment properties	
As at 31 December 2019, investment properties measured at fair values amounted to approximately HK$851.3 million, with a corresponding net fair value loss of HK$229.7 million recognised in profit or loss. The valuation process is inherently subjective and dependent on a number of estimates. The Group has engaged independent professional valuers to perform the valuation of the investment properties. Disclosures in relation to the investment properties are included in note 3 – Significant accounting judgements and estimates and note 14 – Investment properties to the consolidated financial statements.	As part of our audit procedures, we have considered the objectivity, independence and competence of the valuers. We have assessed the valuation methodologies adopted and the assumptions used by the valuers, and performed market value benchmarking against comparable properties. Our internal valuation experts were also involved to assist us in evaluating the methodologies adopted and the assumptions used by the valuers for valuation of investment properties held by the Group. We also assessed the related disclosures in the consolidated financial statements.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

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

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

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Leung Chi Kit.

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

27 March 2020

Consolidated Statement of Profit or Loss

Year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
REVENUE	5	**807,923**	831,939
Cost of sales		**(586,241)**	(653,486)
Gross profit		**221,682**	178,453
Other income and gains, net	5	**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	14	**(229,689)**	90,773
Finance costs	7	**(9,284)**	(6,823)
Share of profits and losses of associates, net		**(1,931)**	(4,365)
PROFIT/(LOSS) BEFORE TAX	6	**228,719**	(79,929)
Income tax credit/(expense)	10	**(816)**	19,641
PROFIT/(LOSS) FOR THE YEAR		**227,903**	(60,288)
ATTRIBUTABLE TO:			
Owners of the parent		**234,793**	(25,091)
Non-controlling interests		**(6,890)**	(35,197)
		227,903	(60,288)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic and diluted		**HK12.33 cents**	HK(1.32) cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
PROFIT/(LOSS) FOR THE YEAR		**227,903**	(60,288)
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		**(137)**	166
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods		**(16,816)**	(42,444)
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:			
Changes in fair value of equity investments designated at fair value through other comprehensive income		**(42,379)**	15,628
Gain on property revaluation		**–**	18,746
Income tax effect		**–**	(1,601)
		–	17,145
Remeasurement of net pension scheme assets	21	**1,044**	(687)
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods		**(41,335)**	32,086
OTHER COMPREHENSIVE LOSS FOR THE YEAR		**(58,151)**	(10,358)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**169,752**	(70,646)
ATTRIBUTABLE TO:			
Owners of the parent		**179,390**	(28,981)
Non-controlling interests		**(9,638)**	(41,665)
		169,752	(70,646)

Consolidated Statement of Financial Position

31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**274,206**	292,731
Investment properties	14	**851,339**	799,978
Properties under development	15	**28,000**	28,000
Right-of-use assets	16(b)	**105,714**	–
Prepaid land lease payments	16(a)	**–**	85,571
Intangible assets	17	**–**	805
Interests in associates	18	**22,749**	9,599
Equity investments designated at fair value through other comprehensive income	19	**49,331**	91,710
Deposits for purchases of properties, plant and equipment, and investment properties	20	**9,962**	12,269
Net pension scheme assets	21	**4,694**	3,687
Deferred tax assets	30	**18,228**	19,327
Total non-current assets		**1,364,223**	1,343,677
CURRENT ASSETS			
Inventories	22	**70,290**	79,079
Trade and bills receivables	23	**318,449**	479,025
Prepayments, deposits and other receivables	24	**77,495**	92,724
Tax recoverable		**106**	1,761
Pledged deposits	25	**2,426**	5,055
Cash and cash equivalents	25	**465,374**	295,866
Total current assets		**934,140**	953,510
CURRENT LIABILITIES			
Trade and bills payables	26	**166,287**	226,374
Other payables and accruals	27	**83,362**	115,367
Due to an associate	18	**2,800**	2,800
Interest-bearing bank and other borrowings	28	**216,442**	270,121
Lease liabilities	16(c)	**2,673**	–
Tax payable		**12,539**	12,574
Total current liabilities		**484,103**	627,236
NET CURRENT ASSETS		**450,037**	326,274
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,814,260**	1,669,951

Consolidated Statement of Financial Position

31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,814,260**	1,669,951
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	28	**–**	646
Lease liabilities	16(c)	**703**	–
Deferred tax liabilities	30	**21,272**	31,412
Deferred income	31	**1,485**	1,808
Deposits received	27	**4,000**	–
Total non-current liabilities		**27,460**	33,866
Net assets		**1,786,800**	1,636,085
EQUITY			
Equity attributable to owners of the parent			
Issued capital	32	**190,369**	190,369
Reserves	34	**1,460,699**	1,300,346
		1,651,068	1,490,715
Non-controlling interests		**135,732**	145,370
Total equity		**1,786,800**	1,636,085

Lam Ting Ball, Paul
Director

Chong Chi Kwan
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2019

	Notes	Attributable to owners of the parent												
		Issued share capital HK$'000 (note 32)	Share premium account HK$'000	Contributed surplus HK$'000	Leasehold land and building revaluation reserve HK$'000	Investment property revaluation reserve* HK$'000	General reserve HK$'000	Exchange fluctuation reserve HK$'000	Fair value reserve (non-recycling) HK$'000	Reserve funds** HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2018		190,369	88,970	258,315	247,447	13,557	7,523	4,098	(155,297)	23,677	860,074	1,538,733	187,035	1,725,768
Loss for the year		–	–	–	–	–	–	–	–	–	(25,091)	(25,091)	(35,197)	(60,288)
Other comprehensive income/ (loss) for the year:														
Change in fair value of equity investments designated at fair value through other comprehensive income		–	–	–	–	–	–	–	15,628	–	–	15,628	–	15,628
Gain on property revaluation, net of tax		–	–	–	17,145	–	–	–	–	–	–	17,145	–	17,145
Remeasurement of net pension scheme assets	21	–	–	–	–	–	–	–	–	–	(687)	(687)	–	(687)
Share of other comprehensive income of an associate		–	–	–	–	–	–	94	–	72	–	166	–	166
Exchange differences on translation of foreign operations		–	–	–	–	–	–	(36,142)	–	–	–	(36,142)	(6,468)	(42,610)
Total comprehensive income/ (loss) for the year		–	–	–	17,145	–	–	(36,048)	15,628	72	(25,778)	(28,981)	(41,665)	(70,646)
Final 2017 dividend declared and paid	11	–	–	(19,037)	–	–	–	–	–	–	–	(19,037)	–	(19,037)
At 31 December 2018		190,369	88,970#	239,278#	264,592#	13,557#	7,523#	(31,950)#	(139,669)#	23,749#	834,296#	1,490,715	145,370	1,636,085

Consolidated Statement of Changes in Equity

Year ended 31 December 2019

	Notes	Attributable to owners of the parent												
		Issued share capital HK$'000 (note 32)	Share premium account HK$'000	Contributed surplus HK$'000	Leasehold land and building revaluation reserve HK$'000	Investment property revaluation reserve* HK$'000	General reserve HK$'000	Exchange fluctuation reserve HK$'000	Fair value reserve (non-recycling) HK$'000	Reserve funds** HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2019		190,369	88,970	239,278	264,592	13,557	7,523	(31,950)	(139,669)	23,749	834,296	1,490,715	145,370	1,636,085
Profit/(loss) for the year		-	-	-	-	-	-	-	-	-	234,793	234,793	(6,890)	227,903
Other comprehensive income/(loss) for the year:														
Change in fair value of equity investments designated at fair value through other comprehensive income		-	-	-	-	-	-	-	(42,379)	-	-	(42,379)	-	(42,379)
Remeasurement of net pension scheme assets	21	-	-	-	-	-	-	-	-	-	783	783	261	1,044
Release of exchange reserve upon step acquisition from an associate to a subsidiary		-	-	-	-	-	-	(939)	-	-	-	(939)	-	(939)
Share of other comprehensive loss of an associate		-	-	-	-	-	-	(238)	-	101	-	(137)	-	(137)
Exchange differences on translation of foreign operations		-	-	-	-	-	-	(12,731)	-	-	-	(12,731)	(3,009)	(15,740)
Total comprehensive income/(loss) for the year		-	-	-	-	-	-	(13,908)	(42,379)	101	235,576	179,390	(9,638)	169,752
Disposal of an associate		-	-	-	-	-	-	-	-	(2,141)	2,141	-	-	-
Disposal of subsidiaries		-	-	-	(219,644)	(13,557)	-	-	-	-	233,201	-	-	-
Final 2018 dividend declared and paid	11	-	-	(19,037)	-	-	-	-	-	-	-	(19,037)	-	(19,037)
At 31 December 2019		190,369	88,970#	220,241#	44,948#	-#	7,523#	(45,858)#	(182,048)#	21,709#	1,305,214#	1,651,068	135,732	1,786,800

* The investment property revaluation reserve represented the attributable revaluation surplus in respect of the leasehold land and buildings which were reclassified as investment properties prior to 1 January 2000. This revaluation reserve arose when the properties were classified as land and buildings, and therefore is not available to offset subsequent revaluation deficits arising on the investment properties. The revaluation reserve is transferred to retained profits only upon the disposal or retirement of the relevant assets and such transfer is not made in the consolidated statement of profit or loss. During the year ended 31 December 2019, the entire balance of the revaluation reserve has been transferred to retained profits upon the disposal of related subsidiaries.

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

\# These reserve accounts comprise the consolidated reserves of HK$1,460,699,000 (2018: HK$1,300,346,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**228,719**	(79,929)
Adjustments for:			
Finance costs	7	**9,284**	6,823
Share of profits and losses of associates, net		**1,931**	4,365
Bank interest income	5	**(4,407)**	(1,961)
Depreciation of property, plant and equipment	6	**22,537**	22,068
Depreciation of right-of-use assets/amortisation of prepaid land lease payments	6	**6,373**	1,364
Amortisation of intangible assets	6	**815**	459
Recognition of deferred income	5	**(291)**	(305)
Loss/(gain) on disposal of items of property, plant and equipment, net	6	**(57)**	25
Write-off of items of property, plant and equipment	6	**850**	297
Fair value losses/(gains) on investment properties, net	14	**229,689**	(90,773)
Loss on disposal of items of right-of-use assets	6	**17**	–
Gain on acquisition of a subsidiary, previously held as an associate	5	**(9,125)**	–
Gain on disposal of subsidiaries	5	**(490,412)**	–
Dividend income from an equity investment designated at fair value through other comprehensive income	5	**–**	(240)
Provision for/(reversal of provision for) impairment of trade receivables	6	**(28,958)**	31,704
Impairment of an other receivable	6	**2,100**	–
Write-down of inventories to net realisable value, net	6	**43**	342
Net pension benefit expenses	21	**37**	47
		(30,855)	(105,714)
Decrease/(increase) in inventories		**7,250**	(3,566)
Decrease in trade and bills receivables		**181,986**	158,514
Decrease/(increase) in prepayments, deposits and other receivables		**11,958**	(33,790)
Decrease in trade and bills payables		**(56,162)**	(64,681)
Increase/(decrease) in other payables and accruals and deposits received		**2,168**	(15,979)
Exchange realignment		**145**	9,908
Cash generated from/(used in) operations		**116,490**	(55,308)
Interest paid		**(9,351)**	(6,533)
Interest element of finance lease rental payments		**–**	(59)
Overseas taxes paid		**(968)**	(5,941)
Hong Kong profits tax paid		**(116)**	(1,552)
Net cash flows from/(used in) operating activities		**106,055**	(69,393)

Consolidated Statement of Cash Flows

Year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(2,600)**	(24,977)
Proceeds from disposal of subsidiaries	38	**330,225**	–
Proceeds from disposal of items of property, plant and equipment		**119**	364
Proceeds from disposal of items of right-of-use assets		**1**	–
Additions to investment properties	14	**(1,370)**	(747)
Acquisitions of assets through acquisitions of subsidiaries	36	**(179,665)**	(99,471)
Step acquisition from an associate to a subsidiary	37	**69**	–
Interest received		**4,407**	1,975
Dividend received from an associate		**1,726**	1,563
Dividend received from an equity investment designated at fair value through other comprehensive income		**–**	240
Deposits paid for purchases of properties, plant and equipment, and investment properties	20	**(15,206)**	(5,084)
Decrease/(increase) in pledged time deposits with original maturity of less than three months when acquired		**1,523**	(1,569)
Decrease/(increase) in time deposits with original maturity of more than three months when acquired		**1,048**	(439)
Net cash flows from/(used in) investing activities		**140,277**	(128,145)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**231,336**	309,425
Repayment of bank loans		**(283,972)**	(168,728)
Dividend paid		**(19,037)**	(19,037)
Principal portion of lease payments/finance lease rental payments	16(c)	**(2,839)**	(401)
Net cash flows from/(used in) financing activities		**(74,512)**	121,259
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**171,820**	(76,279)
Cash and cash equivalents at beginning of year		**295,866**	382,770
Effect of foreign exchange rate changes, net		**(2,312)**	(10,625)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**465,374**	295,866
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	25	**285,137**	253,407
Non-pledged time deposits with original maturity of less than three months when acquired	25	**180,237**	42,459
Cash and cash equivalents as stated in the consolidated statement of financial position		**465,374**	295,866

1. CORPORATE AND GROUP INFORMATION

CNT Group Limited is a limited liability company incorporated in Bermuda. The principal place of business of the Company is located at Unit E, 28th Floor, CNT Tower, 338 Hennessy Road, Wanchai, Hong Kong.

During the year, the Company and its subsidiaries (the "Group") were involved in the following principal activities:

- manufacture and sale of paint and coating products and related services
- trading of iron and steel products and related investments
- property investment (including the investment in properties for rental income potential or for sale, and the proposed columbarium development in Hong Kong)

The subsidiaries of the Company were also involved in investment holding activities.

Information about subsidiaries

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
The China Paint Manufacturing Company (1932) Limited	Hong Kong	Ordinary HK$200,000 Non-voting deferred HK$1,761,300	–	75	Manufacture and sale of paint and coating products and investment holding
The China Paint Manufacturing (Shenzhen) Co., Ltd. #*	PRC/ Mainland China	HK$70,000,000	–	75	Manufacture and sale of paint and coating products
The China Paint Mfg. Co., (Xinfeng) Ltd. #*	PRC/ Mainland China	US$13,000,000	–	75	Manufacture and sale of paint and coating products
AVANZAR Media Limited*	Hong Kong	HK$2	–	100	Investment holding
China Molybdenum & Vanadium Development Limited	Hong Kong	HK$1,000	–	75	Investment holding
China Utilities Limited*	British Virgin Islands ("BVI")	US$1	–	100	Investment holding
Cigma International Investment Limited* ("Cigma")	Hong Kong	HK$75	–	100	Property investment
CNT Enterprises Limited*	BVI	US$1	100	–	Investment holding

Notes to Financial Statements
31 December 2019

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
CNT Finance Company Limited	Hong Kong	HK$2	–	100	Fund management
CNT Investments (BVI) Limited*	BVI	US$159,705	100	–	Investment holding
CNT Iron And Steel Limited*	BVI	US$1,566,804	100	–	Investment holding
CNT Iron And Steel Trading Company Limited	Hong Kong	HK$2	–	100	Trading of iron and steel products and investment holding
CNT-Jialing Investments Limited	Hong Kong	HK$10,000,000	–	100	Property investment
CNT Management and Secretaries Limited*	Hong Kong	HK$2	–	100	Management and consulting services and investment holding
CNT Property Limited	Hong Kong	HK$222,000,000	–	100	Property investment
CNT Resene (Distribution) Limited	Hong Kong	HK$1	–	75	Sale of paint products
CNT Resene Limited	Hong Kong	HK$2	–	75	Manufacture and sale of paint and coating products and investment holding
CNT Tin Plate Limited* ("CNT Tin Plate")	Hong Kong	HK$2	–	100	Investment holding
CNT (BVI) Limited*	BVI	US$1	100	–	Investment holding
CP Industries (BVI) Limited*	BVI	US$1,635,512	–	75	Investment holding
CPM Group Limited	Cayman Islands	HK$100,000,000	–	75	Investment holding

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Dongola Holdings Limited*	BVI	US$1	–	100	Investment holding
Fan Ball Development Limited	Hong Kong	HK$10,000	–	100	Property investment and investment holding
Giraffe Paint Mfg. Co., (Shanghai) Ltd.#*	PRC/ Mainland China	US$4,000,000	–	75	Sale of paint and coating products
Giraffe Paint Mfg. Co., (Xuzhou) Ltd.#*	PRC/ Mainland China	US$2,000,000	–	75	Manufacture and sale of paint and coating products and property investment
Hubei Giraffe Paint Mfg. Co., Ltd.##*	PRC/ Mainland China	RMB40,000,000	–	67.9	Manufacture and sale of paint and coating products
Joyous Cheer Limited	Hong Kong	HK$1	–	100	Proposed columbarium development
Majority Faith Corporation*	BVI	US$1	–	75	Investment holding
Nigon Hong Kong Limited ("Nigon")	Hong Kong	HK$100	–	100	Property Investment
Profit Source Limited	Hong Kong	HK$2	–	100	Securities investment and investment holding
Rainbow Path Enterprises Limited*	Hong Kong	HK$1,000	–	100	Investment holding
Rich Union Properties Limited	Hong Kong	HK$2	–	100	Investment holding
R, J & Thomas Secretaries Limited	Hong Kong	HK$30,000	–	75	Investment holding

Notes to Financial Statements
31 December 2019

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Tatpo Corporation Limited*	Liberia	US$20,872	100	–	Investment holding
Top Dreamer Limited*	BVI	US$1	–	75	Investment holding
Venture Decade Limited*	BVI	US$1	–	100	Investment holding
廣州市維美雲石有限公司#*	PRC/ Mainland China	HK$50,975,000	–	100	Property investment
海諾威特種塗料（新豐）有限公司#*	PRC/ Mainland China	RMB5,000,000	–	100	Property investment
北海鋼鐵（深圳）有限公司#*	PRC/ Mainland China	RMB10,000,000	–	100	Trading of iron and steel products
深圳北海裕聯投資咨詢有限公司#*	PRC/ Mainland China	RMB6,000,000	–	100	Investment holding
中山市永成化工有限公司#*	PRC/ Mainland China	RMB64,901,999	–	75	Manufacture and sale of paint and coating products

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

Wholly-foreign-owned enterprises registered under PRC law.

Sino-foreign equity joint venture registered under PRC law.

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for 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.

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except for the amendments to HKFRS 9 and HKAS 19, and *Annual Improvements to HKFRSs 2015-2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

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

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

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

New definition of a lease

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of properties, motor vehicles and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and 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).

Impact on transition

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

As a lessee – Leases previously classified as finance leases

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

Financial impact at 1 January 2019

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

	Increase/ (decrease) HK$'000
Assets	
Increase in right-of-use assets	112,779
Decrease in property, plant and equipment	(20,246)
Decrease in prepaid land lease payment	(85,571)
Decrease in prepayments, deposits and other receivables	(2,889)
Increase in total assets	4,073
Liabilities	
Increase in lease liabilities	5,129
Decrease in interest-bearing bank and other borrowings	(1,056)
Increase in total liabilities	4,073

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

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

	HK$'000
Operating lease commitments as at 31 December 2018	1,120
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	3,912
	4,330
Weighted average incremental borrowing rate as at 1 January 2019	5.54%
Discounted operating lease commitments as at 1 January 2019	4,073
Add: Finance lease liabilities recognised as at 31 December 2018	1,056
Lease liabilities as at 1 January 2019	5,129

(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.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(c) HK(IFRIC)–Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether there were any uncertain tax positions. The Group determined that the interpretation did not have any significant impact on the financial position or performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

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

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are currently expected to be applicable to the Group is described below.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

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

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates

An associate is an entity in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's interests in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates.

Fair value measurement

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1	–	based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2	–	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3	–	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, net pension scheme assets, financial assets and investment properties), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

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

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write-off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Ownership interests in properties held for own use/leasehold land and buildings	2% – 4% or over the lease terms, whichever rate is higher
Leasehold improvements	10% – 33% or over the lease terms, whichever rate is higher
Plant and machinery	9% – 25%
Furniture, fixtures and equipment	10% – 33%
Motor vehicles	18% – 25%

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are interests in land and buildings (including the leasehold property held as a right-of-use asset (2018: leasehold property under an operating lease) which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" for owned property up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is dealt with as movements in the leasehold land and building revaluation reserve.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Patents and licences

Purchased patents and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 1 to 3 years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Properties under development

Properties under development are stated at the lower of cost and net realisable value. Cost includes all development expenditure, capitalised interest and other direct costs attributable to such properties.

Leases (applicable from 1 January 2019)

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

Group as a lessee

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

(a) Right-of-use assets

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

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

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

(b) Lease liabilities

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (applicable from 1 January 2019) (continued)

Group as a lessee (continued)

(b) Lease liabilities (continued)

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

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

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

Group as a lessor

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (applicable before 1 January 2019)

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

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

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

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

Research and development costs

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade and bills receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade and bills receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

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

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

Financial assets at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Derecognition of financial assets

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

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

General approach

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Simplified approach

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

Financial liabilities

Initial recognition and measurement

Financial liabilities of the Group are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, and payables as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include amounts due to an associate, trade and bills payables, financial liabilities included in other payables and accruals and deposits received, interest-bearing bank and other borrowings and lease liabilities.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in HKFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in the statement of profit or loss, except for the gains or losses arising from the Group’s own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement (continued)

Financial liabilities at amortised cost (loans and borrowings)

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

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

Financial guarantee contracts

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of manufacturing overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Income tax

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

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

Revenue recognition

Revenue from contracts with customers

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

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

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Sale of industrial products (paint and coating products and iron and steel products)

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

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms.

Other income

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

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Contract liabilities

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

Share-based payments

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the binomial option pricing model or other appropriate pricing models.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options, if any, is reflected as additional share dilution in the computation of earnings per share.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other employee benefits

Pension schemes and other retirement benefits

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

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

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

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

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

- service costs comprising current service costs, past service costs, gains and losses on curtailments and non-routine settlements; and
- net interest expense or income.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

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

Dividends

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

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

Foreign currencies

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Property lease classification – Group as lessor

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type and customer type and rating).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 23 to the financial statements.

Leases – Estimating the incremental borrowing rate

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Estimation of fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location (or subject to different leases or other contracts), adjusted to reflect those differences;

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the dates of the transactions that occurred at those prices; and

(c) the income capitalisation method based on the capitalisation of existing rental income and reversionary market rental income, supported by the market rentals expected by investors for similar properties in the neighbourhood and by the market yield derived from analysing the sales transactions of similar properties.

The carrying amount of investment properties at 31 December 2019 was HK$851,339,000 (2018: HK$799,978,000). Further details, including the key assumptions used for fair value measurement, are given in note 14 to the financial statements.

Fair value of unlisted equity investments

The unlisted equity investments have been valued based on a market-based valuation technique as detailed in note 19 to the financial statements. The valuation requires the Group to determine the comparable public companies (peers) and select the price multiple. In addition, the Group makes estimates about the discount for illiquidity and size differences. The Group classifies the fair value of these investments as Level 2 and 3. The fair value of the unlisted equity investments at 31 December 2019 was HK$49,331,000 (2018: HK$91,710,000). Further details are included in note 19 to the financial statements.

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets including the right-of-use assets) at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Provision and write-down of inventories to net realisable value

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

Provision for income taxes

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

4. 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, hotel, serviced apartment and industrial properties 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.

4. OPERATING SEGMENT INFORMATION (continued)

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.

4. OPERATING SEGMENT INFORMATION (continued)

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
Segment revenue					
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
	724,373	518,475	81,680	133	1,324,661
Reconciliation:					
Elimination of intersegment sales					(5,287)
Total					1,319,374
Segment results	(18,818)	267,429	6,727	(1,791)	253,547
Reconciliation:					
Elimination of intersegment results					(559)
Interest income					4,407
Finance costs					(9,284)
Corporate and other unallocated expenses					(19,392)
Profit before tax					228,719
Segment assets	989,773	986,510	66,014	49,487	2,091,784
Reconciliation:					
Elimination of intersegment receivables					(889)
Corporate and other unallocated assets					207,468
Total assets					2,298,363
Segment liabilities	456,080	27,307	23,441	508	507,336
Reconciliation:					
Elimination of intersegment payables					(889)
Corporate and other unallocated liabilities					5,116
Total liabilities					511,563

4. OPERATING SEGMENT INFORMATION (continued)

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
Other segment information					
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, net	–	229,689	–	–	229,689
Reversal of provision for impairment of trade 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 purchase of properties, plant and equipment and investment properties.

4. OPERATING SEGMENT INFORMATION (continued)

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

4. OPERATING SEGMENT INFORMATION (continued)

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 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 allocated 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.

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2019 HK$'000	2018 HK$'000
Hong Kong	**91,862**	63,260
Mainland China	**716,061**	768,679
	807,923	831,939

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

(b) Non-current assets

	2019 HK$'000	2018 HK$'000
Hong Kong	**1,004,993**	718,497
Mainland China	**286,977**	510,456
	1,291,970	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.

5. REVENUE, OTHER INCOME AND GAINS, NET

An analysis of revenue is as follows:

	2019 HK$'000	2018 HK$'000
Revenue from contracts with customers	785,408	809,571
Revenue from other sources		
Gross rental income from investment properties operating leases	22,515	22,368
	807,923	831,939

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2019

Segments	Paint products HK$'000	Iron and steel products HK$'000	Total HK$'000
Sale of industrial products	713,328	72,080	785,408
Geographical markets			
Hong Kong	75,167	–	75,167
Mainland China	638,161	72,080	710,241
Total revenue from contracts with customers	713,328	72,080	785,408
Timing of revenue recognition			
Goods transferred at a point in time	713,328	72,080	785,408

5. REVENUE, OTHER INCOME AND GAINS, NET (continued)

Revenue from contracts with customers (continued)

(i) Disaggregated revenue information (continued)

For the year ended 31 December 2018

Segments	Paint products HK$'000	Iron and steel products HK$'000	Total HK$'000
Sale of industrial products	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
Timing of revenue recognition			
Goods transferred at a point in time	617,254	192,317	809,571

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2019 HK$'000	2018 HK$'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of industrial products	**2,409**	2,489

(ii) Performance obligations

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

Sale of industrial products

The performance obligation is satisfied upon delivery of the industrial products and payment is generally due within one to three months from the invoice date, except for new customers, where payment in advance is normally required.

5. REVENUE, OTHER INCOME AND GAINS, NET (continued)

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

	Notes	2019 HK$'000	2018 HK$'000
Other income			
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	31	291	305
Rental income		3,023	2,053
Others		3,464	2,333
		16,264	16,474
Gains, net			
Recovery of an amount due from an associate previously written off		–	433
Gain on disposal of subsidiaries		490,412	–
Gain on acquisition of a subsidiary, previously held as an associate		9,125	–
Gain on disposal of items of property, plant and equipment, net		57	–
Write-back of an other receivable	24	–	1,366
		499,594	1,799
Total other income and gains, net		515,858	18,273

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

6. PROFIT/(LOSS) BEFORE TAX

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

	Notes	2019 HK$'000	2018 HK$'000
Cost of inventories sold		**586,241**	653,486
Depreciation of property, plant and equipment	13	**22,537**	22,068
Depreciation of right-of-use assets (2018: amortisation of prepaid land lease payments)	16(a), 16(b)	**6,373**	1,364
Amortisation of intangible assets	17	**815**	459
Minimum lease payments under operating leases in respect of land and buildings		**–**	4,934
Lease payments not included in the measurement of lease liabilities	16(d)	**3,189**	–
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties		**3,341**	4,096
Auditor's remuneration:			
Audit related services		**5,079**	5,343
Other services		**1,511**	502
		6,590	5,845
Employee benefit expense (excluding directors' remuneration (note 8)):			
Wages, salaries, bonuses, allowances and welfare		**138,579**	148,119
Pension scheme contributions (defined contribution schemes)#		**14,411**	18,269
Net pension benefit expenses recognised (defined benefit schemes)	21	**37**	47
		153,027	166,435
Foreign exchange differences, net*		**1,450**	3,584
Write-down of inventories to net realisable value, net		**43**	342
Impairment of financial assets, net:			
Provision for/(reversal of provision for) impairment of trade receivables*	23	**(28,958)**	31,704
Impairment of an other receivable*	24	**2,100**	–
		(26,858)	31,704
Loss/(gain) on disposal of items of property, plant and equipment, net*		**(57)**	25
Loss on disposal of items of right-of-use assets		**17**	–
Write-off of items of property, plant and equipment*	13	**850**	297

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

\# At 31 December 2019 and 2018, the Group had no material forfeited contributions available to reduce its contributions to the retirement benefit schemes in future years.

7. 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 lease liabilities	**230**	–
Interest on finance leases	**–**	59
	9,284	6,823

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2019 HK$'000	2018 HK$'000
Fees:		
Executive directors	**1,700**	1,700
Non-executive directors	**342**	400
Independent non-executive directors	**594**	500
	2,636	2,600
Other emoluments:		
Salaries, allowances and benefits in kind	**9,118**	9,116
Discretionary bonuses	**1,830**	565
Pension scheme contributions	**386**	386
Consultancy fee	**407**	444
Other fee	**600**	600
	12,341	11,111
	14,977	13,711

8. DIRECTORS' REMUNERATION (continued)

(a) Independent non-executive directors

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

	2019 HK$'000	2018 HK$'000
Wu Hong Cho	**200**	200
Huang De Rui**	**200**	200
Zhang Xiaojing	**100**	100
Lin Yingru *(appointed on 11 July 2019)*	**48**	–
Cheng Wai Po, Samuel *(appointed on 8 October 2019)*	**23**	–
Ko Kwok Fai, Dennis *(appointed on 8 October 2019)*	**23**	–
	594	500

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

(b) Executive directors and non-executive directors

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Pension scheme contributions HK$'000	Other emoluments HK$'000	Total remuneration HK$'000
2019						
Executive directors:						
Lam Ting Ball, Paul	1,100	2,210	–	18	200*	3,528
Chong Chi Kwan	600	1,268	1,100	18	200*	3,186
	1,700	3,478	1,100	36	400	6,714
Non-executive directors:						
Chan Wa Shek	100	–	–	–	407#	507
Zhang Yulin	100	–	–	–	–	100
Hung Ting Ho, Richard *(retired on 5 June 2019)*	42	–	–	–	–	42
Tsui Ho Chuen, Philip	100	5,640	730	350	200*	7,020
	342	5,640	730	350	607	7,669
	2,042	9,118	1,830	386	1,007	14,383

8. DIRECTORS' REMUNERATION (continued)

(b) Executive directors and non-executive directors (continued)

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Pension scheme contributions HK$'000	Other emoluments HK$'000	Total remuneration HK$'000
2018						
Executive directors:						
Lam Ting Ball, Paul	1,100	2,197	–	18	200*	3,515
Chong Chi Kwan	600	1,271	200	18	200*	2,289
	1,700	3,468	200	36	400	5,804
Non-executive directors:						
Chan Wa Shek	100	–	–	–	444#	544
Zhang Yulin	100	–	–	–	–	100
Hung Ting Ho, Richard	100	–	–	–	–	100
Tsui Ho Chuen, Philip	100	5,648	365	350	200*	6,663
	400	5,648	365	350	644	7,407
	2,100	9,116	565	386	1,044	13,211

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

For consultancy services provided to the Company related to project development and related matters in Hong Kong and the PRC

* Fees paid for their capacity as directors of CPM Group Limited

** The English name has been changed from "Danny T Wong" to "Huang De Rui"

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three directors (2018: three), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining two (2018: two) highest paid employees who are non-directors are as follows:

	2019 HK$'000	2018 HK$'000
Salaries, allowances and benefits in kind	5,628	5,628
Discretionary bonuses	1,188	794
Pension scheme contributions	18	18
	6,834	6,440

The remuneration of the highest paid employees who are non-directors by band is set out below:

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

10. 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 one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime effective from the year of assessment 2018/2019. The first HK$2,000,000 (2018: HK$2,000,000) of assessable profits of this subsidiary is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. 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 a subsidiary of the Group qualified as PRC High and New Technology Enterprise in Mainland China to which a lower PRC corporate income tax rate of 15% (2018: 15%) had been applied during the year.

10. INCOME TAX (continued)

	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 (note 30)	**(585)**	(22,903)
Total tax charge/(credit) for the year	**816**	(19,641)

A reconciliation of the tax charge/(credit) for the year applicable to profit/(loss) before tax at the statutory rate for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax expense/(credit) at the effective tax rate is as follows:

	2019 HK$'000	2018 HK$'000
Profit/(loss) before tax	**228,719**	(79,929)
Tax at the statutory tax rate	**37,739**	(13,188)
Different tax rates for specific provinces in the PRC, net	**(1,379)**	2,280
Effect of change in tax rates	**(165)**	(165)
Adjustments in respect of current tax of previous periods	**(674)**	(63)
Profits and losses attributable to associates	**319**	720
Income not subject to tax	**(84,024)**	(15,627)
Expenses not deductible for tax	**44,634**	6,445
Reversal of withholding taxes on the unremitted earnings	**(1,687)**	(12,811)
Tax losses utilised from previous periods	**(3,899)**	(1,385)
Tax losses not recognised	**10,958**	13,654
Others	**(1,006)**	499
Tax charge/(credit) at the Group's effective rate	**816**	(19,641)

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, net" in the consolidated statement of profit or loss.

11. DIVIDEND

	2019 HK$'000	2018 HK$'000
Proposed final – HK2.0 cents (2018: HK1.0 cent) per ordinary share	**38,074**	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 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.

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

The calculation of the basic and diluted earnings/(loss) per share amounts 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.

Notes to Financial Statements
31 December 2019

13. PROPERTY, PLANT AND EQUIPMENT

	Ownership interests in properties held for own use HK$'000	Construction in progress HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2019							
At 1 January 2019 (restated)							
Cost or valuation	378,044	54	22,355	148,769	36,896	18,249	604,367
Accumulated depreciation and impairment	(146,703)	–	(18,096)	(121,516)	(30,343)	(15,224)	(331,882)
Net carrying amount	231,341	54	4,259	27,253	6,553	3,025	272,485
At 31 December 2018, net of accumulated depreciation and impairment	250,438	54	4,259	27,253	6,620	4,107	292,731
Effect of adoption of HKFRS 16	(19,097)	–	–	–	(67)	(1,082)	(20,246)
At 1 January 2019 (restated)	231,341	54	4,259	27,253	6,553	3,025	272,485
Additions	–	459	497	325	1,328	–	2,609
Disposals	–	–	–	(48)	(14)	–	(62)
Write-off (note 6)	–	–	–	(706)	(144)	–	(850)
Transfer from deposits for purchases of properties, plant and equipment, and investment properties (note 20)	–	12,183	–	12	464	–	12,659
Transfer	–	(11,753)	11,753	–	–	–	–
Transfer from investment properties (note 14)	14,129	–	–	–	–	–	14,129
Depreciation provided during the year (note 6)	(12,796)	–	(1,525)	(4,795)	(2,160)	(1,261)	(22,537)
Exchange realignment	(3,199)	(306)	(121)	(523)	(52)	(26)	(4,227)
At 31 December 2019, net of accumulated depreciation and impairment	229,475	637	14,863	21,518	5,975	1,738	274,206
At 31 December 2019:							
Cost or valuation	386,365	637	34,211	138,358	35,706	17,871	613,148
Accumulated depreciation and impairment	(156,890)	–	(19,348)	(116,840)	(29,731)	(16,133)	(338,942)
Net carrying amount	229,475	637	14,863	21,518	5,975	1,738	274,206

13. PROPERTY, PLANT AND EQUIPMENT (continued)

	Leasehold land and buildings HK$'000	Construction in progress HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2018							
At 1 January 2018							
Cost or valuation	376,576	388	22,735	155,257	37,945	21,029	613,930
Accumulated depreciation and impairment	(148,612)	–	(19,493)	(122,736)	(31,328)	(15,686)	(337,855)
Net carrying amount	227,964	388	3,242	32,521	6,617	5,343	276,075
At 1 January 2018, net of accumulated depreciation and impairment	227,964	388	3,242	32,521	6,617	5,343	276,075
Acquisition of assets through acquisition of subsidiaries (note 36(c))	29,941	–	–	–	–	–	29,941
Additions	62	20,168	892	834	2,611	443	25,010
Disposals	–	–	–	(276)	(52)	(61)	(389)
Write-off (note 6)	(49)	–	(15)	(46)	(174)	(13)	(297)
Surplus on revaluation	18,746	–	–	–	–	–	18,746
Transfer from deposits for purchases of properties, plant and equipment, and investment properties (note 20)	–	–	–	546	–	248	794
Transfer	18,508	(19,558)	1,050	–	–	–	–
Transfer to investment properties (note 14)	(24,344)	–	(11)	–	–	–	(24,355)
Depreciation provided during the year (note 6)	(12,686)	–	(761)	(4,615)	(2,274)	(1,732)	(22,068)
Exchange realignment	(7,704)	(944)	(138)	(1,711)	(108)	(121)	(10,726)
At 31 December 2018, net of accumulated depreciation and impairment	250,438	54	4,259	27,253	6,620	4,107	292,731
At 31 December 2018:							
Cost or valuation	403,998	54	22,355	148,769	37,014	20,159	632,349
Accumulated depreciation and impairment	(153,560)	–	(18,096)	(121,516)	(30,394)	(16,052)	(339,618)
Net carrying amount	250,438	54	4,259	27,253	6,620	4,107	292,731

13. PROPERTY, PLANT AND EQUIPMENT (continued)

The net carrying amounts of items of property, plant and equipment held under finance leases included in the total amounts of furniture, fixtures and equipment and motor vehicles at 31 December 2018 were as follows:

	2018 HK$'000
Furniture, fixtures and equipment	67
Motor vehicles	1,082
	1,149

Certain of the Group's ownership interests in properties held for own use (2018: leasehold land and buildings) situated in Hong Kong and Mainland China were revalued at 31 December 1994 by Vigers Appraisal & Consulting Limited, an independent professionally qualified valuer. The leasehold land and buildings situated in Hong Kong were revalued at open market value, based on their existing use. The leasehold land and buildings situated in Mainland China were revalued based on a combination of the market and the depreciated replacement costs. Since 31 December 1994, no further revaluations of the Group's leasehold land and buildings have been carried out, as the Group has relied upon the exemption granted under the transitional provisions in paragraph 80AA of HKAS 16 from the requirement to carry out future revaluations of its property, plant and equipment which were stated at valuation at that time.

Had the Group's ownership interests in properties held for own use (2018: leasehold land and buildings) been carried at historical cost less accumulated depreciation and impairment, their total carrying amount at 31 December 2019 would have been HK$23,936,000 (2018: HK$25,306,000).

At 31 December 2019, certain of the above ownership interests in properties held for own use (2018: land and buildings) with an aggregate net carrying amount of HK$43,900,000 (2018: HK$78,784,000) were pledged to secure general banking facilities granted to the Group (note 28).

14. INVESTMENT PROPERTIES

	Notes	2019 HK$'000	2018 HK$'000
Carrying amount at 1 January		**799,978**	683,923
Additions		**1,370**	747
Acquisitions of investment properties through acquisitions of subsidiaries	36(a),(b)	**713,000**	–
Disposals of subsidiaries	38	**(418,230)**	–
Fair value gain/(loss), net		**(229,689)**	90,773
Transfer from deposits for purchases of properties, plant and equipment, and investment properties	20	**3,471**	4,937
Transfer from/(to) owner-occupied properties	13	**(14,129)**	24,355
Transfer from prepaid land lease payments	16	**–**	4,390
Exchange realignment		**(4,432)**	(9,147)
Carrying amount at 31 December		**851,339**	799,978

The Group's investment properties consist of residential, commercial, hotel, serviced apartment and industrial properties in Hong Kong and the PRC. The directors of the Company have determined that the investment properties consist of seven classes of asset, i.e., commercial, hotel, serviced apartment and industrial in Hong Kong and residential, commercial and industrial in the PRC during the year, based on the nature, characteristics and risks of each property. The Group's investment properties were revalued on 31 December 2019 based on valuations performed by BMI Appraisals Limited and Prudential Surveyors (Hong Kong) Limited, independent professional qualified valuers. The Group's finance department who reports directly to the senior management selects an external valuer to be responsible for the external valuations of the Group's properties based on market knowledge, reputation and independence of the external valuer, and whether professional standards are maintained by the external valuer. Fair values of the Group's investment properties are generally derived by using the income capitalisation method or market comparison approach. The Group's finance department has discussions with the external valuers on the valuation assumptions and valuation results when the valuation is performed for interim and annual financial reporting.

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

The market comparison approach is based on the price by assuming sale of the property interest in its existing state with reference to comparable sales transactions as available in the relevant market.

14. INVESTMENT PROPERTIES (continued)

Fair value hierarchy

The following table illustrates how the fair values of the Group's investment properties are determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements are observable.

Investment properties held by the Group	Fair value hierarchy	Valuation techniques	Significant unobservable inputs	Range or weighted average 2019	2018
Commercial properties in Hong Kong	Level 3	Income capitalisation method	Prevailing market rents (per sq.ft. per month)	**HK$30 to HK$100**	HK$31 to HK$109
			Capitalisation rates	**2.9% to 3.2%**	2.5% to 3.0%
Hotel in Hong Kong	Level 3	Income capitalisation method	Prevailing market rents	**HK$73 to HK$85**	N/A
			Capitalisation rates	**5.0% to 8.0%**	N/A
		Market comparison approach	Prevailing market rates (per room)	**HK$2,730,000 to HK$5,100,000**	N/A
			Capitalisation rates	**5.0% to 8.0%**	N/A
Serviced apartment in Hong Kong	Level 3	Income capitalisation method	Prevailing market rents (per sq. ft. per month)	**HK$36 to HK$94**	N/A
		Market comparison approach	Prevailing market rate (per sq. ft.)	**HK$30,000**	N/A
Industrial properties in Hong Kong	Level 3	Income capitalisation method	Prevailing market rents (per sq. ft. per month)	**N/A**	HK$8 to HK$28
			Capitalisation rates	**N/A**	3.2% to 7.1%
		Market comparison approach	Prevailing market rates (per sq. ft.)	**N/A**	HK$2,000 to HK$4,150

14. INVESTMENT PROPERTIES (continued)

Fair value hierarchy (continued)

Investment properties held by the Group	Fair value hierarchy	Valuation techniques	Significant unobservable inputs	Range or weighted average 2019	2018
Commercial properties in Mainland China	Level 3	Income capitalisation method	Prevailing market rents (per sq.m. per month)	**RMB190 to RMB270**	RMB135 to RMB270
			Capitalisation rates	**3.5% to 5.3%**	5.0% to 5.3%
		Market comparison approach	Prevailing market rates (per sq.m.)	**RMB8,900 to RMB73,000**	RMB39,000 to RMB79,000
Industrial properties in Mainland China	Level 3	Income capitalisation method	Prevailing market rents (per sq.m. per month)	**RMB16 to RMB25**	RMB16 to RMB25
			Capitalisation rates	**6.0% to 9.0%**	6.0% to 9.0%
Residential properties in Mainland China	Level 3	Market comparison approach	Prevailing market rates (per sq.m.)	**RMB8,900 to RMB48,000**	RMB40,000 to RMB46,000

14. INVESTMENT PROPERTIES (continued)

Fair value hierarchy (continued)

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2018: Nil).

Under the income capitalisation method, a significant increase (decrease) in the prevailing market rents in isolation would result in a significant increase (decrease) in the fair value of the investment properties. A significant increase (decrease) in the capitalisation rate in isolation would result in a significant decrease (increase) in the fair value of the investment properties.

Under the market comparison approach, a significant increase (decrease) in the prevailing market rates in isolation would result in a significant increase (decrease) in the fair value of the investment properties.

The reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy of each class of asset is as follows:

	Hotel in Hong Kong HK$'000	Serviced apartment in Hong Kong HK$'000	Residential properties in Mainland China HK$'000	Commercial properties in Hong Kong HK$'000	Commercial properties in Mainland China HK$'000	Industrial properties in Hong Kong HK$'000	Industrial properties in Mainland China HK$'000	Total HK$'000
Carrying amount at 1 January 2018	–	–	39,626	170,800	105,298	339,980	28,219	683,923
Additions	–	–	–	–	747	–	–	747
Fair value gains, net	–	–	5,552	17,500	2,415	65,070	236	90,773
Transfer from deposits for purchases of properties, plant and equipment, and investment properties	–	–	4,937	–	–	–	–	4,937
Transfer from owner-occupied properties	–	–	–	–	–	13,180	11,175	24,355
Transfer from prepaid land lease payments	–	–	–	–	–	–	4,390	4,390
Exchange realignment	–	–	(2,237)	–	(5,588)	–	(1,322)	(9,147)
Carrying amount at 31 December 2018 and 1 January 2019	**–**	**–**	**47,878**	**188,300**	**102,872**	**418,230**	**42,698**	**799,978**
Additions	**–**	**–**	**136**	**–**	**1,234**	**–**	**–**	**1,370**
Acquisitions of investment properties through acquisition of subsidiaries	**530,000**	**183,000**	**–**	**–**	**–**	**–**	**–**	**713,000**
Disposals of subsidiaries	**–**	**–**	**–**	**–**	**–**	**(418,230)**	**–**	**(418,230)**
Fair value gains/(losses), net	**(217,000)**	**–**	**2,653**	**(13,700)**	**(1,980)**	**–**	**338**	**(229,689)**
Transfer from deposits for purchases of properties, plant and equipment, and investment properties	**–**	**–**	**–**	**–**	**3,471**	**–**	**–**	**3,471**
Transfer to owner-occupied properties	**–**	**–**	**–**	**–**	**(14,129)**	**–**	**–**	**(14,129)**
Exchange realignment	**–**	**–**	**(998)**	**–**	**(2,561)**	**–**	**(873)**	**(4,432)**
Carrying amount at 31 December 2019	**313,000**	**183,000**	**49,669**	**174,600**	**88,907**	**–**	**42,163**	**851,339**

14. INVESTMENT PROPERTIES (continued)

Fair value hierarchy (continued)

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 16.

At 31 December 2019, certain of the Group's investment properties with an aggregate carrying value of HK$313,000,000 (2018: HK$295,060,000) were pledged to secure general banking facilities granted to the Group (note 28).

Further particulars of the Group's investment properties are included on pages 177 to 179.

15. PROPERTIES UNDER DEVELOPMENT

	2019	2018
	HK$'000	HK$'000
Carrying amount at 1 January and at 31 December	**28,000**	28,000

The properties under development are situated in Hong Kong. On 14 November 2017, the final hearing section of the Appeal Board Panel (Town Planning) of Hong Kong (the "Appeal Board"), has conditionally approved the development of columbarium application. The Appeal Board has also imposed several conditions to be fulfilled by the Group within four years commencing from date of decision.

Further particulars of the Group's properties under development are included on page 179.

16. LEASES

The Group as a lessee

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

16. LEASES (continued)

The Group as a lessee (continued)

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

	HK$'000
Carrying amount at 1 January 2018	19,232
Acquisitions of assets through acquisitions of subsidiaries (note 36(c))	76,794
Recognised during the year (note 6)	(1,364)
Transfer to an investment property (note 14)	(4,390)
Exchange realignment	(1,812)
Carrying amount at 31 December 2018	88,460
Current portion included in prepayments, deposits and other receivables	(2,889)
Non-current portion	85,571

(b) Right-of-use assets

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

	Properties HK$'000	Prepaid land lease payments HK$'000	Motor vehicles HK$'000	Office equipment HK$'000	Total HK$'000
At 1 January 2019	4,073	107,557	1,082	67	112,779
Additions	1,001	–	–	90	1,091
Disposal	–	–	–	(27)	(27)
Depreciation charge	(2,484)	(3,490)	(382)	(17)	(6,373)
Exchange realignment	(4)	(1,752)	–	–	(1,756)
At 31 December 2019	2,586	102,315	700	113	105,714

At 31 December 2019, one of the Group's right-of-use assets with an aggregate net carrying amount of HK$18,488,000 (2018: Nil) were pledged to secure general banking facilities granted to the Group (note 28).

16. LEASES (continued)

The Group as a lessee (continued)

(c) Lease liabilities

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

	2019 Lease liabilities HK$'000	2018 Finance lease payables HK$'000
Carrying amount at 1 January	**5,129**	1,423
New leases	**1,091**	34
Accretion of interest recognised during the year	**230**	59
Payments	**(3,069)**	(460)
Exchange realignment	**(5)**	–
Carrying amount at 31 December	**3,376**	1,056
Analysed into:		
Current portion	**2,673**	410
Non-current portion	**703**	646

The maturity analysis of lease liabilities (2018: finance lease payables) is disclosed in note 45 to the financial statements.

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

	2019 HK$'000
Interest on lease liabilities	**230**
Depreciation charge of right-of-use assets	**6,373**
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019 (included in cost of sales, selling and distribution expenses and administrative expenses)	**3,189**
Total amount recognised in profit or loss	**9,792**

(e) The total cash outflow for leases is disclosed in note 39(c) to the financial statements.

16. LEASES (continued)

The Group as a lessor

The Group leases its investment properties (note 14) consisting of a hotel, a serviced apartment and certain commercial properties in Hong Kong, certain residential, commercial and industrial properties in Mainland China, and an insignificant portion of buildings in Mainland China (note 13) under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the prevailing market conditions. Rental income recognised by the Group during the year was HK$25,538,000 (2018: HK$24,421,000), details of which are included in note 5 to the financial statements.

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

	2019 **HK$'000**	2018 HK$'000
Within one year	**30,715**	13,546
After one year but within two years	**27,836**	6,375
After two years but within three years	**15,542**	3,936
After three years but within four years	**1,674**	854
After four years but within five years	**911**	854
After five years	**683**	–
	77,361	25,565

17. INTANGIBLE ASSETS

	Notes	2019 HK$'000	2018 HK$'000
Licences			
Cost and net carrying amount at 1 January		**805**	–
Acquisitions of assets through acquisitions of subsidiaries	36(c)	**–**	1,279
Amortisation provided during the year	6	**(815)**	(459)
Exchange realignment		**10**	(15)
Carrying amount at 31 December		**–**	805
At 31 December:			
Cost		**1,265**	1,265
Accumulated amortisation		**(1,265)**	(460)
Net carrying amount		**–**	805

18. INTERESTS IN ASSOCIATES

	2019 HK$'000	2018 HK$'000
Share of net assets	**22,749**	9,599

The amount due to an associate included in the Group's current liabilities as at 31 December 2019 of HK$2,800,000 (2018: HK$2,800,000) is unsecured, interest-free and repayable with not less than 30 days' prior written notice.

18. INTERESTS IN ASSOCIATES (continued)

Particulars of the associates are as follows:

Name	Particulars of issued shares held	Place of incorporation and business	Percentage of ownership interest attributable to the Group		Principal activities
			2019	2018	
Arran Investment Company Limited#	Founder's shares and ordinary shares	Hong Kong	**50**	50	Property investment
CNT Tin Plate# (note)	Ordinary shares	Hong Kong	**–**	50	Investment holding
廣州太平洋馬口鐵有限公司# (note)	Ordinary shares	PRC/ Mainland China	**20**	–	Manufacturing of iron and steel products

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

Note: Upon completion of the Step Acquisition (further details of which are set out in note 37 to the financial statements), CNT Tin Plate becomes a wholly-owned subsidiary of the Group, whereas 廣州太平洋馬口鐵有限公司, 20% equity interest of which is held by CNT Tin Plate, becomes an associate of the Group.

Arran Investment Company Limited and 廣州太平洋馬口鐵有限公司 were corporate associates indirectly held by the Company as at 31 December 2019 (2018: Arran Investment Company Limited and CNT Tin Plate). The financial year of 廣州太平洋馬口鐵有限公司 (2018: CNT Tin Plate) is coterminous with that of the Group, while Arran Investment Company Limited uses a financial year end date of 31 October. The consolidated financial statements are adjusted for material transactions between this associate and the Group between the financial year end date of this associate and that of the Group.

All the above associates have been accounted for using the equity method in these financial statements.

18. INTERESTS IN ASSOCIATES (continued)

(a) 2019 – 廣州太平洋馬口鐵有限公司

廣州太平洋馬口鐵有限公司, which is considered a material associate of the Group principally engaged in manufacturing of iron and steel products, is accounted for using the equity method.

The following table illustrates the summarised financial information in respect of 廣州太平洋馬口鐵有限公司 adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	2019 **HK$'000**
Current assets	**494,776**
Non-current assets	**89,366**
Current liabilities	**(484,322)**
Net assets	**99,820**
Reconciliation to the Group's interest in the associate:	
Proportion of Group's ownership	**20%**
Group's share of net assets of the associate	**19,964**
Carrying amount of the investment	**19,964**
Revenue	**939,950**
Loss for the year	**(30,134)**
Other comprehensive income	**–**
Total comprehensive loss for the year	**(30,134)**

18. INTERESTS IN ASSOCIATES (continued)

(b) 2018 – CNT Tin Plate

CNT Tin Plate, which was considered a material associate of the Group principally engaged in investment holding, is accounted for using the equity method.

The following table illustrates the summarised financial information in respect of CNT Tin Plate adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	2018 HK$'000
Current assets	82
Non-current assets	54,649
Current liabilities	(333)
Non-current liabilities	(40,588)
Net assets	13,810
Reconciliation to the Group's interest in the associate:	
Proportion of Group's ownership	50%
Group's share of net assets of the associate	6,905
Carrying amount of the investment	6,905
Revenue	–
Loss for the year	(12,192)
Other comprehensive income	332
Total comprehensive loss for the year	(11,860)

The following table illustrates the financial information of the Group's associate that is not individually material:

	2019 **HK$'000**	2018 HK$'000
Share of the associate's profit for the year	1,817	1,731
Share of the associate's total comprehensive income	1,817	1,731
Dividend paid by the associate during the year	1,726	1,563
Aggregate carrying amount of the Group's investment in the associate	2,785	2,694

19. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019	2018
	HK$'000	HK$'000
Equity investments designated at fair value through other comprehensive income		
Unlisted equity investments, at fair value		
Profitable Industries Limited	**41,658**	81,604
Goodwill International (Holdings) Limited	**7,373**	9,806
Unlisted club membership debenture	**300**	300
	49,331	91,710

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

During the year ended 31 December 2018, the Group received dividend in the amount of HK$240,000 from Goodwill International (Holdings) Limited.

20. DEPOSITS FOR PURCHASES OF PROPERTIES, PLANT AND EQUIPMENT, AND INVESTMENT PROPERTIES

	Notes	2019 HK$'000	2018 HK$'000
Carrying amount at 1 January		**12,269**	14,228
Transfer to property, plant and equipment	13	**(12,659)**	(794)
Transfer to investment properties	14	**(3,471)**	(4,937)
Additions		**15,206**	5,084
Exchange realignment		**(1,383)**	(1,312)
Carrying amount at 31 December		**9,962**	12,269

As at 31 December 2019 and 2018, the carrying amounts represented deposits paid for the purchases of a parcel of land in Xinfeng, Guangdong Province, the PRC, machinery and equipment for the Group's paint operation and renovation of investment properties.

21. NET PENSION SCHEME ASSETS

The Group operates a funded defined benefit scheme for all its qualifying employees in Hong Kong. Under the scheme, the employees are entitled to retirement benefits at 70% of their final monthly salaries multiplied by their respective numbers of past service years plus 70% of their final monthly salaries multiplied by their respective numbers of past scheme service years on attainment of a retirement age of 65.

The Group's defined benefit scheme is a final salary plan, which requires contributions to be made to a separately administered fund. The scheme has the legal form of a foundation and it is administrated by an independent trustee with the assets held separately from those of the Group. The trustee is responsible for the determination of the investment strategy of the scheme.

The trustee reviews the level of funding in the scheme by the end of each reporting period. Such a review includes the asset-liability matching strategy and investment risk management policy. The trustee decides the contribution based on the results of the annual review. The investment portfolio targets a mix of 55% to 85% in global equities and 15% to 45% in global bonds and deposits.

The scheme is exposed to interest rate risk, the risk of changes in the life expectancy for pensioners and equity market risk.

The most recent actuarial valuations of the scheme assets and the present value of the defined benefit obligations were carried out at 31 December 2019 by Grant Sherman Appraisal Limited, an independent professional actuarial advisor, using the projected unit credit actuarial valuation method.

21. NET PENSION SCHEME ASSETS (continued)

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

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

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

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

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

The sensitivity analysis above has been determined based on a method that extrapolates the impact on net pension scheme assets as a result of reasonable changes in key assumptions occurring at the end of the reporting period. It is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actual assumptions.

The total expenses recognised in the consolidated statement of profit or loss in respect of the scheme are as follows:

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

21. NET PENSION SCHEME ASSETS (continued)

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

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

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

2019

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

21. NET PENSION SCHEME ASSETS (continued)

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

2018

		Pension cost credited/(charged) to profit or loss				Remeasurement gains/(losses) in other comprehensive income					
	1 January 2018 HK$'000	Service cost HK$'000	Net interest income/ (expense) HK$'000	Sub-total included in profit or loss HK$'000	Benefit paid HK$'000	Return on scheme assets (excluding amounts included in net interest expense) HK$'000	Actuarial changes arising from changes in demographic assumptions HK$'000	Actuarial changes arising from changes in financial assumptions HK$'000	Experience adjustments HK$'000	Sub-total included in other comprehensive income HK$'000	31 December 2018 HK$'000
Fair value of scheme assets	9,259	–	160	160	(257)	(1,156)	–	–	–	(1,156)	8,006
Defined benefit obligations	(4,838)	(129)	(78)	(207)	257	–	344	52	73	469	(4,319)
Net pension scheme assets	4,421	(129)	82	(47)	–	(1,156)	344	52	73	(687)	3,687

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

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

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

The weighted average duration of the defined benefit obligations at the end of the reporting period was 6 years (2018: 8 years).

22. INVENTORIES

	2019 HK$'000	2018 HK$'000
Raw materials and spare parts	32,603	36,033
Work in progress	4,172	4,766
Finished goods	33,515	38,280
	70,290	79,079

23. TRADE AND BILLS RECEIVABLES

	2019 HK$'000	2018 HK$'000
Trade receivables	340,948	542,916
Impairment	(61,182)	(92,045)
	279,766	450,871
Bills receivable	38,683	28,154
	318,449	479,025

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance may be required. 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 related to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade and bills receivables. 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	38,668	162,114
	318,449	479,025

23. TRADE AND BILLS RECEIVABLES (continued)

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

	Note	2019 HK$'000	2018 HK$'000
At beginning of year		**92,045**	63,757
Amount written off as uncollectible		**–**	(471)
Provision for/(reversal of provision for) impairment losses	6	**(28,958)**	31,704
Exchange realignment		**(1,905)**	(2,945)
At end of year		**61,182**	92,045

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type and customer type and rating). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2019

			Past due			
	Credit-impaired	**Current**	**Less than 3 months**	**3 to 6 months**	**Over 6 months**	**Total**
Expected credit loss rate	**100%**	**5.9%**	**7.8%**	**18.9%**	**36.2%**	**17.9%**
Gross carrying amount (HK$'000)	**17,294**	**158,369**	**72,867**	**26,789**	**65,629**	**340,948**
Expected credit losses (HK$'000)	**17,294**	**9,358**	**5,691**	**5,065**	**23,774**	**61,182**

As at 31 December 2018

			Past due			
	Credit-impaired	Current	Less than 3 months	3 to 6 months	Over 6 months	Total
Expected credit loss rate	100%	3.6%	7.7%	16.2%	28.7%	17.0%
Gross carrying amount (HK$'000)	17,654	204,393	101,097	30,111	189,661	542,916
Expected credit losses (HK$'000)	17,654	7,352	7,748	4,885	54,406	92,045

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

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2019 HK$'000	2018 HK$'000
Prepayments	**2,924**	7,436
Deposits and other receivables	**77,371**	85,988
	80,295	93,424
Impairment allowance	**(2,800)**	(700)
	77,495	92,724

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

	Notes	2019 HK$'000	2018 HK$'000
At beginning of year		**700**	2,066
Write-back of an other receivable	5	**–**	(1,366)
Impairment loss	6	**2,100**	–
At end of year		**2,800**	700

Where applicable, an impairment analysis is performed at each reporting date by considering the probability of default. As at 31 December 2019, the probability of default applied to an other receivable of HK$2,800,000 was 100% (2018: 25%) and the corresponding loss given default was estimated to be 100% (2018:100%). The impairment allowance of the remaining deposits and other receivables was assessed to be minimal.

25. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2019 HK$'000	2018 HK$'000
Cash and bank balances	**285,137**	253,407
Time deposits:		
– with original maturity of less than three months when acquired	**180,237**	43,986
– with original maturity of more than three months when acquired	**2,426**	3,528
	467,800	300,921
Less: Pledged time deposits for bills payable		
– with original maturity of less than three months when acquired	**–**	(1,527)
– with original maturity of more than three months when acquired	**(2,426)**	(3,528)
Cash and cash equivalents	**465,374**	295,866

At the end of the reporting period, the cash and bank balances and time deposits of the Group denominated in Renminbi ("RMB") amounted to HK$232,550,000 (2018: HK$191,528,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for periods of between one week and one year depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximate to their fair values.

Notes to Financial Statements
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26. 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
	166,287	226,374

Included in the Group's trade and bills payables as at 31 December 2019 is an amount due to an associate of the Group 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 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).

27. OTHER PAYABLES AND ACCRUALS AND DEPOSITS RECEIVED

	Notes	2019 HK'000	2018 HK$'000
Deferred income		**297**	303
Other payables	(i)	**38,951**	79,832
Accruals		**38,877**	32,823
Contract liabilities	(ii)	**5,237**	2,409
Deposits received		**4,000**	–
		87,362	115,367
Portion classified as current liabilities		**(83,362)**	(115,367)
Non-current portion		**4,000**	–

Notes:

(i) The other payables are non-interest-bearing and have an average term of three months.

(ii) Details of contract liabilities are as follows:

	31 December 2019 HK$000	31 December 2018 HK$'000	1 January 2018 HK$'000
Advances received from customers			
Sales of industrial products	**5,237**	2,409	2,489

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

28. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2019			2018		
	Effective interest rate per annum (%)	**Maturity**	**HK$'000**	Effective interest rate per annum (%)	Maturity	HK$'000
Current						
Finance lease payables (note 29)			**–**	2.5 – 8.8	2019	410
Bank loans – secured	**2.8 – 4.4**	**2020**	**190,791**	2.0 – 4.4	2019	120,166
Bank loans – unsecured	**7.2**	**2020**	**20,808**	3.3 – 7.2	2019	85,726
Import loans – secured	**3.0 – 3.8**	**2020**	**4,843**	3.3 – 5.7	2019	47,984
Import loans – unsecured			**–**	3.3 – 4.0	2019	15,835
			216,442			270,121
Non-current						
Finance lease payables (note 29)			**–**	2.5 – 4.0	2019 – 2023	646
			216,442			270,767

	2019	2018
	HK$'000	HK$'000
Analysed into:		
Bank loans and import loans repayable:		
Within one year or on demand	**216,442**	269,711
Other borrowings repayable:		
Within one year or on demand	**–**	410
In the second year	**–**	417
In the third to fifth years, inclusive	**–**	229
	–	1,056
	216,442	270,767

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

Notes:

(a) The above bank loans of HK$195,635,000 (2018: HK$237,985,000) containing a repayment on-demand clause were already included in total current liabilities as at 31 December 2019. Accordingly, for the purpose of the above analysis, the bank loans due for repayment after one year, were analysed into bank loans and import loans repayable within one year or on demand as at the end of the reporting periods.

Ignoring the effect of any repayment on-demand clause and based on the maturity terms of the bank borrowings, the bank borrowings are repayable as at 31 December 2019 and 31 December 2018:

	2019	2018
	HK$'000	HK$'000
Analysed into:		
Bank loans and import loans repayable:		
Within one year	**188,842**	222,601
In the second year	**27,600**	19,510
In the third to fifth years, inclusive	**–**	27,600
	216,442	269,711

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

(i) the Group's ownership interests in properties held for own use (2018: leasehold land and buildings) and one of the Group's right-of-use assets with an aggregate net book value at the end of the reporting period of HK$43,900,000 (2018: HK$78,784,000) (note 13) and HK$18,488,000 (2018: Nil) (note 16), respectively;

(ii) the Group's investment properties with an aggregate carrying value at the end of the reporting period of HK$313,000,000 (2018: HK$295,060,000) (note 14); and

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

(c) Included in the Group's interest-bearing bank and other borrowings as at 31 December 2019 were borrowings with carrying amounts of HK$4,595,000 (2018: HK$28,165,000) and HK$20,808,000 (2018: HK$51,545,000) which were denominated in United States dollars ("US$") and Renminbi ("RMB"), respectively. All other borrowings of the Group are denominated in Hong Kong dollars.

29. FINANCE LEASE PAYABLES

The Group leased a motor vehicle and certain of its office equipment for its operations. These leases were classified as finance leases prior to HKFRS 16 becoming effective on 1 January 2019 and had remaining lease terms ranging from one to five years. All leases were on a fixed repayment basis and no arrangements had been entered into for contingent rental payments.

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

	Minimum lease payments HK$'000	Present value of minimum lease payments HK$'000
Amounts payable:		
Within one year	443	410
In the second year	430	417
In the third to fifth years, inclusive	215	229
Total minimum finance lease payments	1,088	1,056
Future finance charges	(32)	
Total net finance lease payables	1,056	
Portion classified as current liabilities (note 28)	(410)	
Non-current portion (note 28)	646	

30. DEFERRED TAX

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

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation		Revaluation of properties		Withholding taxes		Right-of use assets		Total	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At 1 January	**3,177**	3,030	**17,927**	14,779	**10,308**	24,696	**–**	–	**31,412**	42,505
Effect of adoption of HKFRS 16	**–**	–	**–**	–	**–**	–	**589**	–	**589**	–
At 1 January (restated)	**3,177**	3,030	**17,927**	14,779	**10,308**	24,696	**589**	–	**32,001**	42,505
Deferred tax charged/(credited) to the statement of profit or loss during the year (note 10)	**487**	147	**254**	2,051	**(1,686)**	(14,388)	**(303)**	–	**(1,248)**	(12,190)
Deferred tax charged to the statement of other comprehensive income during the year	**–**	–	**–**	1,601	**–**	–	**–**	–	**–**	1,601
Disposal of subsidiaries (note 38)	**(2,858)**	–	**(5,789)**	–	**–**	–	**–**	–	**(8,647)**	–
Exchange realignment	**–**	–	**(245)**	(504)	**45**	–	**(1)**	–	**(201)**	(504)
Gross deferred tax liabilities at 31 December	**806**	3,177	**12,147**	17,927	**8,667**	10,308	**285**	–	**21,905**	31,412

30. DEFERRED TAX (continued)

Deferred tax assets

	Lease liabilities		Impairment of trade receivables		Losses available for offsetting against future taxable profits		Depreciation in excess of related depreciation allowance		Accruals		Total	
	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000
At 1 January	–	–	7,383	3,235	8,095	290	3,086	3,362	763	1,965	19,327	8,852
Effect of adoption of HKFRS 16	589	–	–	–	–	–	–	–	–	–	589	–
At 1 January (restated)	589	–	7,383	3,235	8,095	290	3,086	3,362	763	1,965	19,916	8,852
Deferred tax credited/(charged) to statement of profit or loss during the year (note 10)	(295)	–	(2,986)	4,275	1,980	7,732	651	(104)	(13)	(1,190)	(663)	10,713
Exchange realignment	(1)	–	(157)	(127)	(159)	73	(60)	(172)	(15)	(12)	(392)	(238)
Gross deferred tax assets at 31 December	293	–	4,240	7,383	9,916	8,095	3,677	3,086	735	763	18,861	19,327

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

	2019 HK$'000	2018 HK$'000
Net deferred tax assets recognised in the consolidated statement of financial position	18,228	19,327
Net deferred tax liabilities recognised in the consolidated statement of financial position	21,272	31,412

30. DEFERRED TAX (continued)

The Group had estimated tax losses arising in Hong Kong of HK$1,133,404,000 (2018: HK$1,136,094,000), subject to the agreement by the Hong Kong Inland Revenue Department, that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group had estimated tax losses arising in Mainland China of HK$149,750,000 (2018: HK$104,518,000) that will expire in one to five years for offsetting against future taxable profits arising in Mainland China of the companies in which the losses arose.

As at 31 December 2019, the tax losses of the Company and a subsidiary arising in Hong Kong and the tax losses of subsidiaries arising in the PRC with an aggregate amount of HK$13,930,000 (2018: HK$173,000) and HK$50,780,000 (2018: HK$51,840,000) were recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences. In the opinion of the directors, it is considered probable that taxable profits will be available against which such tax losses can be utilised based on the estimated future taxable profits of the Company and subsidiaries. Deferred tax assets have not been recognised in respect of the remaining losses arising in Hong Kong and Mainland China as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits would be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2019, deferred tax liabilities of HK$8,667,000 (2018: HK$10,308,000) have been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, the remaining unremitted earnings of the Group's subsidiaries in Mainland China as at 31 December 2019 are expected to be used to fund their operations and capital expenditure and therefore it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

31. DEFERRED INCOME

	Notes	2019 HK$'000	2018 HK$'000
Carrying amount at 1 January		**2,111**	2,535
Recognised during the year	5	**(291)**	(305)
Exchange realignment		**(38)**	(119)
Carrying amount at 31 December		**1,782**	2,111
Portion classified as current liabilities	27	**(297)**	(303)
Non-current portion		**1,485**	1,808

31. DEFERRED INCOME (continued)

As an arrangement of attracting foreign investments in Xuzhou, the PRC, the Group entered into certain agreements (the "Xuzhou Agreements") with the Xuzhou Economic Development Zone Committee ("徐州經濟開發區管委會") (the "Xuzhou Authority", under the municipal government of Xuzhou) on 10 April 2004. Pursuant to the Xuzhou Agreements, the Xuzhou Authority arranged the construction of the plant and office buildings for Giraffe Paint Mfg. Co., (Xuzhou) Ltd., a manufacturing subsidiary of the Group (the "Xuzhou Subsidiary"), and provided the required funding to the Xuzhou Subsidiary for the construction in the form of a loan to the Xuzhou Subsidiary (the "Construction Loan"). The construction of the plant and office buildings was completed, and the plant and office buildings were handed over to the Group for the solvent operation in July 2005. On 25 June 2007, the Group entered into certain revised agreements with the Xuzhou Authority to finalise the land premium payable at RMB4,793,000 for the parcel of land on which the plant and office buildings were constructed (the "Xuzhou Land") and waived the same amount of the Construction Loan. The amount was recorded as deferred income and is recognised in the consolidated statement of profit or loss over the weighted average useful life of the buildings and plant and machinery of the Xuzhou Subsidiary whose construction was financed by the Construction Loan.

32. SHARE CAPITAL

Shares

	2019 **HK$'000**	2018 HK$'000
Authorised:		
2,880,000,000 (2018: 2,880,000,000) ordinary shares of HK$0.10 each	**288,000**	288,000
Issued and fully paid:		
1,903,685,690 (2018: 1,903,685,690) ordinary shares of HK$0.10 each	**190,369**	190,369

Share options

Details of the Company's share option schemes and the share options issued under the schemes are included in note 33 to the financial statements.

33. SHARE OPTION SCHEMES

The 2012 Scheme

The 2012 share option scheme (the "2012 Scheme") was adopted by the Company on 28 June 2012 pursuant to a resolution passed at the annual general meeting held on the same date. Unless terminated by a resolution in a general meeting or by the board of directors, the 2012 Scheme remains valid and effective for the period of 10 years commencing on 28 June 2012, after which period no further options will be issued but, in all other respects, the provisions of the 2012 Scheme shall remain in full force and effect. Further details are set out in the circular of the Company dated 30 April 2012.

The 2012 Scheme will expire on 27 June 2022. During the years ended 31 December 2019 and 2018, no share options were granted under the 2012 Scheme.

34. RESERVES

The amounts of the Group's reserves and the movements therein for the years ended 31 December 2019 and 2018 are presented in the consolidated statement of changes in equity on pages 63 and 64 of this annual report.

35. PARTLY-OWNED SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTEREST

Details of the Group's subsidiary that has material non-controlling interest are set out below:

	2019	2018
Percentage of equity interest held by non-controlling interest:		
CPM Group Limited	**25%**	25%
	HK$'000	HK$'000
Loss for the year allocated to non-controlling interest:		
CPM Group Limited	**(7,009)**	(34,815)
Accumulated balance of non-controlling interest at the reporting date:		
CPM Group Limited	**132,654**	142,347

35. PARTLY-OWNED SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTEREST (continued)

The following tables illustrate the summarised financial information of the above subsidiary. The amounts disclosed are before any inter-company eliminations:

CPM Group Limited	2019 HK$'000	2018 HK$'000
Revenue	**713,328**	617,254
Other income and gains, net	**11,963**	13,442
Total operating expenses	**(752,393)**	(793,205)
Income tax credit/(expenses)	**(815)**	22,867
Loss for the year	**(27,917)**	(139,642)
Other comprehensive loss for the year	**(10,801)**	(25,391)
Total comprehensive loss for the year	**(38,718)**	(165,033)
Current assets	**647,402**	712,529
Non-current assets	**342,372**	356,649
Current liabilities	**(443,255)**	(481,930)
Non-current liabilities	**(12,826)**	(14,837)
Non-controlling interest	**(3,078)**	(3,023)
Net cash flows from/(used in) operating activities	**87,478**	(71,964)
Net cash flows used in investing activities	**(13,463)**	(126,648)
Net cash flows from/(used in) financing activities	**(6,283)**	118,594
Net increase/(decrease) in cash and cash equivalents	**67,732**	(80,018)

36. ACQUISITIONS OF ASSETS THROUGH ACQUISITIONS OF SUBSIDIARIES

(a) 2019 – Acquisition of assets through acquisition of Nigon

On 31 May 2019, the Group acquired 100% equity interest in Nigon and its shareholder's loan from Jetco (H.K.) Limited ("Jetco"), an independent third party, at a cash consideration of HK$533,773,000. Nigon is engaged in property investment and the principal asset of Nigon is a hotel building located in Wan Chai, Hong Kong. As at the date of acquisition, the acquired subsidiary did not carry out any significant business transactions other than holding the abovementioned property.

The above acquisition has been accounted for by the Group as an acquisition of assets as the acquired subsidiary does not constitute a business.

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

	HK$'000
Investment property	**530,000**
Prepayments and deposits	**428**
Cash and bank balances	**3,349**
Other payables	**(4)**
Shareholder's loan	**(226,685)**
Net assets	**307,088**
Assignment of a shareholder's loan	**226,685**
Satisfied by cash	**533,773**

The consideration of HK$533,773,000 was settled by offsetting against the consideration receivable from the disposal of Ocean Wide Group (note 38), which resulted in a net cash inflow from the acquisition of approximately HK$3,349,000 being the cash and bank balances acquired.

The Group incurred transaction costs of approximately HK$10,512,000 for this acquisition. Among them, the costs of HK$9,504,000 have been expensed and are included in administrative expenses in the consolidated statement of profit or loss for the current year, and the remaining costs of HK$1,008,000 were expensed and charged to profit or loss in the prior years.

36. ACQUISITIONS OF ASSETS THROUGH ACQUISITIONS OF SUBSIDIARIES (continued)

(b) 2019 – Acquisition of assets through acquisition of Cigma

On 18 December 2019, the Group acquired 100% equity interest in Cigma and its shareholder's loan from Capitalkey Limited ("Capitalkey"), an independent third party, at a cash consideration of HK$183,083,000. Cigma is engaged in property investment and the principal asset of Cigma is 25-storey serviced apartment located in Kowloon. As at the date of acquisition, the acquired subsidiary did not carry out any significant business transactions other than holding the abovementioned property.

The above acquisition has been accounted for by the Group as an acquisition of assets as the acquired subsidiary does not constitute a business.

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

	HK$'000
Investment property	183,000
Prepayments and deposits	42
Cash and bank balances	69
Accruals	(28)
Net assets	183,083
Satisfied by cash	183,083
Cash consideration	183,083
Cash and bank balances acquired	(69)
Net outflow of cash and cash equivalents	183,014

The Group incurred transaction costs of approximately HK$3,621,000 for this acquisition. These costs have been expensed and are included in administrative expenses in the consolidated statement of profit or loss for the year.

36. ACQUISITIONS OF ASSETS THROUGH ACQUISITIONS OF SUBSIDIARIES (continued)

(c) 2018 – Acquisition of assets through acquisition of China Molybdenum & Vanadium Development Limited

On 31 August 2018, the Group acquired 100% equity interest in China Molybdenum & Vanadium Development Limited ("CMVD") from an independent third party at a cash consideration of HK$99,609,000. CMVD is engaged in investment holding and holds 100% equity interest in Zhongshan Yongcheng Chemical Co., Ltd. ("Zhongshan Yongcheng"). Zhongshan Yongcheng is engaged in the manufacture and sale of paint and coating products. The principal assets of Zhongshan Yongcheng were a plot of land located in Zhongshan City, Guangdong, the PRC of approximately 33,333 square metres and the buildings and production facilities erected on the land.

The above transaction was accounted for as purchase of assets and liabilities rather than as business combination because the acquired subsidiaries have not carried out any significant business transactions prior to the date of acquisition.

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

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

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

37. STEP ACQUISITION FROM AN ASSOCIATE TO A SUBSIDIARY

Pursuant to a sale and purchase agreement entered into between the Group and the other shareholder of CNT Tin Plate ("Other Shareholder") on 24 July 2019, the Group acquired the remaining 50% equity interest in CNT Tin Plate, a then associate of the Group, and its shareholder's loan from the Other Shareholder (the "Step Acquisition") at a cash consideration of HK$1. CNT Tin Plate is an investment holding company which holds a 20% equity interest in 廣州太平洋馬口鐵有限公司.

The Group considers that the Step Acquisition provides an opportunity to diversify the Group's business risk. As at the date of acquisition, the fair value of the existing 50% equity interest in CNT Tin Plate held by the Group was estimated by Grant Sherman Appraisal Limited, an independent professionally qualified valuers, at HK$4,725,000. Compared with its carrying amount before valuation (after the release of exchange reserve of HK$939,000) of HK$4,156,000, the fair value gain amounting to HK$569,000 was recognised in "Gain on acquisition of a subsidiary, previously held as an associate" under "Other income and gains, net" in the consolidated statement of profit or loss. Upon the completion of the Step Acquisition, CNT Tin Plate became a wholly-owned subsidiary of the Group which resulted in a gain on bargain purchase recognised in "Gain on acquisition of a subsidiary, previously held as an associate" under "Other income and gains, net" in the consolidated statement of profit or loss.

The fair values of the identifiable assets and liabilities of CNT Tin Plate as at the date of acquisition were as follows:

	HK$'000
Interest in an associate	22,040
Cash and bank balances	69
Other payables	(8,828)
Shareholder's loan	(3,832)
Total identifiable net assets at fair value	9,449
Assignment of a shareholder's loan	3,832
Gain on bargain purchase	(8,556)
	4,725
Satisfied by:	
Fair value of the Group's then equity interest in CNT Tin Plate	4,725
Cash consideration (HK$1)	–
	4,725

37. STEP ACQUISITION FROM AN ASSOCIATE TO A SUBSIDIARY (continued)

An analysis of the net inflow of cash and cash equivalents in respect of the Step Acquisition is as follows:

	HK$'000
Cash consideration	–
Cash and bank balances acquired	69
Net inflow of cash and cash equivalents in respect of the Step Acquisition	69

Since the Step Acquisition, CNT Tin Plate did not contribute any revenue to the Group and incurred a net loss of HK$1,934,000 to the consolidated profit for the year ended 31 December 2019.

Had the combination taken place at the beginning of the year, the revenue and the profit of the Group for the year would have been HK$807,923,000 and HK$225,618,000, respectively.

38. DISPOSAL OF SUBSIDIARIES

On 31 May 2019, the Group disposed of its 100% equity interest in Ocean Wide Assets Limited ("Ocean Wide") (together with its subsidiary, the "Ocean Wide Group") and its shareholder's loan to Jetco, an independent third party, at a consideration of approximately HK$900,998,000.

	HK$'000
Net assets disposed of:	
Property, plant and equipment	5
Investment properties	418,230
Trade receivables	28
Prepayments, deposits and other receivables	276
Tax recoverable	1,605
Other payables and accruals	(911)
Deferred tax liabilities	(8,647)
Shareholder's loan	(40,107)
Net assets	370,479
Assignment of a shareholder's loan	40,107
Gain on disposal of subsidiaries	490,412
	900,998
Satisfied by:	
Consideration for acquisition of Nigon	533,773
Cash deposit received in advance and included in other payables and accruals as at 31 December 2018	37,000
Remaining cash consideration	330,225
	900,998

38. DISPOSAL OF SUBSIDIARIES (continued)

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of Ocean Wide Group is as follows:

	HK$'000
Remaining cash consideration	330,225

39. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

(i) During the year ended 31 December 2019, the Group had non-cash additions to right-of-use assets and lease liabilities of HK$1,091,000 and HK$1,091,000, respectively, in respect of lease arrangement for property, plant and equipment (2018: Nil).

(ii) During the year ended 31 December 2019, the Group completed the acquisition of certain items of property, plant and equipment, and investment properties, the consideration of which was partially settled by deposits previously paid with an aggregate carrying amount of HK$16,130,000 (2018: HK$5,731,000).

(b) Changes in liabilities arising from financing activities

	2019	
	Interest-bearing bank borrowings HK$'000	Finance lease payables/ Lease liabilities HK$'000
At 31 December 2018	269,711	1,056
Effect of adoption of HKFRS 16	–	4,073
At 1 January 2019 (restated)	269,711	5,129
Changes from financing cash flows	(52,636)	(2,839)
New leases	–	1,091
Interest expenses	–	230
Interest paid classified as operating cash flows	–	(230)
Foreign exchange movement	(633)	(5)
At 31 December 2019	216,442	3,376

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

(b) Changes in liabilities arising from financing activities (continued)

	2018	
	Interest-bearing bank borrowings HK$'000	Finance lease payables HK$'000
At 1 January 2018	132,128	1,423
Changes from financing cash flows	140,697	(401)
New finance lease	–	34
Foreign exchange movement	(3,114)	–
At 31 December 2018	269,711	1,056

(c) Total cash outflow for leases

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

	2019 HK$'000
Within operating activities	**3,419**
Within financing activities	**2,839**
	6,258

40. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's bills payable and bank loans and other borrowings are included in notes 26 and 28, respectively, to the financial statements.

41. COMMITMENTS

(a) The Group had the following capital commitments at the end of the reporting period:

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

* On 21 January 2008, the Group entered into an agreement with the government of Xinfeng, Guangdong Province, the PRC to purchase a parcel of land located in Xinfeng, at a consideration of RMB8,220,000, of which RMB6,658,000 (2018: RMB6,658,000) had been paid by the Group as at 31 December 2019.

(b) Operating lease commitments as at 31 December 2018

The Group leased certain of its properties under operating lease arrangements. Leases for properties were negotiated for terms ranging from one to five years.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 HK$'000
Within one year	1,060
In the second to fifth years, inclusive	60
	1,120

42. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following transactions with an associate, 廣州太平洋馬口鐵有限公司 during the year:

	Notes	2019 HK$'000
Purchases of iron and steel products	(i)	**12,055**
Secondment income	(ii)	**196**

(i) The purchases were made according to the market price and similar conditions offered by the associate to its major customers.

(ii) The secondment income was derived from the secondment services provided to the associate and was charged based on mutually agreed terms.

(b) Outstanding balances with related parties

(i) Details of the Group's balance with an associate as at the end of the reporting period are disclosed in note 18 to the financial statements.

(ii) Details of the Group's trade balance with an associate as at year end of the reporting period are disclosed in note 26 to the financial statements.

(c) Compensation of key management personnel of the Group

	2019 HK$'000	2018 HK$'000
Short-term employee benefits	**6,678**	5,768
Post-employment benefits	**36**	36
Total compensation paid/payable to key management personnel	**6,714**	5,804

Further details of directors' emoluments are included in note 8 to the financial statements.

The related party transactions above do not constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

43. FINANCIAL INSTRUMENTS BY CATEGORY

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

2019

Financial assets

	Financial assets at amortised cost HK$'000	Financial assets at fair value through other comprehensive income HK$'000	Total HK$'000
Equity investments designated at fair value through other comprehensive income	–	49,331	49,331
Trade and bills receivables	318,449	–	318,449
Financial assets included in prepayments, deposits and other receivables	18,119	–	18,119
Pledged deposits	2,426	–	2,426
Cash and cash equivalents	465,374	–	465,374
	804,368	49,331	853,699

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Due to an associate	2,800
Trade and bills payables	166,287
Financial liabilities included in other payables and accruals and deposits received	43,596
Interest-bearing bank and other borrowings	216,442
Lease liabilities	3,376
	432,501

43. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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

2018

Financial assets

	Financial assets at amortised cost HK$'000	Financial assets at fair value through other comprehensive income HK$'000	Total HK$'000
Equity investments designated at fair value through other comprehensive income	–	91,710	91,710
Trade and bills receivables	479,025	–	479,025
Financial assets included in prepayments, deposits and other receivables	85,135	–	85,135
Pledged deposits	5,055	–	5,055
Cash and cash equivalents	295,866	–	295,866
	865,081	91,710	956,791

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Due to an associate	2,800
Trade and bills payables	226,374
Financial liabilities included in other payables and accruals	79,832
Interest-bearing bank and other borrowings	270,767
	579,773

44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values are as follows:

	Carrying amounts		Fair values	
	2019	2018	**2019**	2018
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets				
Equity investments designated at fair value through other comprehensive income	**49,331**	91,710	**49,331**	91,710

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, financial assets included in prepayments, deposits and other receivables, trade and bills payables, financial liabilities included in other payables and accruals and deposits received, current portion of interest-bearing bank and other borrowings, and an amount due to an associate approximate to their carrying amounts largely due to the short-term maturities of these instruments.

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

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

The fair values of the non-current portion of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2019 was assessed to be insignificant.

The fair value of the unlisted club membership debenture, is based on quoted market prices.

The fair values of other unlisted equity investments designated at fair value through other comprehensive income, have been estimated using market-based valuation techniques based on assumptions that are not supported by observable market prices or rates. The fair values of these unlisted equity investments have been determined using the market comparison approach and/or quoted market prices and applicable valuation techniques which require the directors to determine comparable public companies (peers) based on industry, size, leverage and strategy, and to calculate an appropriate price multiple, such as enterprise value to earnings before interest, taxes, depreciation and amortisation ("EV/EBITDA") multiple and price to earnings ("P/E") multiple, for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by an earnings measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the unlisted equity investments to measure the fair value. The directors believe that the estimated fair values resulting from the valuation techniques, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

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

Below is a summary of significant unobservable inputs to the valuation of equity investments designated at fair value through other comprehensive income together with a quantitative sensitivity analysis as at 31 December 2019 and 2018:

Financial instruments	Valuation techniques	Significant unobservable inputs	Range	Sensitivity of fair value to the inputs/relationship of unobservable inputs to fair value
Unlisted equity investments	Market comparison approach	Unit rates of grave plots	2019: HK$33,000 to HK$223,000 per grave plot (2018: HK$34,000 to HK$228,000 per grave plot)	5% (2018: 5%) increase/decrease in the unit rates of grave plots would result in increase/decrease in fair value by HK$3,289,000 (2018: HK$3,409,000)
		Unit rates of niches	2019: HK$8,000 to HK$9,000 per nich (2018: HK$8,000 to HK$9,000 per nich)	5% (2018: 5%) increase/decrease in unit rates of niches would result in increase/decrease in fair value by HK$27,000 (2018: HK$28,000)
		Unit rates of graveyard land	2019: HK$1,115,000 to HK$1,673,000 per mu (2018: HK$1,139,000 to HK$1,708,000 per mu)	5% (2018: 5%) increase/decrease in unit rates of graveyard land would result in increase/decrease in fair value by HK$959,000 (2018: HK$3,340,000)
		Minority discount	2019: 5% to 10% (2018: 5%)	5% (2018: 5%) increase/decrease in minority discount would result in decrease/increase in fair value by HK$3,364,000 (2018: HK$529,000)
		Discount for lack of marketability	2019: 30% to 40% (2018: 30% to 40%)	5% (2018: 5%) increase/decrease in lack of marketability discount would result in decrease/increase in fair value by HK$241,000 (2018: HK$403,000)

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

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Assets measured at fair value:				
At 31 December 2019				
Equity investments designated at fair value through other comprehensive income	**–**	**300**	**49,031**	**49,331**

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

	2019 HK$'000	2018 HK$'000
Equity investments designated at fair value through other comprehensive income		
At 1 January	**91,710**	79,569
Total gain/(loss) recognised in other comprehensive income	**(42,379)**	15,628
Exchange realignment	**–**	(3,487)
At 31 December	**49,331**	91,710

Liabilities measured at fair value

The Group did not have any financial liabilities measured at fair value as at 31 December 2019 and 31 December 2018.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2018: Nil).

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank and other borrowings, and cash and cash equivalents. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial assets and liabilities, such as pledged deposits, trade and bills receivables, deposits and other receivables, equity investments designated at fair value through other comprehensive income, an amount due to an associate, trade and bills payables, other payables and accruals and deposits received and lease liabilities, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group's policies for managing each of these risks are summarised below.

Interest rate risk

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

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit/(loss) before tax (through the impact on deposits with banks and floating rate borrowings). There is no impact on the Group's equity, except on the retained profits.

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax HK$'000**
2019		
HK$	**50**	**(896)**
RMB	**50**	**975**
HK$	**(50)**	**896**
RMB	**(50)**	**(975)**

	Increase/ (decrease) in basis points	Increase/ (decrease) in loss before tax HK$'000
2018		
HK$	50	849
RMB	50	(564)
HK$	(50)	(849)
RMB	(50)	564

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

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

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Group's profit/(loss) before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in RMB rate %	**Increase/ (decrease) in profit before tax HK$'000**
2019		
If HK$ weakens against RMB	**5**	**2,357**
If HK$ strengthens against RMB	**(5)**	**(2,357)**

	Increase/ (decrease) in RMB rate %	Increase/ (decrease) in loss before tax HK$'000
2018		
If HK$ weakens against RMB	5	(8,112)
If HK$ strengthens against RMB	(5)	8,112

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures and cash collateral may be required. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Maximum exposure and year-end staging

The tables below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December. The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2019

	12-month ECLs	Lifetime ECLs			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Simplified approach HK$'000	Total HK$'000
Trade receivables*	–	–	–	340,948	340,948
Bills receivable					
– Normal**	38,683	–	–	–	38,683
Financial assets included in prepayments, deposits and other receivables					
– Normal**	18,119	–	–	–	18,119
– Doubtful**	–	–	2,800	–	2,800
Pledged deposits					
– Not yet past due	2,426	–	–	–	2,426
Cash and cash equivalents					
– Not yet past due	465,374	–	–	–	465,374
	524,602	–	2,800	340,948	868,350

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Maximum exposure and year-end staging (continued)

As at 31 December 2018

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Trade receivables*	–	–	–	542,916	542,916
Bills receivable					
– Normal**	28,154	–	–	–	28,154
Financial assets included in prepayments, deposits and other receivables					
– Normal**	83,035	–	–	–	83,035
– Doubtful**	–	2,800	–	–	2,800
Pledged deposits					
– Not yet past due	5,055	–	–	–	5,055
Cash and cash equivalents					
– Not yet past due	295,866	–	–	–	295,866
	412,110	2,800	–	542,916	957,826

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 23 to the financial statements.

** The credit quality of bills receivable and financial assets included in prepayments, deposits and other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

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

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

	On demand or within one year HK$'000	In the second to fifth years HK$'000	Total HK$'000
2019			
Due to an associate	**2,800**	**–**	**2,800**
Trade and bills payables	**166,287**	**–**	**166,287**
Financial liabilities included in other payables and accruals and deposits received	**43,596**	**–**	**43,596**
Interest-bearing bank borrowings*	**217,940**	**–**	**217,940**
Lease liabilities	**2,741**	**765**	**3,506**
	433,364	**765**	**434,129**

	On demand or within one year HK$'000	In the second to fifth years HK$'000	Total HK$'000
2018			
Due to an associate	2,800	–	2,800
Trade and bills payables	226,374	–	226,374
Financial liabilities included in other payables and accruals	79,832	–	79,832
Interest-bearing bank borrowings*	272,158	–	272,158
Finance lease payables	443	645	1,088
	581,607	645	582,252

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

* Included in the above interest-bearing bank borrowings of the Group are certain bank loans with a carrying amount as at 31 December 2019 of HK$195,635,000 (2018: HK$237,985,000), the banking facility letters of which contain a repayment on-demand clause giving the creditor banks of the bank loans the right to call in the bank loans at any time. Accordingly, for the purpose of the above maturity profile, the contractual undiscounted payment of such bank loans of the Group are classified as "on demand or less than one year".

In accordance with the terms of the bank loans which contain a repayment on-demand clause, the maturity profile of those loans as at 31 December, based on the contractual undiscounted payments and ignoring the effect of any repayment on demand clause, is as follows:

	Within one year HK$'000	**In the second to fifth years HK$'000**	**Total HK$'000**
2019	**169,605**	**28,367**	**197,972**
2018	192,354	49,142	241,496

Notwithstanding the above clause, the directors do not believe that such bank loans will be called in entirety within 12 months at the end of the reporting period and they consider that the loans will be repaid in accordance with the maturity dates as set out in the banking facility letters. This evaluation was made considering: the financial position of the Group at the date of approval of the financial statements, the lack of events of defaults, and the fact that the Group has made all previously scheduled repayments on time.

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 31 December 2018.

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

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

	2019	2018
	HK$'000	HK$'000
Bank and other borrowings	**216,442**	270,767
Equity attributable to owners of the parent	**1,651,068**	1,490,715
Gearing ratio	**13.1%**	18.2%

46. EVENT AFTER THE REPORTING PERIOD

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

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

47. COMPARATIVE AMOUNTS

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

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

48. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2019 HK$'000	2018 HK$'000
NON-CURRENT ASSETS		
Property, plant and equipment	**50**	140
Right-of-use assets	**87**	–
Interests in subsidiaries	**466,692**	455,470
Due from subsidiaries	**272,825**	263,968
Deferred tax asset	**1,397**	–
Total non-current assets	**741,051**	719,578
CURRENT ASSETS		
Prepayments, deposits and other receivables	**11,413**	13,969
Cash and cash equivalents	**194,521**	98,192
Total current assets	**205,934**	112,161
CURRENT LIABILITIES		
Other payables and accruals	**4,554**	3,982
Interest-bearing other borrowings	**–**	11
Lease liabilities	**16**	–
Total current liabilities	**4,570**	3,993
NET CURRENT ASSETS	**201,364**	108,168
TOTAL ASSETS LESS CURRENT LIABILITIES	**942,415**	827,746
NON-CURRENT LIABILITIES		
Lease liabilities	**72**	–
Net assets	**942,343**	827,746
EQUITY		
Issued capital	**190,369**	190,369
Reserves (note)	**751,974**	637,377
Total equity	**942,343**	827,746

48. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

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

	Share premium account HK$'000	Contributed surplus* HK$'000	Fair value reserve (non-recycling) HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2018	88,970	287,193	(52,501)	298,251	621,913
Total comprehensive income for the year	–	–	–	34,501	34,501
Final 2017 dividend declared and paid	–	(19,037)	–	–	(19,037)
At 31 December 2018 and 1 January 2019	**88,970**	**268,156**	**(52,501)**	**332,752**	**637,377**
Total comprehensive income for the year	**–**	**–**	**–**	**133,634**	**133,634**
Final 2018 dividend declared and paid	**–**	**(19,037)**	**–**	**–**	**(19,037)**
At 31 December 2019	**88,970**	**249,119**	**(52,501)**	**466,386**	**751,974**

* A portion of the contributed surplus arose as a result of the transfer from the share premium account pursuant to a court approval obtained in 1992 for the purpose of writing off the goodwill arising on the acquisition of subsidiaries. The remaining portion of the contributed surplus arose in 1991 as a result of a group reorganisation and originally represented the difference between the nominal value of the Company's shares allotted under the reorganisation scheme and the consolidated net asset value of the acquired subsidiaries.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders under certain circumstances.

49. APPROVAL OF THE FINANCIAL STATEMENTS

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

Schedule of Principal Properties

31 December 2019

INVESTMENT PROPERTIES

Location	Percentage of interest in property attributable to the Group	Type of existing leasehold	Existing use
Units A, B, C, D and F, 28th Floor CNT Tower No. 338 Hennessy Road Wanchai Hong Kong	100	Long term	Commercial
18th Floor, CNT Tower No. 338 Hennessy Road Wanchai Hong Kong	100	Long term	Commercial
Ground Floor No. 497 Shanghai Street Mong Kok Kowloon Hong Kong	100	Medium term	Commercial
Whole of Hotel Bonaparte No. 11 Morrison Hill Road Wanchai Hong Kong	100	Long term	Hotel
Whole of CHI 393 No. 391 Shanghai Street Kowloon Hong Kong	100	Long term	Serviced apartment
Factory Complex Ling Dong Road Xin Hua Gangkou Industrial Development Zone Hua Du District Guangzhou City Guangdong Province the PRC	100	Medium term	Industrial

Schedule of Principal Properties

31 December 2019

INVESTMENT PROPERTIES (continued)

Location	Percentage of interest in property attributable to the Group	Type of existing leasehold	Existing use
Industrial Complex 22 Jinshui Road Economic Development District Xuzhou City Jiangsu Province the PRC	100	Medium term	Industrial
Office Units 2506 and 2507, Block A Tianxia International Center Taoyuan Road Nanshan District Shenzhen City Guangdong Province the PRC	100	Medium term	Commercial
Units 2301-2, 2501-2, 2601-2 of Block B and 2603-4, 2703-4 of Block C Phase 3, Philippe Castle Interchange of Xin Sha Road and Huan Zhen Road Shajing Street Baoan District Shenzhen City Guangdong Province the PRC	100	Medium term	Residential
Flat Nos. 1003, 1103, 1203, 1303 and 1403 10th Floor to 14th Floor Unit 2 of Block 2, Zone 1 and Car Parking Space Nos. 069 and 076 on Basement Level 1, Feicui Pearl Yayuan No. 36 Yuewan Road Sanijao Town Zhongshan City Guangdong Province the PRC	100	Medium term	Residential

Schedule of Principal Properties

31 December 2019

INVESTMENT PROPERTIES (continued)

Location	Percentage of interest in property attributable to the Group	Type of existing leasehold	Existing use
Units 801 and 807, 8th Floor and Car Parking Space Nos. 371 to 376 and 486 to 489 on Basement Level 1, Greenland Rongxin Commercial Centre Lane 1588 No. 499 Zhuguang Road Xujing Town Qingpu District Shanghai the PRC	100	Medium term	Commercial
Unit 4905, 49th Floor Block 4, Greenland Centre Wangjing Dongyuan Chaoyang District Beijing the PRC	100	Medium term	Commercial

PROPERTIES UNDER DEVELOPMENT

Location	Percentage of interest in property attributable to the Group	Existing use	Approximate site/gross floor area	Expected completion date	Stage of completion
Lot Nos. 879, 880A1 880B1, 881 to 885 889RP, 891, 1318 1326 and 1344 in Demarcation District No. 115 Au Tau Yuen Long New Territories Hong Kong	100	Agricultural and house lots	3,700 sq. m.	N/A	Granted a conditional planning permission for a proposed columbarium development

Glossary

AC Chairman	The chairman of the Audit Committee
AC or Audit Committee	The audit committee of the Board
AGM	Annual general meeting of the Company
Board	The board of Directors
Bye-laws	The bye-laws of the Company
CG Code	Corporate Governance Code contained in Appendix 14 to the Listing Rules
Chairman	The chairman of the Company
Companies Act	The Companies Act 1981 of Bermuda
Company	CNT Group Limited
Company Secretary	The company secretary of the Company
Director(s)	The director(s) of the Company
Group	The Company and its subsidiaries
Hong Kong	The Hong Kong Special Administrative Region of the PRC
Listing Rules	Rules Governing the Listing of Securities on the Stock Exchange
Managing Director	The managing director of the Company
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
NC Chairman	The chairman of the Nomination Committee
NC or Nomination Committee	The nomination committee of the Board
PRC	The People's Republic of China
RC Chairman	The chairman of the Remuneration Committee
RC or Remuneration Committee	The remuneration committee of the Board
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Share(s)	Ordinary share(s) of HK$0.10 each in the capital of the Company
Shareholder(s)	Shareholder(s) of the Company
Share Option Scheme	The share option scheme adopted by the Company on 28 June 2012
Stock Exchange	The Stock Exchange of Hong Kong Limited
substantial shareholder(s)	has the meaning as defined in the Listing Rules

CNT GROUP LIMITED
北海集團有限公司