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# CNT GROUP LIMITED
# 北 海 集 團 有 限 公 司

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 701)**

## ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

**FINANCIAL HIGHLIGHTS**

| | **Year ended 31 December** | | |
|---|---|---|---|
| | **2017** | 2016 | |
| **Results** | **HK$'000** | HK$'000 | Change |
| Revenue | **1,228,065** | 1,164,549 | +5.5% |
| Gross profit | **347,470** | 388,127 | -10.5% |
| Gross profit margin | **28.3%** | 33.3% | -15.0% |
| Profit for the year | **46,918** | 87,684 | -46.5% |
| Profit attributable to: | | | |
| Shareholders of the Company | **37,516** | 87,666 | -57.2% |
| Non-controlling interests | **9,402** | 18 | +52,133.3% |
| Earnings per share (HK cents) | | | |
| Basic and diluted | **1.97** | 4.61 | -57.3% |

| | **As at 31 December 2017** | As at 31 December 2016 | |
|---|---|---|---|
| **Financial Position** | **HK$'000** | HK$'000 | Change |
| Total cash and bank balances (including cash and cash equivalents, structured deposits and pledged deposits) | **386,039** | 367,311 | +5.1% |
| Bank and other borrowings | **133,551** | 165,918 | -19.5% |
| Gearing ratio | **10.2%** | 13.7% | -25.5% |
| Net asset value per share (HK$) | **0.93** | 0.78 | +19.2% |
| Shareholders' funds per share (HK$) | **0.82** | 0.78 | +5.1% |

The board of directors (the “Board”) of CNT Group Limited (the “Company”) announce the consolidated annual results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2017 together with comparative amounts for the corresponding year in 2016 as follows:

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**
Year ended 31 December 2017

| | Notes | **2017** **HK$’000** | 2016 HK$’000 |
|---|---|---|---|
| REVENUE | 4 | **1,228,065** | 1,164,549 |
| Cost of sales | | **(880,595)** | (776,422) |
| Gross profit | | **347,470** | 388,127 |
| Other income and gains, net | 4 | **14,459** | 14,217 |
| Selling and distribution expenses | | **(171,292)** | (147,969) |
| Administrative expenses | | **(134,658)** | (137,530) |
| Other expenses, net | | **(26,494)** | (24,987) |
| Fair value gains on investment properties, net | | **27,799** | 20,042 |
| Finance costs | 5 | **(2,245)** | (2,510) |
| Share of profits and losses of associates | | **3,214** | 2,263 |
| PROFIT BEFORE TAX | 6 | **58,253** | 111,653 |
| Income tax expenses | 7 | **(11,335)** | (23,969) |
| PROFIT FOR THE YEAR | | **46,918** | 87,684 |
| ATTRIBUTABLE TO: | | | |
| Owners of the parent | | **37,516** | 87,666 |
| Non-controlling interests | | **9,402** | 18 |
| | | **46,918** | 87,684 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | | | |
| Basic and diluted | 8 | **HK1.97 cents** | HK4.61 cents |

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

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2017

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| PROFIT FOR THE YEAR | **46,918** | 87,684 |
| OTHER COMPREHENSIVE INCOME/(LOSS) | | |
| Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods: | | |
| Exchange differences on translation of foreign operations | **54,883** | (57,712) |
| Share of other comprehensive income of an associate | **295** | 100 |
| Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods | **55,178** | (57,612) |
| Other comprehensive income not to be reclassified to profit or loss in subsequent periods: | | |
| Remeasurement of net pension scheme assets | **2,176** | 339 |
| OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR | **57,354** | (57,273) |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | **104,272** | 30,411 |
| ATTRIBUTABLE TO: | | |
| Owners of the parent | **87,403** | 30,636 |
| Non-controlling interests | **16,869** | (225) |
| | **104,272** | 30,411 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

| | Notes | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | **276,075** | 265,785 |
| Investment properties | | **683,923** | 644,323 |
| Properties under development | | **28,000** | 28,000 |
| Prepaid land lease payments | | **19,232** | 18,389 |
| Interests in associates | | **15,360** | 11,851 |
| Available-for-sale investments | | **92,083** | 96,083 |
| Deposits for purchases of properties, and plant and equipment, and investment properties | | **14,228** | 8,662 |
| Net pension scheme assets | | **4,421** | 2,372 |
| Deferred tax assets | | **5,617** | 7,731 |
| Total non-current assets | | **1,138,939** | 1,083,196 |
| CURRENT ASSETS | | | |
| Inventories | | **79,930** | 79,466 |
| Trade and bills receivables | 10 | **724,086** | 497,235 |
| Prepayments, deposits and other receivables | | **60,044** | 56,214 |
| Tax recoverable | | **1,233** | – |
| Structured deposits | | **–** | 98,666 |
| Pledged deposits | | **3,269** | 2,268 |
| Cash and cash equivalents | | **382,770** | 266,377 |
| Total current assets | | **1,251,332** | 1,000,226 |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | 11 | **304,705** | 214,208 |
| Other payables and accruals | | **126,500** | 154,042 |
| Due to an associate | | **2,800** | 2,800 |
| Interest-bearing bank and other borrowings | | **132,525** | 154,324 |
| Tax payable | | **16,892** | 17,313 |
| Total current liabilities | | **583,422** | 542,687 |
| NET CURRENT ASSETS | | **667,910** | 457,539 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **1,806,849** | 1,540,735 |

| | 2017 | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| NON-CURRENT LIABILITIES | | |
| Interest-bearing bank and other borrowings | **1,026** | 11,594 |
| Deferred tax liabilities | **42,505** | 45,541 |
| Deferred income | **2,215** | 2,346 |
| Total non-current liabilities | **45,746** | 59,481 |
| Net assets | **1,761,103** | 1,481,254 |
| EQUITY | | |
| **Equity attributable to owners of the parent** | | |
| Issued capital | **190,369** | 190,369 |
| Reserves | **1,379,116** | 1,287,267 |
| | **1,569,485** | 1,477,636 |
| **Non-controlling interests** | **191,618** | 3,618 |
| Total equity | **1,761,103** | 1,481,254 |

## NOTES TO FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, certain land and buildings classified as property, plant and equipment, structured deposits and net pension scheme assets, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand ("HK$'000") except when otherwise indicated.

### 2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

| | |
|---|---|
| Amendments to HKAS 7 | *Disclosure Initiative* |
| Amendments to HKAS 12 | *Recognition of Deferred Tax Assets for Unrealised Losses* |
| Amendments to HKFRS 12 included in *Annual Improvements to HKFRS 2014-2016 Cycle* | *Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12* |

None of the above amendments to HKFRSs has had a significant financial effect on these financial statements. Disclosure has been made in a note to the financial statements upon the adoption of amendments to HKAS 7, which require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

## 3. OPERATING SEGMENT INFORMATION

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

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

(b) the property investment segment comprises:

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

  (ii) the development and sale of properties;

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

(d) the others segment comprises, principally, the provision of advertising services and investment holding.

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

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

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

Intersegment sales and transfers are transacted on mutually agreed terms.

| Year ended 31 December 2017 | Paint products HK$'000 | Property investment HK$'000 | Iron and steel trading HK$'000 | Others HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Segment revenue:** | | | | | |
| Sales to external customers | **995,958** | **33,718** | **198,389** | **–** | **1,228,065** |
| Intersegment sales | **–** | **5,583** | **–** | **2,900** | **8,483** |
| Other revenue and gains | **7,627** | **27,722** | **751** | **4,044** | **40,144** |
| | **1,003,585** | **67,023** | **199,140** | **6,944** | **1,276,692** |
| *Reconciliation:* | | | | | |
| Elimination of intersegment sales | | | | | **(8,483)** |
| Total | | | | | **1,268,209** |
| **Segment results** | **21,648** | **52,273** | **3,552** | **(229)** | **77,244** |
| *Reconciliation:* | | | | | |
| Elimination of intersegment results | | | | | **(605)** |
| Interest income | | | | | **1,352** |
| Fair value gains on structured deposits | | | | | **762** |
| Finance costs | | | | | **(2,245)** |
| Corporate and other unallocated expenses | | | | | **(18,255)** |
| Profit before tax | | | | | **58,253** |
| **Segment assets** | **1,052,196** | **800,916** | **48,269** | **92,045** | **1,993,426** |
| *Reconciliation:* | | | | | |
| Elimination of intersegment receivables | | | | | **(1,011)** |
| Corporate and other unallocated assets | | | | | **397,856** |
| Total assets | | | | | **2,390,271** |
| **Segment liabilities** | **407,547** | **11,119** | **13,190** | **261** | **432,117** |
| *Reconciliation:* | | | | | |
| Elimination of intersegment payables | | | | | **(1,011)** |
| Corporate and other unallocated liabilities | | | | | **198,062** |
| Total liabilities | | | | | **629,168** |

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

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

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

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

**Geographical information:**

(a) Revenue from external customers

| | **2017** **HK$'000** | 2016 HK$'000 |
|---|---|---|
| Hong Kong | **116,153** | 111,176 |
| Mainland China | **1,111,912** | 1,053,373 |
| | **1,228,065** | 1,164,549 |

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

(b) Non-current assets

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Hong Kong | **632,726** | 605,872 |
| Mainland China | **404,092** | 371,138 |
| | **1,036,818** | 977,010 |

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 2017 and 2016, no revenue from any single customer accounted for 10% or more of the total revenue of the Group.

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

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

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Revenue** | | |
| Sale of paint products | **995,958** | 937,450 |
| Sale of iron and steel products | **198,389** | 193,301 |
| Gross rental income from investment properties | **33,718** | 33,798 |
| | **1,228,065** | 1,164,549 |
| **Other income** | | |
| Bank interest income | **1,352** | 2,672 |
| Dividend income from an available-for-sale investment | **240** | 240 |
| Commission income | **58** | 210 |
| Government grants* | **4,819** | 4,641 |
| Recognition of deferred income | **295** | 301 |
| Others | **3,487** | 2,852 |
| | **10,251** | 10,916 |
| **Gains, net** | | |
| Fair value gains: | | |
| Structured deposits | **762** | 3,291 |
| Derivative instrument – transaction not qualifying as hedge | **–** | 10 |
| Foreign exchange differences | **3,446** | – |
| | **4,208** | 3,301 |
| Total other income and gains, net | **14,459** | 14,217 |

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

## 5. FINANCE COSTS

An analysis of finance costs is as follows:

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Interest on bank loans | **2,167** | 2,463 |
| Interest on finance leases | **78** | 47 |
| | **2,245** | 2,510 |

## 6. PROFIT BEFORE TAX

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

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Cost of inventories sold | **880,595** | 776,422 |
| Depreciation | **20,795** | 20,764 |
| Amortisation of prepaid land lease payments | **513** | 524 |
| Write-back of inventories to net realisable value | **(2,841)** | (5,731) |
| Provision for impairment of trade receivables* | **7,967** | 11,694 |
| Impairment of an available-for-sale investment* | **4,000** | – |
| Loss on disposal of items of property, plant and equipment, net* | **61** | 142 |
| Write-off of items of property, plant and equipment* | **558** | 609 |
| Foreign exchange differences, net* | **(3,446)** | 613 |

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

## 7. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

All subsidiaries of the Group established in Mainland China are subject to the PRC corporate income tax at a standard rate of 25% (2016: 25%) during the year, except for subsidiaries of the Group which qualified as PRC High and New Technology Enterprise in Mainland China and a lower PRC corporate income tax rate of 15% (2016: 15%) had been applied during the year.

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Current – Hong Kong | | |
| Charge for the year | **3,017** | 4,250 |
| Overprovision in prior years | **(40)** | (60) |
| Current – Elsewhere | | |
| Charge for the year | **11,816** | 20,506 |
| Underprovision/(overprovision) in prior years | **(2,504)** | 3 |
| Deferred | **(954)** | (730) |
| Total tax charge for the year | **11,335** | 23,969 |

The share of tax attributable to an associate amounting to HK$287,000 (2016: HK$303,000) is included in "Share of profits and losses of associates" in the consolidated statement of profit or loss.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent of HK$37,516,000 (2016: HK$87,666,000), and the weighted average number of ordinary shares of 1,903,685,690 (2016: 1,903,685,690) in issue during the year.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2017 and 2016 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during these years.

## 9. DIVIDEND

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Proposed final – HK1.0 cent (2016: HK1.0 cent) per ordinary share | **19,037** | 19,037 |

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. The actual amount will be accounted for as an appropriation of the distributable reserves in the year ending 31 December 2018.

At the annual general meeting held on 1 June 2017, the Company's shareholders approved the distribution of the final dividend for the year ended 31 December 2016 of HK1.0 cent per share which amounted to approximately HK$19,037,000.

## 10. TRADE AND BILLS RECEIVABLES

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

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

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within three months | **526,848** | 424,748 |
| Over three months and within six months | **63,494** | 44,098 |
| Over six months | **133,744** | 28,389 |
| | **724,086** | 497,235 |

## 11. TRADE AND BILLS PAYABLES

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

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within three months | **296,092** | 212,648 |
| Over three months and within six months | **8,306** | 1,548 |
| Over six months | **307** | 12 |
| | **304,705** | 214,208 |

The trade payables are unsecured, non-interest-bearing and are normally settled within two months. As at 31 December 2017, bills payable with an aggregate carrying amount of HK$11,101,000 (2016: HK$7,554,000) were secured by time deposits of HK$3,269,000 (2016: HK$2,268,000).

## DIVIDEND

The directors of the Company have resolved to recommend to the shareholders of the Company the payment of a final dividend of HK1.0 cent per share for the year ended 31 December 2017 (2016: HK1.0 cent) amounting to approximately HK$19,037,000 (2016: approximately HK$19,037,000). The final dividend, if approved by the shareholders of the Company at the forthcoming annual general meeting, will be paid on Wednesday, 20 June 2018 to the shareholders of the Company whose names appear on the Company's register of members on Thursday, 7 June 2018.

## CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining shareholders' eligibility to attend and vote at the forthcoming annual general meeting of the Company, the register of members of the Company will be closed from Monday, 28 May 2018 to Thursday, 31 May 2018, both days inclusive, during the period no transfer of shares will be effected. In order to be entitled to attend and vote at the forthcoming annual general meeting of the Company, all transfers accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar in Hong Kong, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 25 May 2018.

For the purpose of determining shareholders' entitlement to the proposed final dividend, the register of members of the Company will be closed from Wednesday, 6 June 2018 to Thursday, 7 June 2018, both days inclusive, during the period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar in Hong Kong, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 5 June 2018.

## CHAIRMAN'S STATEMENT

Upon the completion of the spin-off and the global offering of CPM Group Limited ("CPM") on main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 10 July 2017, the Group has put its resources and focus on the development of its investment property business, trading business and other business.

## RESULTS

Profit for the year of the Group for the year ended 31 December 2017 amounted to approximately HK$46.92 million (2016: approximately HK$87.68 million), representing a decrease of 46.5% when compared with last year. As a result of the completion of the spin-off and the global offering of CPM and the increase in non-controlling interests of the Company, the Group recorded a profit attributable to the shareholders of the Company of the year ended 31 December 2017 of approximately HK$37.52 million (2016: approximately HK$87.67 million), representing a decrease of 57.2% when compared with last year.

Revenue for the year amounted to approximately HK$1,228.07 million, representing an increase of 5.5% when compared with last year. Gross profit decreased by approximately HK$40.66 million, representing a decrease of 10.5% when compared with last year.

## PROSPECTS

Looking forward, the operating environment remains challenging under the current macro-environment. Financial markets may have greater volatility under the environment of rising interest rates and amid the warnings of possible international trade wars. On the other hand, China achieved a slight gross domestic product ("GDP") growth for 2017 at about 6.9%, or 0.2% higher than 2016. It is expected that the stable political environment, ongoing improvement in household disposable income and increasing urban population will support the growth of Mainland China economy. The Group has taken a proactive approach in its attempt to turn challenges into opportunities.

### Paint Products

China's economy has accelerated a healthy and synchronous growth in 2017. The paint and coating market in Mainland China grew at a rate of 7.0% in terms of volume from 2016. It experienced good growth in 2017 with architectural paint and coating products leading the way in terms of China's paint and coating market growth. The real estate industry grew by approximately 7.7% and was slightly faster than the GDP growth rate in Mainland China. It is notable that industrial paint and coating products also experienced good growth but it was not as high as that of architectural paint and coating products. In general, the growth of paint and coating market in Mainland China is expected to continue in 2018, although at a slightly slower pace than in 2017.

CPM can achieve future growth through the following main drivers of paint and coating markets in Mainland China:

**(1) Accelerating the expansion of water-based industrial paint and coating products**

The water-based paint and coating market in Mainland China was rapidly expanded in 2017. The production volume of water-based paint and coating products increased by 22.1% to 2.32 million tonnes in 2017 as compared to 1.90 million tonnes in 2016. Over the past few years, water-based architectural paint and coating products have been used instead of solvent-based architectural coatings. But their proportions in wood coatings, automotive coatings and industrial paint and coating products are still relatively low. With the increasing application scope of water-based paint and coating products, it is predicted that China's water-based paint and coating products will account for up to 20.0% of the market share within five years. In the next five years, the production volume of water-based paint and coating products will grow at an average rate of 23.0%, and it is predicted that the output of water-based paint and coating products in Mainland China in 2018 will be approximately 2.84 million tonnes.

**(2) Strengthening our solid brand presence and foundation**

Strengthening the presence of our paint and coating activities in Southern China and Eastern China is a key element of CPM's expansion strategy in Mainland China. In addition, CPM is commited to the philosophy of "quality, consumer and environmental protection first" (品質為上、客戶為先、環保為念) as its core values. CPM believes that strong brand recognition and marketing efforts are crucial to the success of its business and therefore places strong emphasis on marketing and promotion of their brands and products. As people are becoming more aware of environmental protection, paint and coating products will surely move towards the trend of health, environmental protection, and better quality.

**(3) Synergies with the acquisition opportunities in the region of Southern China**

Apart from the expansion strategy in the retail and wholesale markets, CPM also targets on expansion into the manufacturing sectors which had contributed a large proportion of China's GDP, in particular the furniture industry and automotive industry. CPM considered that the consolidation will enable its fast penetration into the furniture industry and automotive industry as well as strengthen its presence in the paint and coatings market in Southern China. CPM is looking for acquisition opportunities with advantages in geographical location and logistics infrastructure, and with suitable the industrial structure and comprehensive supporting facilities.

**Property Investment**

Mainland China's property sector is expected to grow steadily and be driven by robust end user demand across various city tiers. The increase in urban population stimulates the need for new home purchases and home upgrades. The Group is positive about the long-term prospect of the property market in Mainland China.

Hong Kong Government has taken steps to implement the vision of the Belt and Road Initiative and the Greater Bay Area. The Framework Agreement on Deepening Guangdong-Hong Kong-Macao Co-operation in the Development of the Bay Area establishes the key cooperation areas including promoting infrastructure connectivity and jointly building a quality living circle to provide an ideal place for living, working and travelling. Hong Kong has grasped the chance to play an irreplaceable role in the development of the Bay Area. Hong Kong will be benefited from the development in real estates, transportation, trade and tourism.

The Group will continuously review the portfolio of its investment properties to maintain a constant stream of revenue.

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

### Iron and Steel Trading and Related Investments

The Group trades tinplate, which is the main raw material for its tinplate packaging and is mainly used to produce threepiece beverage cans, food cans (including milk powder cans) and others. The Chinese Government has implemented strict rules in environmental protection and the corresponding compliance costs will be increased to enhance environmental protection investment. Therefore, the operating environment in iron & steel industry is full of challenges. The Group will take a proactive approach to face this challenging operating environment.

While maintaining its existing core business of paint operation through CPM, the Group continues to invest in iron and steel trading business as well as property investment in order to diversify and broaden its investment portfolio.

## MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

### Paint Products

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

Industrial paint and coating products, architectural paint and coating products and general paint and coating and ancillary products accounted for 55.8% (2016: 56.3%), 20.9% (2016: 20.8%) and 23.3% (2016: 22.9%) of the total revenue of paint business respectively in 2017. CPM continues to focus on Mainland China market which contributed to approximately 91.3% (2016: 91.5%) of the total revenue of our paint business.

The increase in the revenue from the sales of industrial paint and coating products, architectural paint and coating products and general paint and coating and ancillary products for the year under review were 5.4%, 6.7% and 7.9% respectively. The increase was primarily due to the expansion of paint and coating market in Mainland China with the industry growth rate at 7.0%. In the meantime, CPM continued to make the appropriate adjustment in its pricing policy, appoint new distributors with streamlined distribution network, and increase the direct sales to manufacturers and renovation contractors for property and infrastructure projects in Hong Kong and Mainland China.

The segment profit for the year amounted to approximately HK$21.65 million, representing significant decrease of 68.9% when compared with 2016. The significant decrease in segment profit in 2017 was due to the significant decrease in the gross profit margin of the paint products which was primarily due to the following reasons:

**(1) Substantial increases in the cost of raw materials**

The raw materials used by CPM include resin, solvent and other materials, of which resin and solvent accounted for a significant portion of the total cost of raw materials. As the downstream products of crude oil, their market prices generally correlate with the prices of crude oil. Since the beginning of the second half of 2017, the international prices of crude oil have started to increase notably as opposed to the declining trend since 2014. The oil price maintained an increasing trend throughout the second half of 2017 and closed with the highest level at the end of 2017 since 2014.

Closing at the said highest level of crude oil price also happened at the time when CPM was making most of its sales during the year. CPM's sales is affected by seasonal factors with the majority of its sales recorded in the second half of the year. Hence, the purchase of the raw materials in the corresponding period does have an over-weighting effect on the cost of raw materials for the whole year, which increased the cost of sales significantly.

As a result of the said price increase in resin and solvents and other factors, the cost of raw materials increased significantly by 19.1% to HK$601.99 million in 2017 as compared to HK$505.61 million in 2016. The increase in the cost of raw materials had adversely affected the gross profit margin of CPM in 2017, causing it to drop from 37.1% in 2016 to 30.9% in 2017.

**(2) Curtailment of the number of suppliers of resin and solvent in Mainland China**

During the second half of 2017, numerous resin and solvent suppliers of CPM in Guangdong Province in the PRC ceased their production activities due to a number of reasons. As reported in news media, one of the reasons was that the Chinese government has implemented stringent environmental protection policies in around August 2017 which resulted in the closure or relocation of businesses that may emit air pollutants or otherwise contain dangerous particles/components in the production process. These policies have led to the closure of smaller suppliers of resin and solvent, which resulted in the reduction the supply and the increase in the prices of the said raw materials. This factor further increased the cost of raw materials and has an adverse impact on the Group's gross profit margin as well as the gross profit for the whole year of 2017.

### (3) Adjustment in the pricing policy

CPM adjusted the selling price of paint and coating products from time to time taking into consideration the production cost as well as the price levels of similar products offered by its competitors in the markets. The purchasing price of major raw materials had been increased significantly during the second half of 2017. Therefore, CPM reduced the discount offered to the distributors in the middle of third quarter 2017, although CPM implemented the adjustment in our pricing policy of business initiatives in the first half of 2017. This reduction only applied to the industrial paint and coating products and general paint and coating and ancillary products.

In order to further penetrate into the water-based architectural paint and coating markets and increase the market shares in Southern and Central China, CPM will continue to implement the adjustment in pricing policy in this product segment. The 13th Five-Year Plan for the Development of National Environmental Protection Standards《國家環境保護標準"十三五" 發展規劃》, indicates that the environmental protection industry will have unprecedented opportunities. In future, CPM will continue to invest in the development of water-based and low VOCs (volatile organic compounds) paint and coatings products.

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

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

## Property Investment

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

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

As at 31 December 2017, the aggregate market value of investment properties held by the Group amounted to approximately HK$683.92 million, representing an increase of approximately 6.1% when compared to 2016. Such increase was mainly due to the increase in the net fair value of the Group's investment property portfolio for 2017 of approximately HK$27.80 million and the exchange realignment upon the appreciation of Renminbi assets of approximately HK$11.80 million.

We continued to maintain a high occupancy rate of about 95.0% (2016: 95.0%) and recorded gross rental income (including inter-group rental income) of approximately HK$39.30 million in 2017, as compared to approximately HK$39.84 million in 2016.

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

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

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

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

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

(4) Submission of relevant updated assessments/reports/plans/measures within 6 months from the date of decision to the satisfaction of relevant government bodies.

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

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

We have appointed respective professionals and in the course of preparing relevant assessments/reports/plans/measures to satisfy those conditions required by relevant government bodies.

In May 2016, we submitted a planning application under Section 16 of TPO to seek TPB's approval for the proposed residential development on our existing warehouses located in Sai Kung, New Territories, Hong Kong (the "Land"). On 2 March 2018, TPB has approved the application with conditions.

The permission shall be valid for 4 years from the date of the 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 approval conditions are as follows:

(1) The submission of traffic review before population intake for the proposed development to the satisfaction of the Commissioner for Transport or of the TPB.

(2) The provision of fire service installations and water supplies for firefighting to the satisfaction of the Director of Fire Services or of the TPB.

(3) The submission and implementation of landscape proposal to the satisfaction of the Director of Planning or of the TPB.

(4) The submission of a land contamination assessment and the implementation of the mitigation measures proposed therein prior to the commencement of the foundation works for the proposed development to the satisfaction of Director of Environmental Protection or of the TPB.

The purpose of applying for the change in the permitted usage of the Land is to secure a re-development opportunity for the purpose of achieving a high investment return or enhancing the property portfolios of the Group. We have not made any final decision on the re-development of the Land. We will consider the prevailing and the anticipated property market conditions, the availability and the terms of the financial resources, the likely investment return, the long-term development plan as well as the interest of the Group and the shareholders of the Company as a whole.

The Federal Reserves of U.S. has raised interest rates five times since 2015 and three hikes are forecasted in 2018. The U.S. tax reform to cut tax will have impact on the economic environment globally. The volatility in the financial markets and some geopolitical issues create uncertainties over the global economy. However, the launch of the Belt and Road Initiative is expected to stimulate and support Mainland China's economic environment in the medium and long terms. Moreover, the Bay Area development plan will bring additional advantages to the economy of Mainland China. It is expected that economic environment in Mainland China will continue to be stable with moderate growth of GDP. We believe that the demand in real estate will remain growing and therefore we will continue to pay attention to the commercial and residential property markets in Mainland China as well as Hong Kong and consider the feasibility of acquiring additional properties in order to diversify and broaden the investment portfolio of the Group.

**Iron and Steel Trading and Related Investments**

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

As a result of the urbanization and the rising disposable incomes in Mainland China, the demand for tinplate products in 2017 increased slightly. The segment revenue increased slightly by approximately HK$5.09 million to approximately HK$198.39 million in 2017. The segment gross profit decreased to approximately HK$5.95 million when compared with that of approximately HK$6.97 million last year. The gross profit margin dropped from 3.6% in 2016 to 3.0% in 2017.

One of the drivers of tinplate products is the expansion of the beverage and food market with the improving standard of living. Urbanization stimulates the demand for packaged food, aerosol products and canned foods. Therefore, demand for tinplate products in Mainland China is expected to have a positive growth.

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

### Available-for-sale Investments

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

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

In the development aspect, the Cemetery has completed 12 graveyards with 5,485 grave plots and a mausoleum with 550 niches. The Cemetery has further obtained the land use rights certificates of approximately 46.8 mu of land which is planned for additional 4,300 grave plots to be developed on this piece of land.

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

Due to the uncertainty of the future profitability of the Cemetery, the Group has made an impairment of HK$4.00 million on this available-for-sale investment.

## FINANCIAL REVIEW

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

## RESULTS

Profit for the year of the Group for the year ended 31 December 2017 of approximately HK$46.92 million (2016: approximately HK$87.68 million), representing a decrease of 46.5% when compared with last year. As a result of the completion of the spin-off and the global offering of CPM on 10 July 2017 and the increase in non-controlling interests of the Company, the Group recorded a profit attributable to the shareholders of the Company of approximately HK$37.52 million for the year when compared with that of approximately HK$87.67 million last year. Revenue for the year amounted to approximately HK$1,228.07 million, representing an increase of approximately 5.5% when compared with that of last year. Gross profit for the year amounted to approximately HK$347.47 million, representing a decrease of approximately 10.5% when compared with that of last year. The gross profit margin decreased by 5.0 percentage point ("pp") from 33.3% in 2016 to 28.3% in 2017.

## SEGMENT INFORMATION

### Business Segments

### Paint Products

Paint operation continued to contribute the largest revenue to the Group with revenue of approximately HK$995.96 million, accounting for approximately 81.1% of the Group's total revenue. Segment revenue for the year increased by 6.2% when compared with that of last year. The gross profit margin decreased by 6.2 pp from 37.1% in 2016 to 30.9% in 2017. The decrease in gross profit margin was mainly due to the significant increase in the costs of major raw materials. Segment profit for the year amounted to approximately HK$21.65 million, representing a significant decrease of approximately 68.9% when compared with 2016.

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

### Property Investment

Property investment operation reported revenue of approximately HK$33.72 million, accounting for approximately 2.7% of the Group's total revenue. Segment profit for the year increased to approximately HK$52.27 million when compared with that of approximately HK$46.39 million last year. The increase in segment profit was mainly due to the increase in the net fair value gains of the investment properties of approximately HK$7.76 million.

### Iron and Steel Trading and Related Investments

Iron and steel operation reported revenue of approximately HK$198.39 million, accounting for approximately 16.2% of the Group's total revenue. Revenue for the year increased by approximately 2.6% when compared with that of last year, as the demand on tinplate products in Mainland China increased slightly during the year. Segment profit for the year amounted to approximately HK$3.55 million when compared with that of approximately HK$4.38 million last year. The decrease in segment profit for the year was mainly due to the decrease in gross profit margin from 3.6% in 2016 to 3.0% in 2017, as a result of the increase in purchase cost of tinplates.

### Geographical Segments

All of the Group's businesses are mainly operated in Mainland China and Hong Kong. Revenue from operations in Mainland China and Hong Kong amounted to approximately HK$1,111.91 million (2016: HK$1,053.37 million) and approximately HK$116.15 million (2016: HK$111.18 million) respectively.

## LIQUIDITY AND FINANCIAL INFORMATION

The Group's business operation was generally financed by its internal funding and bank borrowings. The cash and cash equivalents amounted to approximately HK$382.77 million as at 31 December 2017 when compared with approximately HK$266.38 million as at 31 December 2016. The total cash and bank balances, including structured deposits and pledged deposits, amounted to approximately HK$386.04 million as at 31 December 2017 when compared with approximately HK$367.31 million as at 31 December 2016. Bank and other borrowings amounted to approximately HK$133.55 million as at 31 December 2017 when compared with approximately HK$165.92 million as at 31 December 2016. 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 2017, approximately HK$132.52 million (99.2%) was payable within one year, approximately HK$0.41 million (0.3%) was payable in the second year and approximately HK$0.62 million (0.5%) was payable in the third to fifth years.

Gearing ratio of the Group which was expressed as a percentage of total bank and other borrowings to adjusted capital (as defined below) was 10.2% as at 31 December 2017 compared with 13.7% as at 31 December 2016.

Liquidity ratio of the Group which was expressed as a percentage of current assets to current liabilities was 2.14 times as at 31 December 2017 compared with 1.84 times as at 31 December 2016.

For the year under review, the inventory turnover days[1] were 33 days which was same as that of 33 days in 2016. The trade and bills receivables turnover days[2] were increased from 133 days in 2016 to 181 days in 2017. The increase in the trade receivable turnover days were primarily due to the requests by our customers (including distributors) to extend the credit period amid the less favorable industry environment in Mainland China.

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

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

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

Shareholders' funds of the Group as at 31 December 2017 was approximately HK$1,569.49 million compared with approximately HK$1,477.64 million as at 31 December 2016. Adjusted capital of the Group, being shareholders' funds less the unrealised leasehold land and building revaluation reserve and investment property revaluation reserve, as at 31 December 2017 was approximately HK$1,308.48 million compared with approximately HK$1,215.01 million as at 31 December 2016. Net assets value per share as at 31 December 2017 was HK$0.93 compared with HK$0.78 as at 31 December 2016. Shareholders' funds per share as at 31 December 2017 was HK$0.82 compared with HK$0.78 as at 31 December 2016.

**Contingent Liabilities**

At 31 December 2017, the banking facilities granted to various subsidiaries subject to guarantees given to banks by the Company were utilized to the extent of approximately HK$42.64 million compared with HK$171.68 million as at 31 December 2016.

**Pledge of Assets**

Certain land and buildings, investment properties and cash deposits with aggregate net book value of HK$596.66 million as at 31 December 2017 (31 December 2016: HK$571.58 million) were pledged as collaterals for bank and other borrowings. At 31 December 2017, total outstanding secured bank and other borrowings amounted to HK$89.90 million compared with HK$143.34 million as at 31 December 2016.

## TREASURY MANAGEMENT

**Funding and Treasury Policy**

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

**Foreign Currency Exposure**

The Group's cash, bank balances and bank and other borrowings were mainly denominated in Hong Kong Dollars and Renminbi. The Group's results can be affected by movements in the exchange rate between Hong Kong Dollars and Renminbi. The Group did not have any hedging instrument to hedge the foreign currency exposure as at 31 December 2017. The Group will continue to monitor its foreign currency exposure and requirements closely and arrange hedging facilities when necessary.

**Capital Expenditure**

During the year under review, the Group invested a total sum of HK$22.69 million (2016: HK$66.40 million) on the acquisition of property, plant and equipment, pre-sales residential premises and the construction of warehouses.

## HUMAN RESOURCES

Headcount as at 31 December 2017 was 1,039 (31 December 2016: 1,051). Staff costs (excluding directors' emoluments) amounted to HK$172.36 million for the year as compared with HK$179.22 million last year. The Group has a comprehensive and competitive staff remuneration and benefits system which is formulated on the performance of individual employees. In addition, the Group also provides a staff option scheme.

## PRINCIPAL RISKS AND UNCERTAINTIES

## FINANCIAL RISKS

### Interest Rate Risk

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

### Currency Rate Risk

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

### Credit Risk

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

## BUSINESS RISKS

### Market Risks

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

### Operational Risk

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

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

## ENVIRONMENTAL POLICIES AND PERFORMANCE

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

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

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

(3) effective use of water and electricity; and

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

## COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

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

## UPDATE ON UNFAIR PREJUDICE PETITION AND DERIVATIVE ACTION

As disclosed in the announcement of the Company dated 10 January 2018, the unfair prejudice petition filed on 22 June 2017 by Chinaculture.com Limited was withdrawn on 13 December 2017. Chinaculture.com Limited has commenced a derivative action against certain directors of the Company, and the Company is named as a nominal defendant in such derivative action. Such derivative action is still ongoing as at the date of this announcement.

## EVENTS AFTER THE REPORTING DATE

There is no significant subsequent event after 31 December 2017.

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

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

## AUDIT COMMITTEE REVIEW

The audit committee of the Company has met the external auditors of the Company, Messrs. Ernst and Young ("EY"), and reviewed the Group's annual results for the year ended 31 December 2017.

## REVIEW OF PRELIMINARY RESULTS ANNOUNCEMENT BY INDEPENDENT AUDITOR

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2017 as set out in the preliminary announcement have been agreed by EY, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by EY in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by EY on the preliminary announcement.

## CORPORATE GOVERNANCE

For the year ended 31 December 2017, the Company has complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), except the following:

(1) The non-executive directors of the Company and the independent non-executive directors of the Company are not appointed for a specific term. According to the Company's bye-laws, they are subject to the requirement to retire by rotation at least once every three years. The Board considers that the requirement has the same effect of accomplishing the same objective as a specific term of appointment.

(2) The Company does not have a nomination committee as the role and the function of such committee are performed by the full Board. The Board collectively reviews the structure, size and composition (including the skills, knowledge and experience) of the Board and the appointment of any new director. Also, the Board as a whole is responsible for approving the succession plan for the directors, including the chairman and the managing director.

## CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standards as set out in the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Listing Rules (the "Model Code"). After specific enquiry by the Company, all directors of the Company confirmed that they have complied with the required standards as set out in the Model Code and the Company's own code during the year ended 31 December 2017.

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

Hong Kong, 28 March 2018

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