中漆集團有限公司
CPM GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code: 1932

ANNUAL REPORT 2020

GOLDEN FLOWER

Contents

Corporate Information

BOARD OF DIRECTORS

Non-executive Director and Chairman

Lam Ting Ball, Paul

Executive Directors

Tsui Ho Chuen, Philip *(Managing Director)*
Li Guangzhong *(Sales Director)*
Wong Anders *(Finance Director)*

Non-executive Director

Chong Chi Kwan

Independent Non-executive Directors

Chiu Kam Hing, Kathy
Chua Joo Bin
Xia Jun

AUDIT COMMITTEE

Chiu Kam Hing, Kathy *(AC Chairlady)*
Chua Joo Bin
Chong Chi Kwan

REMUNERATION COMMITTEE

Chiu Kam Hing, Kathy *(RC Chairlady)*
Chong Chi Kwan
Xia Jun

NOMINATION COMMITTEE

Chiu Kam Hing, Kathy *(NC Chairlady)*
Tsui Ho Chuen, Philip
Xia Jun

COMPANY SECRETARY

Fok Pik Yi, Carol

AUDITORS

Ernst & Young
Certified Public Accountants
Registered Public Interest Entity Auditor
22nd Floor, CITIC Tower, 1 Tim Mei Avenue
Central, Hong Kong

COMPLIANCE ADVISER

Innovax Capital Limited
Room 2002, 20th Floor, Chinachem Century Tower
178 Gloucester Road, Wanchai, Hong Kong

SHARE REGISTRARS

Hong Kong

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

Cayman Islands

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive, PO Box 2681
Grand Cayman, KY1-1111, Cayman Islands

PRINCIPAL BANKERS

Hong Kong

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

PRC

HSBC Bank (China) Company Limited
Shenzhen Branch

REGISTERED OFFICE

Cricket Square, Hutchins Drive, PO Box 2681
Grand Cayman, KY1-1111, Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

31st Floor, CNT Tower, 338 Hennessy Road
Wanchai, Hong Kong

WEBSITE

www.cpmgroup.com.hk

Chairman's Statement

OVERVIEW

In 2020, due to the global lockdown caused by the COVID-19 and the dramatic changes in the global production network and demand, the global economy went downturn and the volume of international trade slumped. Accordingly, governments of main countries implemented different policies to provide stimulus to the economy. According to the International Monetary Fund (the "IMF"), China has taken a series of monetary stimulus policies to maintain a fiscal stimulus to around 4.7% of its gross domestic product ("GDP"). Together with the successful implementation of COVID-19 containment measures, including stringent testing protocol, large-scale mobility restrictions at the national level, mandatory quarantine for returning migrant workers, China recorded a GDP growth at the rate of 2.3% in 2020 and was the only major economy to report a positive GDP growth in the year of 2020.

According to the information from National Bureau of Statistics of China (the "NBSC"), in terms of the tertiary industry classification, the paint and coating industry is integrated into the manufacturing industry sector of the secondary industry. Looking at the industry performance, the growth rate of the secondary industry was 2.6% in 2020, which was 55.2% less than the same in 2019. The growth rate of the industry sector was 2.4% in 2020, which was 57.9% less than the same in 2019.

When comparing with the industry performance, the Group suffered less than the industry's average rate. The Group anticipated a decline in the manufacturing sector in Mainland China that, save for the fast-growing manufacturing segments of pharmaceutical and computer, communication and other electronic equipment which would record a positive growth in 2020, the general manufacturing segments of vehicle and plant and machinery, with which the Group's businesses are associated, would record a negative growth in 2020. Therefore, the Group has been striving to enhance the architectural paint and coating products in China and Hong Kong markets. Despite the decrease in the growth rate of the construction sector in Mainland China by 37.5% to 3.5% in 2020, as compared to the corresponding growth rate of 5.6% in 2019, the Group recorded a significant growth in the sale of paint and coating products to customers in the construction sector in Mainland China. Not only aligning the growth trend of the construction sector in Mainland China, but the Group's revenue generated from the architectural paint and coating products in Mainland China also significantly increased by 14.7% in 2020 as compared to the same in 2019, and the Group's revenue generated from the construction and renovation contractors for property and infrastructure projects increased by 21.7% in 2020 as compared to the same in 2019. On the other hand, the Group recorded a significant decline in the revenue generated from the manufacturing customers by 21.6% in 2020 as compared to the same in 2019. It was expected that the significant growth in the revenue generated from customers in the construction sector had been offset partly by the decline in the revenue generated from the manufacturing customers of the Group.

Furthermore, according to the information from the NBSC, contributions from the gross domestic capital, net export of goods and services and the final consumption expenditure to China's GDP growth in 2020 changed significantly to 94.0%, 28.0% and -22.0% respectively, from 31.2%, 11.0% and 57.8% respectively, in 2019. Besides the significant decline in the final consumption expenditure, as one of the components of the gross domestic capital, the growth rate in the purchase of machinery and equipment also decreased by 7.1% in 2020 as compared to 2019. Consistent with the decline in the final consumption expenditure and the purchase of machinery and equipment, the Group's revenue generated from the customers which engaged in the production and sales of various products (ranging from machinery and mechanical equipment, customer electronics, toys, electrical appliances, furniture to marine and automotive parts and components and household users) significantly decreased by 17.8% in 2020 as compared to the same in 2019. Hence, the Group's overall revenue generated from the industrial manufacturers in 2020 significantly decreased by 21.6% as compared to the same in 2019.

OVERVIEW (continued)

As illustrated above, the final consumption expenditure as part of China's GDP growth recorded -22.0% in 2020, as compared to 57.8% in 2019, which was primarily due to the COVID-19 pandemic. The growth rate of the total national expenditure per capita recorded a decrease of 1.6% in 2020 as compared to an increase of 8.6% in 2019, despite an increase in the total national disposable income per capita by 4.7% in 2020. In terms of the classification of consumption categories, the growth rate of the total expenditure on household facilities, articles and services per capita recorded -1.7% in 2020, as compared to 4.7% in 2019. Aligning with the decline in the total national expenditure on household facilities, articles and services per capita in 2020, the Group's revenue generated from wholesale and retail distributors in 2020 decreased by 1.7% as compared to the same in 2019.

In terms of different geographical locations, the Eastern China, the Central China and the Southern China consistently accounted for approximately two-third of China's GDP in 2020. The GDP growth rate of the Eastern China, the Central China and the Southern China for the year of 2020 significantly decreased by 83.8%, 99.6% and 94.5% to 1.2%, 0.1% and 0.4% respectively, as compared to the GDP growth rate of 7.5%, 9.0% and 7.8% respectively, in 2019. Despite such decline, the Group's revenue generated from the Eastern China in 2020 increased by 22.0% as compared to the same in 2019, which was primarily attributable to the significant annual growth in the sales of paint and coating products sold to property developers and renovation contractors in the Eastern China during the year. On the other hand, outperforming the decline in GDP growth in the Central China, the Group's revenue generated from the Central China in 2020 remained stable, as compared to the year ended 31 December 2019. However, in line with the decline in GDP growth in the Southern China, the Group's revenue generated from the Southern China decreased by 8.2% in 2020 as compared to the year ended 31 December 2019, which was primarily due to the decline in the annual sales of paint and coating products to industrial manufacturers in the Southern China during the year.

Looking into the economic performance in Hong Kong, the GDP growth rate was -6.1% in 2020 as compared to -1.2% in 2019. The property and construction sector in Hong Kong suffered adverse impacts from the COVID-19 pandemic leading to delays in construction projects. Furthermore, the stringent preventive measures for controlling the spread of COVID-19 as well as the overall economic downturn also undermined the purchasing desire among potential commercial and residential property buyers. According to the public information, the GDP generated from the construction industry in Hong Kong decreased by 8.2% in 2020 as compared to the year of 2019. Overall, the Group's revenue generated from customers in Hong Kong decreased by 9.4% in 2020, as compared to the year ended 31 December 2019.

On the other hand, the COVID-19 pandemic caused turbulences in the manufacturing sector and adversely affected the global supply chain. Availability and supply of certain major raw materials used in the paint and coating industry was unstable, leading to an increase in raw materials costs. Although the average price of crude oil in 2020 was lower than the average price in 2019 as a result of the COVID-19 pandemic and the Saudi-Russia oil price war, the price was offset by the increase in other raw materials costs. In addition, despite the decline in international crude oil prices, China's imported crude oil by-product prices did not experience the corresponding level of decrease due to the depreciation of Renminbi in the first six months of 2020. 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. Overall, the Group's gross profit margin in 2020 increased by 9.8%, as compared to the same in 2019.

Chairman's Statement

RESULTS

The Group has implemented effective business revamp measures and initiatives and has achieved a better financial performance in 2020, as compared to the same in 2019. The Group's revenue amounted to approximately HK$712.89 million in 2020, representing a slight decrease of 0.1%, as compared to the revenue of approximately HK$713.33 million in 2019, despite of the COVID-19 pandemic. The gross profit in 2020 increased to approximately HK$215.95 million, representing an increase of 9.7%, as compared to the gross profit of approximately HK$196.82 million in 2019. The Group's loss attributable to its owners of the parent company significantly reduced to approximately HK$10.80 million, as compared to the same of HK$28.04 million in 2019. Although the Group still recorded a net loss position in 2020, the financial performance of the Group in 2020 showed that the business of the Group has been improved.

The improvement in the financial performance of the Group was primarily a result of the Group's ongoing adjustment to the business revamp measures and initiatives, but effects of which have been reflected in the performance of the Group in 2020. During the COVID-19 pandemic, the Group has implemented a proactive approach to the procurement and sourcing process in order to mitigate the appreciation of raw materials costs. In addition, significant improvements were made in relation to the reduction in transportation cost and advertising expenses.

BUSINESS OUTLOOK

The market sentiment and business outlook in Mainland China have been plagued by the China-US trade tensions since 2017. On the other hand, concerning the COVID-19 pandemic, COVID-19 vaccines have started rolling out in a global scale since the beginning of 2021. Stringent preventive measures implemented throughout the outbreak in 2020 up to now have stabilised the COVID-19 situation in Mainland China and Hong Kong and the local retail market has begun to recover. With gradual lessening of stringent measures, consumers have begun to regain their inclination to spend. Economies in Mainland China and Hong Kong are expected to resume growth in 2021, but still, the breadth and strength of the recovery are subject to uncertainty. According to the IMF, the expected GDP growth rates in Mainland China and Hong Kong are 8.1% and 3.7% respectively in the post COVID-19 period.

In order to fully grasp the opportunities brought by the market recovery, the Group will absorb up-to-date market trends and consumer needs, broaden the applications of paint and coating products and engage in research and development on more environmentally-friendly products. The Group will also strengthen the sales to industrial manufacturers and the construction and renovation contractors of property and infrastructure projects through an integration of production facilities in the Southern China.

Despite the uncertainties and foreseeable challenges, the Group remains optimistic about the performance of the paint and coating industry in the PRC. The Group will continue to fine-tune its existing business revamp measures and initiatives and to enhance its internal control and risk management systems, so as to boost its production efficiency in response to the challenging business environment.

BUSINESS REVIEW

The 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 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.

REVIEW OF OPERATION

Revenue

For the year ended 31 December 2020, the Group's revenue amounted to approximately HK$712.89 million, representing a slight decrease of 0.1%, as compared to the amount of revenue of approximately HK$713.33 million in 2019, despite the COVID-19 pandemic. The following sets forth an analysis of the Group's revenue for the years ended 31 December 2020 and 2019 by principal products:

	Year ended 31 December				
	2020		2019		% of net
	HK$'000	**%**	HK$'000	%	change
Industrial paint and coating products	**275,470**	**38.6**	292,525	41.0	-5.8
Architectural paint and coating products	**316,282**	**44.4**	286,456	40.2	10.4
General paint and coating and ancillary products [1]	**121,134**	**17.0**	134,347	18.8	-9.8
	712,886	**100.0**	713,328	100.0	-0.1

[1] General paint and coating and ancillary products include thinner, enamel, solvent agent, anti-mold agent, colouring agent and other ancillary products for paint and coating purposes.

Industrial paint and coating products, architectural paint and coating products, and general paint and coating and ancillary products accounted for 38.6% (2019: 41.0%), 44.4% (2019: 40.2%) and 17.0% (2019: 18.8%) of the total revenue of paint and coating business in 2020 respectively. The Group continues to focus on the PRC market which contributed to 90.5% (2019: 89.5%) of the total revenue in 2020.

Stable revenue despite COVID-19 pandemic

Total revenue of the Group in 2020 was rather stable with a decrease of just 0.1% from 2019. For the year ended 31 December 2020, the amount of revenue generated from the sales of industrial paint and coating products, and general paint and coating and ancillary products decreased by 5.8% and 9.8% respectively, while the amount of revenue generated from the sales of architectural paint and coating products increased by 10.4%. The decrease in the sales of industrial paint and coating products, and general paint and coating and ancillary products to industrial manufacturers, wholesale distributors and retail distributors was compensated by the increase in the sales of architectural paint and coating products to construction and renovation contractors for property and infrastructure projects. Such decreases in revenue during the year ended 31 December 2020 were primarily due to the adverse impact of the COVID-19 pandemic in Mainland China and Hong Kong.

REVIEW OF OPERATION (continued)

Revenue (continued)

Stable revenue despite COVID-19 pandemic (continued)

It was worth noting that, in terms of the original revenue generating currencies (Renminbi and Hong Kong dollars), the overall revenue of the Group for the year ended 31 December 2020 increased by 0.4% as compared to the year ended 31 December 2019. However, due to the fluctuation in Renminbi exchange rates in the range between -6.4% and 6.1% during the year, revenue of the Group for the year ended 31 December 2020, in terms of Hong Kong dollars, decreased by 0.1% as compared to the year ended 31 December 2019.

Expansion of the sales of the water-based paint and coating products

For the year ended 31 December 2020, the sales volume of the water-based paint and coating products of the Group increased by 16.9% as compared to the year ended 31 December 2019. The contribution from the water-based paint and coating products to the Group's total revenue increased by 9.4% to 43.5% for the year ended 31 December 2020, as compared to the contribution of 39.7% for the year ended 31 December 2019. Such increase was primarily due to the continued expansion of the customer based in construction and renovation contractors for property and infrastructure projects.

Significant increase in the sales to construction and renovation contractors for property and infrastructure projects in Mainland China

The Group's revenue generated from solvent-based and water-based paint and coating products sold to the construction and renovation contractors for property and infrastructure in Mainland China increased by 17.6% to approximately HK$296.50 million for the year ended 31 December 2020, as compared to approximately HK$252.03 million for the year ended 31 December 2019.

Despite the COVID-19 pandemic during the year, such increase was primarily due to the large market penetration by the Group into the property and construction industry in Mainland China, ahead of the growth of the property and construction industry in Mainland China. According to the information from the NBSC, the cumulative construction area of in-progress construction projects increased by 3.7% in 2020, as compared to the increase of 8.7% in 2019. Moreover, the cumulative completion area, in terms of size, decreased by 4.9% in 2020, as compared to the increase of 2.6% in 2019.

Significant decline in the sales to industrial manufacturers in Mainland China

For the year ended 31 December 2020, the Group's revenue generated from industrial manufacturers in Mainland China significantly decreased by 21.6%, as compared to the year ended 31 December 2019. These industrial manufacturers were particularly engaged in the production and sales of various products (ranging from customer electronics, machinery and mechanical equipment, toys, electrical appliances, furniture to marine and automotive parts and components and household users). Such significant decrease was primarily due to the adverse impact of the COVID-19 pandemic. It was in line with the decrease in the final consumption which recorded a contribution to GDP in Mainland China of -22.0% in 2020.

According to the information from the NBSC, the retail sales of furniture goods (including the paint and coating products for furniture manufacturing purpose) decreased by 18.9% in 2020, as compared to the decrease of 12.4% in 2019. Outperforming the industry performance, the Group's revenue generated from the furniture manufacturing industry for the year ended 31 December 2020 significantly increased by around 34.7% as compared to the year ended 31 December 2019.

In addition, following an increasing demand for electric vehicles in alignment with the national policy on promoting the use of renewable energy products, the Group has entered into this emerging industry by obtaining a recognition as a registered supplier of the electric vehicle manufacturer and supplied the industrial paint and coating products to the electric vehicle manufacturers. For the year ended 31 December 2020, revenue generated from the electric vehicle industry significantly increased by 51.0% as compared to the year ended 31 December 2019.

REVIEW OF OPERATION (continued)

Revenue (continued)

Decline in the sales to wholesale distributors and retail distributors in Mainland China and Hong Kong

For the year ended 31 December 2020, the Group's revenue generated from wholesale distributors and retail distributors decreased by 1.8%, as compared to the year ended 31 December 2019. It was primarily due to the adverse impact of the COVID-19 pandemic during the year. According to the NBSC, the GDP growth rate of the wholesale and retail trade sector in Mainland China decreased by 1.3% in 2020, as compared to the increase of 5.4% in 2019, and the retail sales of the construction and decorative paint and coating products decreased by 15.1% in 2020, as compared to the decrease of 17.5% in 2019. The decrease in revenue generated from wholesale distributors and retail distributors was in line with the decline in industry performance but outperformed the decline in industry performance for retail sales of the construction and decorative paint and coating products in Mainland China.

In addition, for the year ended 31 December 2020, the Group's revenue generated from wholesale distributors and retail distributors in Hong Kong decreased by 1.7%, as compared to the year ended 31 December 2019. It was mainly due to the adverse effects of the COVID-19 pandemic. According to the Census and Statistics Department of Hong Kong, the estimation of sales amount in hardware, metalware, paints and other building renovation materials, which are classified in the other consumer goods, not elsewhere classified in the type of retail outlet in Hong Kong, decreased by 10.0% in 2020, as compared to the year of 2019. Despite a decrease in revenue generated from wholesale distributors and retail distributors in Hong Kong, the Group's performance was better than the industry average.

Geographical Analysis of Revenue

Geographically, for the year ended 31 December 2020, the Group's revenue generated from Mainland China and Hong Kong accounted for 90.5% and 9.5% respectively, as compared to 89.5% and 10.5% respectively for the year ended 31 December 2019. The majority of the Group's revenue was generated from the Southern China, the Central China and the Eastern China. Revenue generated from these regions, in aggregate, accounted for 83.0% of the Group's total revenue for the year ended 31 December 2020, as compared to 83.2% for the year ended 31 December 2019.

Large market penetration of the property and construction industry in Mainland China

The Group's revenue generated from construction and renovation contractors for property and infrastructure projects in Mainland China increased by 21.7% for the year ended 31 December 2020, as compared to the year ended 31 December 2019. During the year, even though the revenue generated in the Southern China decreased by 1.4%, the revenue generated in the Eastern China, the Central China, the Northern China and the Southwest China increased by 73.2%, 16.3%, 43.4% and 97.7% respectively. Such increase was primarily due to the expansion of customer base of construction and renovation contractors nationwide in Mainland China.

Significant decrease in sales to industrial manufacturers in the Southern China and the Central China

For the year ended 31 December 2020, sales to industrial manufacturers in the Eastern China and the Central China decreased by 24.1% and 34.9% respectively, as compared to the year ended 31 December 2019. These industrial manufacturers are mainly engaged in the production and sales of machinery and equipment. According to the information from the NBSC, among the sectors in the Industrial Classification for National Economic Activities, the gross domestic fixed capital formation in the mining industry sector and the manufacturing sector significantly decreased by 14.1% and 2.2% respectively in 2020, as compared to the same in 2019. The significant decrease in gross domestic fixed capital formation in Mainland China in 2020 resulted in the significant decrease in the Group's revenue generated from industrial manufacturers in the Southern China and the Central China.

REVIEW OF OPERATION (continued)

Geographical Analysis of Revenue (continued)

Decrease in sales to construction and renovation contractors for property and infrastructure projects in Hong Kong

For the year ended 31 December 2020, sales to property construction and renovation contractors for property and infrastructure in Hong Kong decreased by 32.0% as compared to the year ended 31 December 2019. Such decrease was primarily due to the delays in delivery of key construction materials and closure of supply chain in Mainland China in early 2020, as well as delays or cancellation of tender exercise which resulted in delays and disruption to the progress of the works on construction and renovation projects in Hong Kong during the COVID-19 pandemic.

Cost of Sales

Cost of raw materials

Raw materials used by the Group include resins, solvents and other materials, of which resins and solvents accounted for significant portions of the total cost of raw materials. Crude oil prices directly or indirectly impact the prices of such raw materials. In 2020, the overall crude oil prices dropped, possibly leading to price reductions of raw materials used for paint and coating products. However, a large number of raw materials, suppliers and other ingredient manufacturers were affected or disrupted in their productions due to employee illness and certain community lockdowns in the first half of 2020 under the COVID-19 pandemic, and hence, led to the shortage of raw materials and the increases in their respective prices in the second half of 2020. Despite a challenging situation, the overall costs of raw materials to revenue decreased by only 5.0% as compared to the year ended 31 December 2019.

Direct labour cost

Compared with the year ended 31 December 2019, direct labour cost remained stable at a similar level for the year ended 31 December 2020 as the number of labours remained at a similar level as previous year.

Depreciation and production overhead

Depreciation and production overhead cost increased significantly by 11.8% for the year ended 31 December 2020, which was primarily due to the additional depreciation and other running expenses arising from the newly built facilities of the production plant in Zhongshan (the "Zhongshan Production Plant") which was under different phases of trial production in the reporting year.

Gross Profit Margin and Gross Profit of the Group's Products

For the year ended 31 December 2020, the gross profit margin of the Group increased by 9.8% from 27.6% to 30.3% and the gross profit increased by 9.7% from approximately HK$196.82 million to approximately HK$215.95 million as compared to the year ended 31 December 2019. The increase in the gross profit margin and gross profit were primarily due to the change in the product mix and the decrease in the prices of raw materials. However, due to the additional depreciation and other running expenses arising from the Zhongshan Production Plant, which was operating under different phases of the trial production period in the reporting year, the average unit production cost of the Group increased by amortisation. As a result, part of the increase in the profit margin and the gross profit were offset against the higher amortisation rate of production cost for the year ended 31 December 2020.

REVIEW OF OPERATION (continued)

Other Income and Gains, Net

The amount of other income and gains, net increased by 86.6% to approximately HK$22.32 million for the year ended 31 December 2020, as compared to the year ended 31 December 2019 of approximately HK$11.96 million. Such increase was primarily due to the gain on deposits paid for purchases of properties, plant and equipment of approximately HK$9.35 million. During the year ended 31 December 2020, a termination agreement was signed between the government of Xinfeng, Guangdong, the PRC and an indirect wholly-owned subsidiary of the Company for terminating the acquisition agreement dated 21 January 2008 in respect of a parcel of land located in Xinfeng. The Xinfeng government paid a compensation of approximately RMB15.00 million (equivalent to approximately HK$16.81 million) for several initial payments made by the indirect wholly-owned subsidiary of the Company. The aggregate carrying amount of such several initial payments was approximately RMB6.66 million (equivalent to approximately HK$7.46 million). The gain on deposits paid for properties, plant and equipment was approximately HK$9.35 million.

Selling and Distribution Expenses and Administrative Expenses

For the year ended 31 December 2020, the amount of the selling and distribution expenses decreased by 22.5% from approximately HK$126.22 million to approximately HK$97.87 million and the percentage to revenue decreased by 22.6% from 17.7% to 13.7%, as compared to the year ended 31 December 2019. The decreases were primarily due to (i) the significant decrease in the average transportation costs; (ii) the reduction in staff cost which was due to the temporary reduction and exemption of enterprises' contributions to the premiums of basic pension insurance, unemployment insurance, and work-related injury insurance (hereinafter referred to as "Three Social Insurances") for the period from February 2020 to December 2020 in Mainland China; and (iii) the reduction in advertising expenses during the COVID-19 pandemic.

Note: The significant decrease in the average transportation costs was primarily due to the large reduction in the price of transportation charge in Mainland China, the free of all toll roads in Mainland China for the period from mid-February 2020 to early May 2020 and the significant decrease in the price of diesel. According to the statistics from Ministry of Public Security of the PRC, the registration of new cargo trucks increased by 18.4% in 2020 and resulted in an increase of the supply of cargo trucks in the PRC trucking industry. In addition, according to the information from NBSC, the aggregate volume (in tonnes) of the PRC cargo traffic decreased by 13.2% in 2020 and resulted in inefficiency in the PRC trucking industry. Due to the oversupply in the PRC trucking industry, it resulted in the large reduction in the price of transportation charge in Mainland China.

In addition, during the year ended 31 December 2020, the amount of the administrative expenses decreased by 5.2% from approximately HK$113.12 million to approximately HK$107.25 million and the percentage to revenue of the administrative expenses decreased by 5.7% from 15.9% to 15.0%, as compared to the year ended 31 December 2019. It was primarily due to the reduction in staff cost for the same reason as mentioned above.

REVIEW OF OPERATION (continued)

Other Expenses less reversal, net

The net amount of the other expenses less reversal was recorded as expenses of approximately HK$39.70 million for the year ended 31 December 2020, as compared to the net reversal expenses of approximately HK$12.17 million for the year ended 31 December 2019. For the year ended 31 December 2020, the net amount of the other expenses less reversal comprised of mainly staff termination payments, local taxes and levies and stamp duties, provision for the impairment of items of property, plant and equipment, fair value loss on investment properties and reversal of the provision for the impairment of trade receivables, amounting to approximately HK$18.93 million, HK$13.30 million, HK$5.01 million, HK$1.47 million and -HK$0.46 million respectively. Firstly, the staff termination payments were in relation to the integration of the production facilities in the Southern China (please refer to the paragraphs headed "Business Plans and Outlook" below for further information). Secondly, local taxes and levies and stamp duties remained stable at a similar level as compared to the year ended 31 December 2019 of approximately HK$13.39 million. Thirdly, the Group carried out review of the recoverable amount of certain property, plant and equipment for the year ended 31 December 2020 based on the value-in-use calculations. Accordingly, the reviews led to the recognition of the provision for the impairment of items of property, plant and equipment of approximately HK$5.01 million, as compared to nil during the year ended 31 December 2019. Fourthly, the Group recognised a fair value loss on investment properties of HK$1.47 million, as compared to nil for the year ended 31 December 2019. Fifthly, based on the historical past due and the forward-looking economic status, the Group only reversed the provision for impairment of trade receivables of approximately HK$0.46 million for the year ended 31 December 2020, as compared to HK$27.49 million for the year ended 31 December 2019.

Such impairment and provision are non-cash items and have no impact on the Group's cash flow or liquidity position.

REVIEW OF OPERATION (continued)

Profitability Analysis

Despite the revenue remained stable for the year ended 31 December 2020, the Group had an improvement in the gross profit margin. Furthermore, the Group's selling and distribution expenses and the administrative expenses were both significantly reduced. As a result, the Group recorded a loss attributable to its parent company of approximately HK$10.80 million for the year ended 31 December 2020, which was considerably less than the amount of loss of approximately HK$28.04 million for the year ended 31 December 2019. The implementation of the Group's ongoing business measures and initiatives continued to improve the amount of loss of the Group. The objective of these business measures and initiatives was to implement strategic plans to realign the strategic directions and priorities and to improve the efficiency of the business operations of the Group. From other financial perspectives, the Group's loss of approximately HK$10.74 million for the year ended 31 December 2020 (31 December 2019: loss of approximately HK$27.92 million) would have become a profit of approximately HK$28.19 million for the year ended 31 December 2020 (31 December 2019: loss of approximately HK$18.73 million) after excluding finance costs, income tax, depreciation of property, plant and equipment, depreciation of right-of-use assets, reversal of provision for impairment of trade receivables, provision for impairment of items of property, plant and equipment, fair value loss on investment properties and amortisation of intangible assets. This achievement is contributed by the Group's appropriate business revamp measures and initiatives to respond to the challenging environments and with the clear implementation of business strategy to maintain the stable sales of the products of the Group during the COVID-19 pandemic. The performance of the Group was principally affected by the following factors:

1. Revenue from sales – Excluding the impact on the effect of fluctuation in Renminbi exchange rates, the Group's overall revenue remained stable at a similar level for the sales of paint and coating products, as compared to the year ended 31 December 2019. It was primarily due to the significant revenue growth in the customers of construction and renovation contractors for property and infrastructure projects to offset the decline in the revenue generated from the customers of wholesale and retail distributors and industrial manufacturers during the COVID-19 pandemic.

2. Cost of raw materials – As mentioned in the paragraphs headed "Cost of Sales" above, the drop in crude oil price resulted in a decrease in the price of major raw materials which were used for paint and coating products. However, the possible reduction in raw materials price was largely offset by the shortage of supply of these raw materials due to suppliers' insufficient productions, as a result of the COVID-19 pandemic in 2020.

3. Other income and gains, net – The Group had two one-off transactions during the year, including the gain on deposits paid for purchases of properties, plant and equipment of approximately HK$9.35 million and the subsidies provided by the Hong Kong government under the Employment Support Scheme under Anti-epidemic Fund of approximately HK$2.87 million.

4. Staff costs – Due to the temporary reduction and exemption of enterprises' contributions to the premiums of Three Social Insurances for the period from February 2020 to December 2020 in Mainland China, the overall PRC and Hong Kong pension contributions of the Group decreased by 68.1%, as compared to the year ended 31 December 2019.

REVIEW OF OPERATION (continued)

Profitability Analysis (continued)

5. Selling and distribution expenses – The average transportation expenses of the Group decreased significantly by 28.9% as compared to the year ended 31 December 2019, which was primarily due to the large reduction in the price of transportation charge and other related expenses in Mainland China. Staff cost decreased significantly by 14.7% as compared to the year ended 31 December 2019, which was primarily due to the temporary reduction and exemption of enterprises' contributions to the premiums of Three Social Insurances in Mainland China. Advertising expenses significantly decreased by 54.4% for the year ended 31 December 2020 as lower priority was put to marketing and advertising campaigns during the COVID-19 pandemic. In addition, due to the reduction in the business events and gatherings during the COVID-19 pandemic, the Group recorded a significant decline in the travelling expenses, entertainment expenses and other related expenses, as compared to the year ended 31 December 2019.

6. Other expenses less reversal, net – For the year ended 31 December 2020, the Group newly incurred such expenses of approximately HK$25.41 million: staff termination payments were in relation to the integration of the production facilities in the Southern China (please refer to the paragraphs headed "Business Plans and Outlook" below for further information); the provision for the impairment of items of property, plant and equipment; and the fair value loss on investment properties. At the same time, based on the historical past due and the forward-looking economic status, the reversal of provision for impairment of trade receivables significantly decreased by 98.3% as compared to the year ended 31 December 2019.

7. Finance costs – The Group's finance costs decreased by 30.1% as compared to the year ended 31 December 2019. It was primarily due to the significant decrease in the average borrowing interest rate of overall one-month HIBOR (Hong Kong Interbank Offered Rate) and three-month HIBOR as compared to the year of 2019.

8. Renminbi exchange rate against Hong Kong dollars – The fluctuation in Renminbi during the year ended 31 December 2020 had an adverse financial impact on the Group's operating results.

BUSINESS PLANS AND OUTLOOK

The Group recognises that continuous improvements in its business operations and profitability are important even though the amount of loss for the year ended 31 December 2020 was considerably improved when compared with 2019. The Directors believe that the fundamentals of the business initiatives, including boosting its business performance by increasing the selling prices of the paint and coating products, improving the procurement and sourcing process, optimising the product mix and production distribution channels of the Group, and integrating the production facilities of the Group in the PRC, remain effective and necessary. In addition, in order to increase the Group's market share in the PRC, extend the geographical sales in the PRC and expand the customers base, the Group will continue to explore production cooperation with selected paint and coating manufacturers on an OEM (Original Equipment Manufacturers) basis.

Due to the effective and efficient control of COVID-19 in Mainland China, China's economy had been largely recovered in the last quarter of 2020 and is expected to be driven by rising domestic demand in 2021. As an indication of such recovery, the Group remains optimistic and expects a steady growth in the demand of paint and coating products from the manufacturing and construction sectors.

BUSINESS PLANS AND OUTLOOK (continued)

Apart from uncertainties under the COVID-19 pandemic, the China-US relationship remains tense with possibility to further distorting the economic outlook on the recovery of China and Hong Kong. The Group will remain vigilant and be ready to respond to further deterioration in the paint and coating industry in Mainland China and Hong Kong. In addition, in order to enhance the shareholders' value of the Group in the long term and build the long-term customer relationships, the Group continues to review and enhance its production facilities and its production capacity in providing a reliable, adequate and quality supply of paint and coating products. In addition, the COVID-19 created threats and opportunities which have changed the business environment in which the Group operates. The Group will continue to identify business and acquisition opportunities that could enhance the development of the paint and coating business in the PRC. Given that the ongoing integration and enhancement of production facilities in the Guangdong-Hong Kong-Macao Greater Bay Area, the Group is ready to capitalise the opportunities that may arise in this uniquely challenging period.

Latest Progress in the Construction of New Production Facilities and R&D Centre in Mainland China

Upon the first-phase and the second-phase completion of the construction of the production facilities at the Zhongshan Production Plant, it has undergone successful trial productions in 2020 and is expected to be in full production of the solvent-based and water-based paint and coating products in 2021. The Zhongshan Production Plant will be able to produce solvent-based and water-based paint and coating products for selling to the industrial manufacturers in the Southern China. The Group will also provide after-sales-service to these industrial manufacturers.

On the other hand, due to the COVID-19 pandemic, the Group has yet to identify suitable office premises in Shenzhen for setting up a new product research and development centre (the "New R&D Centre"). The commencement of business operation of the New R&D Center has been postponed since 2020. Although the COVID-19 pandemic has delayed the progress of setting up the New R&D Centre, such establishment is in line with the strategy of the Group to focus on encouraging and promoting Shenzhen as an important base for high-tech research, development and manufacturing in the Southern China, and more importantly, to employ high caliber candidates for the support of further development of paint and coating products in the Southern China. Despite there are hurdles in setting up the New R&D Centre, the Group has been conducting research and development of new and modified paint and coating products. During the year, the Group continually invented new paint and coating products as well as new and modified paint and coating formulations. The Group purchased machineries and equipment for the use of product development. During the year, these machineries and equipment had been used for product development. Since the New R&D Centre is not ready, the Group thus temporarily placed such machineries and equipment in other production plants in the PRC. They will be moved to the New R&D Centre upon establishment. In 2021, the Group will make every effort to locate the suitable premises.

Integrating and altering the production facilities in the Southern China

In 2020, more than 40.0% of the revenue of the Group was contributed from the water-based paint and coating products or from the architectural paint and coating products. In addition, the manufacturing production of water-based paint and coating products in the production plant in Shajing (the "Shajing Production Plant") increased more than 80.0%, as compared to the year ended 31 December 2019. Accordingly, except for the newly-built production plant for the production of water-based paint and coating products in the Zhongshan Production Plant, the Group decided to rationalise all solvent-based paint and coating products of manufacturing operations of the Shajing Production Plant and integrate it to the production plant in Xinfeng (the "Xinfeng Production Plant") and the Zhongshan Production Plant, and decided to focus on the production capacity of water-based paint and coating products in the Shajing Production Plant.

BUSINESS PLANS AND OUTLOOK (continued)

Integrating and altering the production facilities in the Southern China (continued)

In order to further increase the production capacity of water-based paint and coating products in the Shajing Production Plant, the Group planned to carry out the alterations and additions works in the Shajing Production Plant (the "Alteration and Additions Works") for the manufacturing of water-based paint products in 2021. This new production line will focus on the production of water-based architectural paint and coating products. The Group expects that the new designed annual production capacity will reach the provision for the construction and renovation contractors for property and infrastructure projects in the Southern China, and expects the completion of the Alteration and Additions Works and the commercial productions in the first half of 2021.

Through the integration of production facilities as mentioned above, the Group continues to evaluate the ways to further improve the productivity and utilisation of the Group's production facilities in order to align with the Group's expansion plan for production facilities in the Guangdong-Hong Kong-Macao Greater Bay Area, and to enhance the operational efficiency of the Group.

FINANCIAL REVIEW

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

The Group recorded a loss attributable to the owners of the parent company of approximately HK$10.80 million for the year ended 31 December 2020, the amount of which was reduced by 61.5% as compared to a loss of approximately HK$28.04 million for the year ended 31 December 2019. Revenue for the year amounted to approximately HK$712.89 million, representing a decrease of 0.1% when compared to that of previous year. Gross profit for the year amounted to approximately HK$215.95 million, representing an increase of 9.7% when compared to that of the previous year. The gross profit margin increased by 9.8% from 27.6% in 2019 to 30.3% in 2020.

LIQUIDITY AND FINANCIAL INFORMATION

Liquidity and Indebtedness

The Group's business operation is generally financed by its internal financial resources and bank borrowings. Total cash and cash equivalents and structured deposits, amounted to approximately HK$242.37 million as of 31 December 2020, as compared to approximately HK$224.37 million as of 31 December 2019. The increase in the cash and cash equivalents as of 31 December 2020 was mainly due to the improvement in the cash conversion cycle and the Renminbi appreciation as of 31 December 2020. Bank borrowings amounted to approximately HK$215.30 million as of 31 December 2020 as compared to approximately HK$215.34 million as of 31 December 2019. The Group's bank borrowings mainly bear interest at floating rates. As of 31 December 2020, the Group's total bank borrowings amounted to approximately HK$215.30 million (100.0%) (31 December 2019: approximately HK$215.34 million (100.0%) is payable within one year).

The Group's cash and bank balances and bank borrowings were mainly denominated in Hong Kong dollars and Renminbi. The Group's results can be affected by the appreciation or depreciation between Hong Kong dollars and Renminbi. The Group currently does not adopt any hedging measures, but it will monitor the foreign exchange exposure and will consider hedging its foreign currency exposure should the need arises.

Gearing ratio of the Group, which is expressed as a percentage of total bank borrowings to shareholders' funds, was 37.1% as of 31 December 2020, as compared to 40.6% as of 31 December 2019. Liquidity ratio of the Group, which is expressed as a percentage of current assets to current liabilities, was 1.41 times as of 31 December 2020, as compared to 1.46 times as of 31 December 2019.

LIQUIDITY AND FINANCIAL INFORMATION (continued)

Liquidity and Indebtedness (continued)

For the year ended 31 December 2020, the inventory turnover days[1] were 52 days which was longer than that of 40 days in 2019. The longer inventory turnover days for the year ended 31 December 2020 was primarily due to the increase in the inventory level of raw materials and finished goods in order to prepare for the recovery of the manufacturing and the construction sectors for the first quarter of 2021. On the other hand, the trade and bills receivables turnover days[2] were 198 days as compared to that of 156 days in 2019. The longer trade receivables turnover days for the year ended 31 December 2020 was primarily due to the significant increase in the outstanding amounts which were past due within six months.

1 The calculation of inventory turnover days is based on the closing balance of inventories divided by the cost of sales times 366 days (31 December 2019: 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 times 366 days (31 December 2019: 365 days).

Equity and Net Asset Value

Shareholders' funds of the Company as of 31 December 2020 amounted to approximately HK$580.40 million as compared to approximately HK$530.62 million as of 31 December 2019. Net asset value per share as of 31 December 2020 amounted to HK$0.58, as compared to HK$0.53 as of 31 December 2019. Fluctuations in the foreign currency exchange rates between Hong Kong dollars (the reporting currency) and Renminbi could have a significant impact and may lead to volatility in the operating results of the Group.

Contingent Liabilities

As of 31 December 2020, the amount of utilised banking facilities granted to various subsidiaries subject to guarantees given by the Company was HK$215.30 million (31 December 2019: HK$215.34 million).

Pledge of Assets

As of 31 December 2020, certain property, plant and equipment and right-of-use assets with aggregate net book value of approximately HK$7.32 million (31 December 2019: approximately HK$7.62 million) were pledged to financial institutions as collaterals for bank borrowings and lease liabilities. In addition, as of 31 December 2020 and 2019, a wholly-owned subsidiary of the Company pledged its shares to secure general banking facilities granted to the Group.

TREASURY MANAGEMENT

Funding and Treasury Policy

The Group adopts a prudent approach in its funding and treasury policy, which aims to maintain an optimal financial position for the Group and minimise 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 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 2020. The Group will continue to monitor its foreign currency exposure and requirements closely and arrange hedging facilities when necessary.

TREASURY MANAGEMENT (continued)

Capital Expenditure

During the year ended 31 December 2020, the Group invested a total sum of approximately HK$26.10 million (2019: approximately HK$15.41 million) in the plant and equipment, and the construction of new production facilities.

HUMAN RESOURCES

Headcount as at 31 December 2020 was 783 (31 December 2019: 790). Staff costs (excluding directors' emoluments) amounted to approximately HK$130.56 million for the year as compared to approximately HK$140.80 million in the previous year. The Group has a comprehensive and competitive staff remuneration and benefits system which is based on the performance of individual employees.

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 the PRC and the Group's sales and purchases were mainly conducted in Hong Kong dollars and Renminbi. The Group also has significant investments in the PRC 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 adopts a forward-looking expected credit loss approach to estimate the provision based on the aging of its receivable balances. If the financial condition of its debtors deteriorates which resulted in the actual impairment loss being higher than expected, the Group would be required to revise the basis of making the allowance.

Market Risks

Loss of market share to competitors is the market risk to the Group. The Group's core markets in Hong Kong and the PRC are subject to increasing competition. Loss of business to competitors resulting from failure to consider changes in the environment in Hong Kong and the PRC 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.

EVENTS AFTER THE REPORTING DATE

Save as disclosed above, there is no significant subsequent event after 31 December 2020.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed above, there was no other significant investment acquired, nor was there any other material acquisitions or disposals of subsidiaries during the year ended 31 December 2020. The Board has not yet authorised any plan for other material investments or additions of capital assets.

USE OF NET PROCEEDS FROM THE SHARE OFFER

The Group's business objectives and planned use of net proceeds as disclosed in the prospectus of the Company dated 19 June 2017 (the "Prospectus") were based on the best estimation of future market conditions made by the Group at the time of preparing the Prospectus and subject to the risk factors as stated in the Prospectus. The actual use of net proceeds was based on the actual market situation. Should there be any further change in the use of proceeds, the Company will immediately inform shareholders of the Company by way of announcement.

USE OF NET PROCEEDS FROM THE SHARE OFFER (continued)

The Company listed its shares on the Stock Exchange on 10 July 2017 (the "Listing"). Net proceeds from the Listing were approximately HK$168.2 million (after deduction of the underwriting commission and relevant expenses), which are intended to be applied in the manner as disclosed in the Prospectus and the Company will review the use of net proceeds in view of the market situation. On 29 July 2019, the Board resolved to change the use of the remaining unutilised proceeds from the Global Offering (as defined in the Prospectus) (the "Reallocation"). For details of the Reallocation, please refer to the announcement of the Company dated 29 July 2019. The following table sets forth the status of the use of net proceeds from the Global Offering:

		Use of net proceeds from the Global Offering prior to the Reallocation	The Reallocation	Use of net proceeds subsequent to the Reallocation	Aggregate amount utilised as at 31 December 2020	Amount unutilised as at 31 December 2020
		HK$ million	HK$ million	HK$ million	HK$ million	HK$ million
(1)	Construction of the Xinfeng Production Plant	78.5	(52.2)	26.3	(26.3)	–
(2)	Repayment of the bank loans	19.1	–	19.1	(19.1)	–
(3)	Acquisitions of businesses or production assets	42.0	–	42.0	(42.0)	–
(4)	Sales and market campaigns and activities	28.6	–	28.6	(28.6)	–
(5)	Construction of production facilities for water-based paint and coating products in the Zhongshan Production Plant	–	32.2	32.2	(32.2)	–
(6)	Product research and development centre	–	20.0	20.0	(0.8)	19.2 Note 1
		168.2	–	168.2	(149.0)	19.2

Note 1: For details of the latest status and the expected time of the utilisation of the remaining proceeds, please refer to the paragraphs headed "Latest Progress in the Construction of New Production Facilities and R&D Centre in Mainland China" in the annual 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 2020, the Company has applied the principles and complied with the code provisions as set out in the CG Code.

THE BOARD

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

Executive Directors

Tsui Ho Chuen, Philip *(Managing Director)*
Li Guangzhong *(Sales Director)*
Wong Anders *(Finance Director)*

Non-executive Directors

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

Independent Non-executive Directors

Chiu Kam Hing, Kathy
Chua Joo Bin
Xia Jun

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 64 to 65.

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 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 three independent non-executive Directors and one 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 (continued)

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. Due to the impact of the COVID-19 control measures, certain Directors were not able to attend the general meetings during the year. 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		
Tsui Ho Chuen, Philip	4/4	2/2
Li Guangzhong	4/4	0/2
Wong Anders	4/4	0/2
Non-executive Directors		
Lam Ting Ball, Paul	4/4	2/2
Chong Chi Kwan	4/4	2/2
Independent Non-executive Directors		
Chiu Kam Hing, Kathy	4/4	2/2
Chua Joo Bin	4/4	0/2
Xia Jun	4/4	0/2

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.

APPOINTMENT AND RE-ELECTION OF DIRECTORS (continued)

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 Articles.

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 from time to time to ensure its effectiveness.

NON-EXECUTIVE DIRECTORS

Each of the non-executive Directors and independent non-executive Directors has entered into an appointment letter with the Company pursuant to which each of them is appointed for service with the Company for a term of three years. Their terms of appointment shall be subject to the rotational retirement provision of the Articles.

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	
Tsui Ho Chuen, Philip	A,C
Li Guangzhong	A,C
Wong Anders	A,B,C
Non-executive Directors	
Lam Ting Ball, Paul	A,C
Chong Chi Kwan	A,B,C
Independent Non-executive Directors	
Chiu Kam Hing, Kathy	A,B,C
Chua Joo Bin	A,B,C
Xia Jun	A,B,C

DIRECTORS' TRAINING (continued)

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: 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.cpmgroup.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.

Audit Committee

During the year, the Audit Committee consisted of three non-executive Directors (the majority of whom are independent): Ms. Chiu Kam Hing, Kathy (AC Chairlady), Mr. Chua Joo Bin and Mr. Chong Chi Kwan.

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 2019 annual results and the 2020 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 functions. 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 2019; and (ii) the scope and extent of the agreed-upon procedures engagement with respect to the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2020. 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**
Chiu Kam Hing, Kathy *(AC Chairlady)*	2/2
Chua Joo Bin	2/2
Chong Chi Kwan	2/2

BOARD COMMITTEES (continued)

Remuneration Committee

During the year, the Remuneration Committee comprised two independent non-executive Directors and one non-executive Director: Ms. Chiu Kam Hing, Kathy (RC Chairlady), Mr. Chong Chi Kwan and Mr. Xia Jun.

The primary objectives and duties of the Remuneration Committee are set out in its terms of reference adopted in compliance with the requirements under the CG Code, which include, inter alia, making recommendations to the Board on the remuneration policy and structure for all the Directors and the senior management of the Company and on the establishment of a formal and transparent procedure for developing its remuneration policy. 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. Details of the remuneration of the Directors are set out in note 9 to the financial statements. During the year, the Remuneration Committee held one meeting to review and approve the remuneration policy and remuneration packages of the Directors and senior management of the Company. The Remuneration Committee resolved by resolutions in writing to make recommendations to the Board in relation to the renewal of service agreement for each of the executive Directors and the renewal of letter of appointment for each of the non-executive Directors and the independent non-executive Directors. The attendance record of each committee member is set out below:

Directors	Number of committee meeting attended/held
Chiu Kam Hing, Kathy *(RC Chairlady)*	1/1
Chong Chi Kwan	1/1
Xia Jun	1/1

The remuneration paid to the members of senior management of the Company by band during the year is set out below:

Remuneration Band	Number of Individuals
HK$500,001-HK$1,000,000	2

Nomination Committee

During the year, the Nomination Committee comprised two independent non-executive Directors and one executive Director: Ms. Chiu Kam Hing, Kathy (NC Chairlady), Mr. Tsui Ho Chuen, Philip and Mr. Xia Jun.

The Nomination Committee met once during the year to review the structure, size, composition and diversity of the Board and assess the independence of independent non-executive Directors, to recommend the re-election of retiring Directors, and to review the board diversity policy and the nomination policy of the Company. The Nomination Committee resolved by resolutions in writing to make recommendations to the Board on the reappointments of the executive Directors, the non-executive Directors and the independent non-executive Directors. The attendance record of each committee member is set out below:

Directors	Number of committee meeting attended/held
Chiu Kam Hing, Kathy *(NC Chairlady)*	1/1
Tsui Ho Chuen, Philip	1/1
Xia Jun	1/1

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-compliance 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 aims 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 as set out in the Model Code. After specific enquiry by the Company, all Directors confirmed that they have complied with the required standard as set out in the Model Code and the Company's own code during the year ended 31 December 2020.

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 2020, the remuneration of the Company's external auditors, Ernst & Young, is set out below:

Services rendered to the Group	**Remuneration**
	HK$
Audit services	2,650,000
Non-audit services	325,500
	2,975,500

The non-audit services rendered by the Company's external auditors to the Group included performance of agreed-upon procedures on the 2020 interim financial statements and the preliminary results announcement for the year ended 31 December 2020, the audit examination of the statement on details of contribution of the Group's occupational retirement schemes and performance of a review on continuing connected transactions for the year ended 31 December 2020.

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 2020, 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 70 to 73.

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 2020 AGM provided an opportunity for communication between the Shareholders and the Board, at which the Chairman and the chairlady of the Audit Committee, the Remuneration Committee and the Nomination 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 extraordinary general meeting of the Company held on 4 June 2020, the Chairman and the chairlady of the Audit Committee, the Remuneration Committee and the Nomination Committee had attended the extraordinary general meeting to answer the Shareholders' questions. The resolution was approved by the Shareholders by way of poll. The Company announced the results 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 an extraordinary general meeting

Pursuant to article 58 of the Articles, an extraordinary 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 an extraordinary 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 extraordinary general meeting, the Shareholder(s) may do so in the same manner, and all reasonable expenses incurred by the Shareholder(s) as a result of the failure of the Board shall be reimbursed to the Shareholder(s) by the Company.

Putting forward proposals at general meeting

Pursuant to article 85 of the Articles, if a Shareholder wishes to propose a person for election as a Director, unless the person proposed to be elected as a Director is a Director retiring at the general meeting or is recommended by the Board for election, a Shareholder shall submit: (i) a notice in writing (the "Nomination Notice") signed by a Shareholder duly qualified to attend and vote at the meeting for which such notice is given of his/her intention to propose that person for election as a Director; and (ii) a notice in writing signed by that person of his/her willingness to be elected as a Director to the principal office of the Company in Hong Kong at 31st Floor, CNT Tower, 338 Hennessy Road, Wanchai, Hong Kong for the attention of the Company Secretary within the following prescribed period.

The period for lodgement of the notices referred to above will commence on the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least seven days.

The Nomination Notice must state the full name of the person proposed for election as a Director and include such person's biographical details as required by Rule 13.51(2) of the Listing Rules.

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 principal place of business in Hong Kong at 31st 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
CPM Group Limited

Lam Ting Ball, Paul
Chairman
Hong Kong, 30 March 2021

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 in the environmental and social aspects of its business and performance of the Group in this regard.

The ESG Report covers the Group's businesses in the manufacture and sale of paint and coating products for the year ended 31 December 2020. 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 environment, 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 containing the material environmental, social and governance items is set out in the "Materiality Matrix" of the ESG Report.

STAKEHOLDERS' ENGAGEMENT

The Group is committed to maintaining the sustainable development of its business and the environmental protection of the local communities in which it operates. The Group controls and manages the related parties that can affect the Group's operation and management systems through the established Procedures for Control of the Stakeholders' Needs and Expectations and 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 to ensure that the relevant risk management and internal control systems are operating properly and effectively. The following table shows the means of communication with the stakeholders and the management response to the stakeholders' expectations and requests:

Stakeholders	Expectations and requests	Means of communication	Management response
Government/ regulatory organisations	➢ Compliance with the laws and regulations ➢ Fulfill tax obligation ➢ Green operation ➢ Joint efforts in combating the COVID-19	➢ Periodic reports/ announcements ➢ Communicate regularly with regulatory agencies ➢ Handle official business through government affairs website or application	➢ Uphold integrity and operational compliance ➢ Pay tax on time and make contribution to society ➢ Establish a comprehensive and effective internal control and environmental management systems ➢ Fully implement safety production responsibility system ➢ Actively implement various clean production measures ➢ Follow the government's COVID-19 prevention measures and guidelines to prevent the spread of the COVID-19
Shareholders/ investors	➢ Return on investment ➢ Information transparency ➢ Corporate governance system	➢ Information disclosed on the websites of the Company and the Stock Exchange ➢ Website and Official WeChat ID of the Company ➢ General meetings ➢ Investor meeting/ factory visit	➢ Management possesses relevant experience and professional knowledge in business sustainability ➢ Regular information dissemination by publications on the websites of the Stock Exchange and the Company ➢ Dedicated to improvement in internal control and focus on risk management ➢ Effectively exchange opinions with investors through various communication channels ➢ Adopt effective preventive and control measures and fully resume work and production as soon as possible

STAKEHOLDERS' ENGAGEMENT (continued)

Stakeholders	Expectations and requests	Means of communication	Management response
Employees	➢ Labour rights ➢ Career development ➢ Compensation and welfare ➢ Health and workplace safety ➢ Joint efforts in combating the COVID-19	➢ Employee activities ➢ Employee performance evaluation ➢ Induction and on-the-job training ➢ Employee satisfaction survey ➢ Internal meetings and announcements ➢ Contact via email, phone and communication applications	➢ 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 ➢ Regularly provide employees with physical examinations and conduct occupational disease hazard tests on key positions to identify the sources of various occupational hazards and develop an appropriate action plan as soon as possible ➢ Provide COVID-19 prevention materials, set up reasonable staff scheduling and rostering
Customers	➢ High-quality and diversified products and customer services ➢ Protect customer rights ➢ Timely delivery ➢ Reasonable price ➢ Joint efforts in combating the COVID-19	➢ Business visit ➢ Contact via email, phone and communication applications ➢ Customer service team ➢ Customer satisfaction survey ➢ Product promotion meeting	➢ Improve the quality of products and services continuously in order to satisfy customers' requirements ➢ Establish an effective, efficient and green supply chain system ➢ Formulate comprehensive quality assurance process and recall procedures ➢ Provide multiple channels for product anti-counterfeiting inquiries to combat counterfeit and inferior behaviours so as to protect consumer rights ➢ Ensure the performance of contractual obligations ➢ Establish and continuously improve the pre-sales, in-sales and after-sales services and customer training systems ➢ Adopt effective preventive and control measures and fully resume work and production as soon as possible

STAKEHOLDERS' ENGAGEMENT (continued)

Stakeholders	Expectations and requests	Means of communication	Management response
Suppliers	➢ Stable demand ➢ Good relationship with the Company ➢ Corporate reputation ➢ Joint efforts in combating the COVID-19	➢ Business visit ➢ Contact via email, phone and communication applications ➢ Product promotion meeting	➢ Ensure the performance of contractual obligations ➢ Establish policies and procedures regarding supply chain management ➢ Establish and maintain long-term co-operation relationships with quality suppliers ➢ Stringent selection of suppliers ➢ Adopt effective preventive and control measures and fully resume work and production as soon as possible
Community	➢ Environmental protection ➢ Reduce greenhouse gas emissions and waste generation ➢ Effective resources utilisation ➢ Community contribution ➢ Economic development and community employment ➢ Joint efforts in combating the COVID-19	➢ Use website and Official WeChat ID of the Company and information publicity website of government department to publish the Company's information ➢ Participate in community activities	➢ Pay attention to the problem of climate change and actively take various clean production measures ➢ Continue to invest resources in environmental protection ➢ Actively innovate environmental protection technology ➢ Strengthen management in energy saving and emission reduction ➢ Encourage employees to participate in charitable activities and voluntary services ➢ Maintain good and stable financial performance and business growth ➢ Establish an epidemic prevention and control team and formulate epidemic prevention working guidelines to prevent the further spread of the COVID-19

MATERIALITY MATRIX

During the reporting period, the Group 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 the Group's business development is in line with the expectations and requirements of its stakeholders. The Group's and its stakeholders' matters of concern are presented in the following materiality matrix:

Materiality Matrix

	Low	**Medium**	**High**
High	◆ Anti-discrimination ◆ Protecting labour rights	◆ Talent management ◆ Staff training and promotion opportunities ◆ Staff compensation and welfare	➢ Customers' satisfaction level ➢ Product quality and safety ➢ Suppliers management ➢◆✧ Anti-epidemic ◆ Occupational health and workplace safety ✧ Application of clean production and green products
Medium	➢ Community involvement	➢ Anti-corruption ✧ Air and greenhouse gas emissions ✧ Use of resources	➢ Operational compliance ➢ Protecting customers' privacy ✧ Air emissions ✧ Sewage discharge
Low	◆ Preventive measures for child and forced labour	✧ Use of water resources ✧ Non-hazardous waste produced	✧ Use of raw materials ✧ Hazardous waste produced

Importance to the Group

✧ Environmental ◆ Employee ➢ Operational

ENVIRONMENTAL PROTECTION

Emissions Management

The emissions in the Group's production process are mainly generated by its production plants in Mainland China. The Group has formulated different emissions management measures in accordance with the local government policies and specific environmental conditions applicable to each production plant. In order to implement the Environmental Protection Law of the People's Republic of China, Regulation of Guangdong Province on Environmental Protection, Regulations of Shenzhen Special Economic Zone on Environmental Protection and the related laws and regulations, the Group has established the Environment, Health and Safety (hereinafter referred to as the "EHS") management system in accordance with the international standards GB/T 24001-2016/ISO 14001:2015 Environmental Management System and GB/T 28001-2011 Occupational Health and Safety Management System and implemented the same standards in the main production plants. Other than the environmental and safety laws and regulations, the Group is also required to comply with the relevant international conventions, industry standards and other requirements. Therefore, the Group has formulated the Procedures for Control of Management Review and Procedures for Control and Compliance Evaluation of the Laws and Regulations to review the EHS management exercises regularly, so as to ensure the full compliance, effectiveness and sustainability of the EHS management system. Besides, the Group conducts investigations on the non-compliance cases and takes appropriate corrective measures in a timely manner to minimise the level of risk on the environment, employees' health and safety.

The Group has obtained a pollutant discharge permit in respect of air emissions, sewage discharge and noise issued by the PRC government. In addition to the accredited GB/T 24001-2016/ISO 14001:2015 Environmental Management System Certification, the Group's production plant in Shenzhen (the "Shenzhen Production Plant") has established a safety and environmental protection department which is responsible for making decisions, supervising and co-ordinating various environmental protection works and the systemic management of the environmental performance of the entire production plant. The management and the safety and environmental protection department have worked together to prepare preventive plans and established independent management systems, including Prevention and Emergency Procedures for Air Pollution, Prevention and Emergency Procedures for Water Pollution, Sewage Treatment Operation Manual and Prevention and Emergency Procedures for Noise Pollution by following the guiding principle of the Group in environmental protection Focus on Prevention and Control and considered from the perspective of risk management. These policies not only set out clear working guidelines for the daily operation of the production plants but also rigorously regulate the air emissions, sewage discharge and noise emission to ensure that the production processes are in full compliance with the national and local environmental standards. It also enables the production plants to deal with emergencies or other environmental factors effectively to minimise the impact on the Group's stakeholders, so that there can be a continual improvement in the Group's environmental management system. Besides, various departments of the Group initiated different energy conservation and consumption reduction activities and organised relevant knowledge and skills training to enhance employees awareness of environmental and occupational health and safety. The Group is continuously minimising the adverse effects of environmental factors and reducing environmental pollution, so as to provide favourable conditions for simultaneous planning, implementation and development of production, environmental protection and employees, and at the same time, promoting economic growth and providing benefits to society and the environment. The Group also sends dedicated personnel to participate in training and conferences organised by government departments to understand the changes in environmental policies at various operating locations and formulate response plan timely, pay close attention to environmental governance and prevent any pollution incidents or illegal emissions from happening.

ENVIRONMENTAL PROTECTION (continued)

Emissions Management (continued)

The Group is now facing challenges mainly from the control and management of volatile organic compounds (hereinafter referred to as "VOC") and the disposal of industrial wastewater and hazardous wastes. The Group always advocates clean production and therefore, focuses on the management and monitoring of VOC, industrial wastewater and hazardous wastes treatment. The Group has established a set of management policy and working guideline to manage the whole product life cycle, which covers the selection of raw materials and auxiliary materials, the emissions reduction measures in the production process, the management of emissions and the usage of the Group's products by consumers. The Group also implemented an environmental reward and penalty management system and established the Research and Development Project Reward System in compliance with the Scientific Progress Law of the People's Republic of China to encourage various departments to carry out technological transformation and innovation, and initiates innovative changes in production methods, the transformation of machine facilities or management methods, so as to reduce environmental pollution caused by exhaust air, wastewater and solid wastes. Besides, the Group continues to pay attention to the market and consumer needs and focus on optimisation of product quality and diversification, and develop a series of green products such as low-VOC latex paint, net taste latex paint, anti-formaldehyde latex paint, water-based wood paint, etc. Some of the products have obtained various environmental certifications in Mainland China and Hong Kong aiming at reducing the adverse impact of the product on the environment.

1. **Management of Air and Greenhouse Gas Emissions**

   The operation of the Group is affected by China's increasingly stringent rectification policy on air pollution, and hence, the Group strictly abides by the Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution and other applicable laws and regulations, with the goal of improving the atmospheric environment, adheres to source control and continuously optimises the Group's energy structure, environmental protection facilities and air emissions management of each production plant. The Shenzhen Production Plant applied and obtained a valid pollutant discharge permit from the local environmental protection department in accordance with the Administrative Measures for Pollutant Discharge Permits of Shenzhen Special Economic Zone. Besides, the Group also strictly abides by the Measures for the Supervision and Administration of Vehicle Waste Gas Pollution and Regulations for the Prevention and Control of Vehicle Air Pollution in the Shenzhen Special Economic Zone to control and prevent excessive exhaust air generated by the vehicles, such as purchasing vehicles that are listed on the Eco-friendly Vehicle Catalog, conducting regular maintenance to the vehicles and using environmental friendly fuels, etc., thereby protecting and improving the atmospheric environment.

ENVIRONMENTAL PROTECTION (continued)

Emissions Management (continued)

1. Management of Air and Greenhouse Gas Emissions (continued)

Each department of the Group plays an important role in ensuring the Group's industrial exhaust emissions are in compliance with the national standards by monitoring and co-ordinating on each control point. The safety and environmental protection department is responsible for improving and monitoring the industrial waste gas treatment methods in production lines. The production department strictly follows the working guidelines of each production line to ensure that the exhaust air is processed by fans, spray towers, UV decomposers and activated carbon purification devices and the emission is lower than the limits as set out in the Integrated Emission Standard of Air Pollutants, Guangdong Province Emissions Limits of Air Pollutants and the other limits set by the respective regions and discharged it at the height of above 15 meters in compliance with the national discharge height standard. The production department also configures dust removal facilities for dust-generating equipment to control the diffusion of dust. The research and development centre has taken environmental protection into consideration when developing new products and technologies. The science and technology department is responsible for the introduction and detailed testing of new raw materials and auxiliary materials. The quality control department conducts tests on raw materials, auxiliary materials and finished products regularly. Besides, the above three departments work together to ensure the goods produced are in good quality and comply with RoHS[1] and REACH[2] standards. The engineering department is responsible for the operation and maintenance of the industrial exhaust air treatment facilities by complying with the Guidelines for Operation and Maintenance of VOC Treatment Facilities and regularly replaces activated carbon based on its absorption characteristics to ensure that the production facilities are operating effectively so as to prevent environmental pollution. The warehouse department regularly inspects warehouses that store toxic, harmful, flammable, explosive, and volatile materials and takes appropriate measures, such as spraying cold water in summer to lower the temperature, checking the tightness of the warehouse vents and containers to ensure the stability of the warehouse environment and reduce the risk of leakage of any harmful substances to prevent environmental pollution incidents.

Numerous trees are planted in the production plants and surrounding areas for greening in order to provide employees with a comfortable and healthy working environment. The Group engaged professional environmental accredited companies to regularly perform tests on waste gas with an aim to confirm that the air emissions management methods operate effectively and provide timely feedback to departments. It can also provide direction for future environmental plans to optimise the environmental management systems and facilities of each production plant.

Notes:

1 RoHS is a directive issued by the European Union to restrict the use of certain identified hazardous substances in products. It restricts the concentration of four hazardous substances, namely lead, cadmium, mercury and hexavalent chromium and two flame retardants, namely polybrominated biphenyls and polybrominated diphenyl ethers, in products.

2 REACH is a standard established by the European Union to restrict the production and use of various chemicals so as to reduce the potential negative impact of those chemicals on human health and the environment.

ENVIRONMENTAL PROTECTION (continued)

Emissions Management (continued)

1. Management of Air and Greenhouse Gas Emissions (continued)

Besides, the Group also pays attention to the management of unorganised emission from production workshops and has implemented relevant control measures to prevent continuous emission of unorganised exhaust gas, which may adversely affect the environment and employees' health. For example, employees are required to cover the temporary storage buckets when the materials are not in use, strengthens the repair and maintenance of the gas-collection hoods in the materials feeding process, turns off the air compressor system after work to prevent overloading the system and impact on the normal operation of the ventilation equipment (please refer to the sections headed "Conservation on Gasoline, Diesel and Refrigerant Consumption" and "Conservation on Electricity Consumption" below for the details of the greenhouse gas emissions data generated from the use of fuel and electricity by the Group).

During the reporting period, the Shenzhen Production Plant used the sand mill machine to replace the three-roller machine to effectively reduce VOC emissions during the production process and protect the health of employees while the production plant in Xinfeng (the "Xinfeng Production Plant") installed four sets of ultraviolet photolysis waste gas treatment equipment with a total value of more than RMB300,000 in accordance with the requirements of the Guangdong Provincial Ecological Environmental Protection Bureau for the Comprehensive Remediation Guidelines for the Emissions from Stationary Pollution Sources of Key Regulatory Enterprises to upgrade single exhaust gas treatment system and ensure comprehensive and effective collection and treatment of exhaust gas, reduce the content of VOC substances in the exhaust gas, improve the air quality in the production plant and reduce the impact on the environment. The Group also regularly entrusts companies with local environmental protection certification qualifications to test the concentration and rate of pollutants in organised and unorganised waste gas in the plant. The test contents mainly include particulate matters, benzene series, non-methane total hydrocarbons and volatile organic compounds, etc. During the reporting period, all the tests conducted by each production plant met the requirements of the emission limits per the Emission Standard of Air Pollutants for Paint, Ink and Adhesive Industry, Emission Standard of Pollutants for the Synthetic Leather and Artificial Leather Industry and Integrated Emission Standard for Air Pollutants.

2. Management of Wastewater

The Group has established a sewage discharge management system for production plants in accordance with the Water Pollution Prevention and Control Law of the People's Republic of China, Regulation on Urban Drainage and Sewage Treatment, Shenzhen Drainage Regulations and other related laws and regulations, including the Waste Water Control Procedures and Procedures for Prevention of Water Pollution and Emergency Treatment for strictly restricting the wastewater generated in the production to undergo the harmless treatment before discharging and providing preventive and emergency measures to ensure that the sewage treatment facilities can be operated properly when an accident occurred. The Group's Regulations on Sewage Treatment Operation provides detailed descriptions of the operating procedures of wastewater treatment facilities at each production plant, the methods and frequency of water quality inspection and other code of practice on safety. The operator is required to perform day-to-day management of the facility in accordance with the policies and procedures. Besides, in order to comply with the Administrative Measures for the Sewage Permits of Guangdong Province, the Group holds a valid wastewater discharge permit, pays sewage charges on time, establishes pollutant discharge record and disseminates major pollutant discharge information on the Group's website and the pollutant discharge is monitored and inspected by the local environmental protection department.

ENVIRONMENTAL PROTECTION (continued)

Emissions Management (continued)

2. Management of Wastewater (continued)

The wastewater generated by production plants is mainly domestic sewage and industrial sewage. The domestic sewage is discharged to the local sewage treatment plant directly through the main pipelines. Each sewage treatment plant has its own sewage treatment station, which comprises a conditioning tank, a chemical sedimentation tank, an anaerobic tank and a biological pool. The water-based paint sewage generated from production will be conditioned, precipitated and underwent chemical and biological treatment procedures and discharged when the Integrated Waste Water Discharge Standard, Guangdong Province Water Pollutant Discharge Limit and other discharge limits stipulated by respective operating locations are met. In order to prevent environmental pollution caused by sewage overflow from the conditioning tank or abnormal operation of the sewage treatment facilities, the Group has established different treatment methods to control the flow by referring to the water level. The Group has also set up an emergency pool for extra storage during large-scale production or the malfunctioning of the sewage treatment station. To ensure the proper functioning of the sewage treatment facilities, the Group pays close attention to the regular daily repairs and maintenance of these facilities.

The safety and environmental protection department of the Group is responsible for managing the industrial wastewater treatment, monitoring the progress of the sewage treatment process of the production plants, evaluating and analysing the environmental performance. Online automatic monitoring system has been set up in the production plants to monitor the total phosphorus, ammonia nitrogen, chemical oxygen demand, pH value and flow at the sewage discharge port. The Group also regularly conducts emergency drills for leakage in the pipeline network of the sewage treatment facilities so that employees can carry out relevant emergency treatment in a timely, effective and safe manner when an accident occurs to prevent secondary pollution to the environment and injury to employees from happening. The Group has engaged local environmental accredited companies to perform test and measurement on the pH value, suspended substance, ammonia nitrogen, 5-day biochemical oxygen demand and chemical oxygen demand of wastewater at sewage discharge port of each production plant according to the national technical specifications. The local Ministry of Ecology and Environment also performs unscheduled inspections on sewage for about two to four times a year. During the reporting period, all the tests conducted by each production plant met the requirements of the emission limits in the Integrated Wastewater Discharge Standard and the Group has not received any notification of illegal treatment or discharge of wastewater.

During the reporting period, the Group generated approximately 8,945.64 tonnes of non-hazardous wastewater, representing a decrease of approximately 709.36 tonnes or 7.35% when compared with last year. This was mainly affected by factors such as the changes in product structure and the decrease in the number of employees. On the other hand, it was also affected by the enhancement of employees' environmental awareness. For example, employees consciously control the amount of water used while cleaning the mixing tank, which can effectively reduce the generation of industrial wastewater.

ENVIRONMENTAL PROTECTION (continued)

Emissions Management (continued)

2. Management of Wastewater (continued)

During the reporting period, the Group's data in non-hazardous wastewater discharged are as follows:

NON-HAZARDOUS WASTEWATER	2020 (Tonnes)	2019 (Tonnes)
Total	8,945.64	9,655.00
Intensity[1]	31.95	30.91

Note:

1 The emission intensity is calculated in terms of the production per hundred tonne.

3. Management of Disposal of Solid Waste

The solid waste generated by the Group during its operations can be divided into recyclable, non-recyclable and hazardous wastes. Recyclable waste are mainly waste packaging materials, waste wood and metal scraps. Non-recyclable waste are mainly water-based paint sludge, waste paper, rags and domestic waste. Hazardous waste are mainly waste insulating oil, used activated charcoal, organic solvent waste, waste ink, waste paint residue, waste batteries, mercury-containing waste lamps, waste chemicals containers, and other labour supplies and containers that contaminated with hazardous substances. In order to comply with the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste, Regulations on the Prevention and Control of Environmental Pollution by Solid Waste of Guangdong Province and relevant laws and regulations, the Group has formulated the Procedure for Control of Waste to manage and monitor the process of production, collection, storage and disposal of different types of solid waste. For the disposal of hazardous wastes, the Group has also established the Code of Prevention and Protection against Environmental Pollution from Hazardous Wastes to incorporate pollution prevention work into all levels of the production plant and set up a task force to make decisions, monitor and co-ordinate the work in the environmental protection aspect. The Group strictly follows the national direction of Focusing on Prevention, Integrating Management Controls in implementing different environmental protection and pollution prevention measures, develops emergency plans for environmental incidents and conducts regular accident drills. When hazardous waste or compound leak incident occurs, employees must follow the established procedures to prevent the accident from spreading further to reduce the impact on the environment and report the relevant environmental incidents to the local environmental protection department. During the reporting period, no hazardous waste or compound leak incident occurred in any production plants of the Group.

ENVIRONMENTAL PROTECTION (continued)

Emissions Management (continued)

3. Management of Disposal of Solid Waste (continued)

Due to the continuous increase of environmental protection awareness, the Group's focus on strengthening waste management has become the consensus of all industries. In addition to the implementation of different waste reduction measures from the source, the Group has also implemented a number of optimisation measures in terms of waste collection and disposal methods and employee education. The details of waste reduction measures for hazardous and non-hazardous solid waste are as follows:

➢ Continuously optimise the production plan for improving the productivity and ensuring the product quality, and take into account the order of putting raw materials in the paint mixing tank, thereby reducing the frequency of cleaning the paint mixing tank for reducing waste paint residue and non-hazardous sludge generated from the production process;

➢ Strengthen the maintenance of environmental protection equipment to prevent unnecessary hazardous and non-hazardous solid waste generated from the abnormal operation of the equipment;

➢ Actively seek qualified recyclers or suppliers who possess the required recycling technology to recycle different wastes generated from operation and production;

➢ In the pre-shift and daily routine meetings, continue to remind employees of the importance of environmental protection and instill different environmental protection knowledge to employees;

➢ Formulate operating procedures for different equipment and strictly require employees to follow the established procedures to reduce waste;

➢ Set up waste classification and recycling bins in the production plants, and educate the employees to pay attention to waste classification for increasing the waste recycling and reuse rate;

➢ Encourage employees to communicate internally in electronic form;

➢ Encourage employees to reuse paper or stationery as much as possible, such as single-sided paper, envelopes, folders, etc.; and

➢ Reduce the use of disposable consumables, including food packaging boxes, paper cups, paper plates, plastic bags, etc.

ENVIRONMENTAL PROTECTION (continued)

Emissions Management (continued)

3. Management of Disposal of Solid Waste (continued)

Hazardous Solid Waste

The responsible departments of the Group categorise, label, store and dispose of the solid waste according to the requirement of the National Hazardous Waste List, Standard for Pollution Control on Hazardous Waste Storage and Standards for Pollution Control on the Storage and Disposal Site for General Industrial Solid Wastes. All hazardous solid waste must be recycled by agents holding Hazardous Waste Operation Permit for dangerous wastes and strictly follow the Measures for the Management of Hazardous Waste Transfer. Illegal disposal of hazardous waste is prohibited.

The responsible departments and users of the Group strictly follow the Regulations on the Safety Management of Dangerous Chemicals, Regulations on the Management of Transportation of Dangerous Goods, General Rules for the Storage of Commonly Used Dangerous Chemical, General Rules for the Classification of Chemicals and Hazard and relevant laws and regulations, as well as internal policies and procedures to purchase, use, transport and store hazardous substances (such as chemicals). The Group also takes necessary protective measures when handling hazardous chemicals, such as demanding the raw materials suppliers to comply with relevant laws and regulations by signing an agreement, explicitly stating the safety and environmental requirements on hazardous chemicals packing, transportation and discharge process. The Group has also installed a number of online surveillance cameras in dangerous goods warehouses to enable real-time spot checks by the local government departments and increased the frequency of warehouse inspections to prevent environmental pollution caused by leakage. The Group has established a Management Plan for Disposal of Chemical Waste to report all discarded hazardous chemicals to the environmental protection department and maintained a register recording the information about the discarded hazardous chemicals. The Group also registers the transfer of hazardous waste on the national solid waste management information platform. Approval from the environmental protection authorities is required prior to the disposal of hazardous waste so as to prevent the recyclers from illegal disposal of the wastes which would otherwise lead to environmental pollution.

During the reporting period, the Group generated approximately 84.89 tonnes of hazardous solid waste. The Xinfeng Production Plant newly installed several sets of waste gas treatment equipment and resulted in an increase of waste activated carbon which was used to adsorb pollutants by about 78.14%. Additional waste paint residues are generated during the relocation of the Shenzhen Production Plant, resulting in an increase of approximately 93.33% waste paint residue when compared with last year. Although employees' environmental awareness has increased, the amount of hazardous solid waste generated by the Group only slightly decreased by approximately 1.74 tonnes or 2.01% when compared with the previous year.

During the reporting period, the Group's data in the production of hazardous solid waste are as follows:

HAZARDOUS SOLID WASTE	2020 (Tonnes)	2019 (Tonnes)
Total	84.89	86.63
Intensity[1]	0.30	0.28

Note:

1 The production intensity is calculated in terms of the production per hundred tonne.

ENVIRONMENTAL PROTECTION (continued)

Emissions Management (continued)

3. Management of Disposal of Solid Waste (continued)

Non-Hazardous Solid Waste

The Group implemented different methods of recycling and disposal depending on the source of non-hazardous waste. The Group's production department is responsible for categorising waste, such as packaging materials and cardboards, arranging transportation and storing the same at designated locations and engaging with local environmental accredited recyclers to handle the waste. Besides, the Group recycles and re-uses papers in office in order to maximise the resources utilisation rate (please refer to the section headed "Paper Conservation" below for details). The Group strictly complies with the Measures for the Management of Municipal Solid Waste and relevant laws and regulations to monitor, collect and dispose of domestic waste and educates employees to reduce waste generation from source, to enhance employee awareness in waste categorisation and to remind them how their behaviour will affect the environment.

During the reporting period, certain production workshops of the Shenzhen Production Plant underwent equipment relocation, the engineering waste generated during the period was jointly monitored by the engineering department and the safety and environmental protection department and strictly followed the established treatment procedures for collection, classification and disposal of the relevant engineering waste and it is strictly forbidden to dump illegally or cause environmental pollution. Because some raw materials suppliers have changed the mode of transportation, the raw materials originally transported by tank trucks were changed to be transported in iron drums and plastic drums. As a result, waste iron drums and waste rubber drums generated in the Shenzhen Production Plant have increased by about three times. Besides, the Shenzhen Production Plant also cleaned up the sediment under the sewage tank in the plant and the waste sludge generated increased by approximately 72%. Therefore, the non-hazardous solid waste generated by the Group during the reporting period increased by approximately 659.49 tonnes or 1.30 times compared with the previous year with a total of approximately 1,167.67 tonnes of non-hazardous solid waste generated.

During the reporting period, the Group's data in the production of non-hazardous solid waste are as follows:

NON-HAZARDOUS SOLID WASTE	2020 (Tonnes)	2019 (Tonnes)
Total	1,167.67	508.18
Intensity[1]	4.17	1.63

Note:

1 The production intensity is calculated in terms of the production per hundred tonne.

ENVIRONMENTAL PROTECTION (continued)

Emissions Management (continued)

4. Management of Noise

The Group strictly complies with the Law of the People's Republic of China on Prevention of Noise Pollution, Regulations for the Prevention of Noise Pollution in the Shenzhen Special Economic Zone and relevant laws and regulations and established Procedures for Control of Noise and Procedures for Prevention of Noise and Emergency Treatment and strictly control and manage noise produced during the operation of the production facilities through restricting the production workshop location, the placement setting of production equipment and implementing vibration and noise reduction measures. The operators strictly follow the operation manual when using the production equipment and take appropriate sound treatment. The engineering department of the Group is responsible for the management, repair and maintenance of production facilities and generators to ensure that the noise produced is within the national standards. The Group engaged local environmental accredited companies to conduct assessments of the noise level annually. During the reporting period, the test results of all production plants have met the emission limits in Emission Standard for Industrial Enterprises Noise at Boundary.

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

Management of Use of Resources

In order to comply with the Law of the People's Republic of China on Energy Conservation, Water Law of the People's Republic of China and relevant laws and regulations and policies, the Group has established related internal policies and procedures at each production plant. The Group is committed to promoting the corporate culture on "saving resources" by constantly reminding employees to preserve precious resources and to avoid wastage. To ensure the staff understand the importance of resources conservation, the Group has implemented various measures to encourage the staff to build a habit of saving and make the best use of resources.

1. Energy Conservation

Conservation on Gasoline, Diesel and Refrigerant Consumption

Gasoline and diesel are mainly consumed by the Group's business vehicles and warehouse forklifts. The Group has formulated Measures for Management of Vehicle to manage the daily use of vehicles. The vehicle users are required to complete the Application Form for the Use of Vehicles and obtain prior approval before using the business vehicles. The Group encourages employees to use public transportation when travelling to locations with good public transportation networks. Besides, drivers must plan the routes before using vehicles and take the shortest route and the fastest way to the destination in order to shorten the driving distance and to reduce exhaust air emissions. Drivers have to check the vehicles before use so as to prevent any environmental and safety issues due to parts failure. The finance department of the Group checks and analyses the monthly fuel consumption, investigates abnormal fuel consumption cases and requests the vehicle users to explain any abnormal situation.

During the reporting period, the Group consumed a total of approximately 48.30 tonnes of gasoline, representing a decrease of approximately 11.06 tonnes or 18.63% when compared with the previous year. This was mainly due to the drop of the frequency of business trips and vehicles used as a result of the COVID-19, thereby causing a drop of gasoline consumption. The Group consumed approximately 21.37 tonnes of diesel, representing a slight decrease of approximately 0.61 tonnes or 2.78% when compared with the previous year. This was mainly due to the acquisition of three forklifts used in the Xinfeng Production Plant and the use of diesel generators in the Shenzhen Production Plant due to power outages, resulting in an increase in diesel consumption.

ENVIRONMENTAL PROTECTION (continued)

Management of Use of Resources (continued)

1. Energy Conservation (continued)

Conservation on Gasoline, Diesel and Refrigerant Consumption (continued)

During the reporting period, the Group's direct use of energy and the Scope 1 greenhouse gas emissions generated by the Group are as follows:

	2020		2019	
	Consumption	CO_2 Equivalent Emissions (Tonnes)	Consumption	CO_2 Equivalent Emissions (Tonnes)
Gasoline	48.30 Tonnes	176.81	59.36 Tonnes	217.52
Diesel	21.37 Tonnes	67.78	21.98 Tonnes	68.60
Refrigerants	105.40 Kilograms	179.20	78.20 Kilograms	133.21
Group's Total Emission		423.79		419.33
Group's Emission Intensity[1]		1.51		1.34

Note:

1 The emission intensity is measured in terms of the production per hundred tonne.

Conservation on Electricity Consumption

In order to consistently implement the Group's environmental protection policy, the Group has established the Procedures for Management of Water Resource and Electricity Consumption, which strictly requires all departments to use and save energy effectively. The Group's administration and human resources department is responsible for implementing water conservation measures and providing training on the use of electricity. All new employees are required to participate in the induction training, which covers environmental protection facilities and equipment operation procedures, to ensure that each new employee has adequate knowledge in operating the environmental facilities and eliminating the chance of inappropriate use of the equipment so as to minimise unnecessary energy consumption. The engineering department of the Group is responsible for setting annual electricity saving targets, recording and analysing electricity consumption data, preparing timely remediation plan if abnormalities are discovered, suggesting necessary energy-saving renovations for production and office electrical equipment, such as installing variable-frequency drives and automatic light sensor switches, using LED energy-saving lamps, and enhancing resources conservation measures according to the loading or conditions of the equipment.

The department heads are responsible for monitoring their team members for electricity consumption and enhancing their knowledge in resources conservation so as to control energy consumption and improve resource usage efficiency through daily management. In general, employees are suggested to turn off the lights when sunlight is sufficient, air conditioners are used according to seasonal and temperature change, turn off the air conditioners after work, close the doors and windows when air conditioners are turned on and switch off their own or their department's electrical appliances and computers after work.

ENVIRONMENTAL PROTECTION (continued)

Management of Use of Resources (continued)

1. Energy Conservation (continued)

Conservation on Electricity Consumption (continued)

Due to the changes in product structure of some of the Group's production plants, the production of some products, such as heavy-duty anti-corrosion paints, has increased and the production process of these products consumes more electricity. In response to the requirements of the environmental protection department, the Xinfeng Production Plant has to switch on the workshop ventilation and dust removal equipment when the door of the production workshop was open and installed several ultraviolet photolysis waste gas treatment equipment, resulting in a slight increase in electricity consumption by approximately 27.10 megawatt hours ("MWh") or 0.79% while the production level dropped. During the reporting period, the Group consumed a total of approximately 3,449.30 MWh of electricity.

During the reporting period, the data relating to Group's indirect use of energy and the Scope 2 greenhouse gas emissions generated by the Group are as follows:

	2020		2019	
	Consumption (MWh)	CO_2 Equivalent Emissions (Tonnes)	Consumption (MWh)	CO_2 Equivalent Emissions (Tonnes)
Electricity	3,449.30	2,895.76	3,422.20	2,873.52
Group's Total Emission		2,895.76		2,873.52
Group's Emission Intensity[1]		10.34		9.20

Note:

1 The emission intensity is measured in terms of the production per hundred tonne.

ENVIRONMENTAL PROTECTION (continued)

Management of Use of Resources (continued)

2. Water Conservation

The Group uses the government-supplied water sources and did not encounter any problems in sourcing water during the reporting period. The Group has always paid attention to the use of water resources and implemented different measures to encourage its employees to make the best use of water resources and reduce wastage. In compliance with the Law of the People's Republic of China on Use of Water Resources, Regulations on Conservation of Use of Water in Urban Area and relevant laws and regulations, the Group has formulated Procedures for Management of Water Resource and Electricity Consumption to manage the water use efficiency in the production plants. Each production department and office is required to check the water facilities, pipelines and taps, etc. regularly within their surrounding area to prevent the waste of water. The Group also aims to enhance employees' awareness of water conservation by putting up different water-saving tips at prominent positions. Once the damaged pipe, valve or water leakage is discovered, the employees shall notify the maintenance department promptly for repair. The engineering department also installed monitoring equipment at different water outlets to measure and make changes to the water outlets with high water consumption.

Besides, each production plant has implemented a number of water-saving measures, such as reducing the water pressure of the pipes to the lowest level, replacing the ordinary faucets with energy-saving faucets, installing water meters in dormitories to manage employees' water usage, posting water-saving tips at each water usage point, checking all underground water pipes and repair leaks in time, closer monitoring of water use in the plant. The Group will continue to focus on water conservation promotion work, strengthen the water use monitoring system and pay attention to water management. During the reporting period, there was water leak at the underground water pipe network of the Shenzhen Production Plant due to corrosion, increased water used by the Xinfeng Production Plant after a 24-hour operating water mist cooling system installed for the nitrocellulose warehouse, and the warehouse personnel also needed to spray water on the ground for further cooling, which had caused the Group to increase its water consumption by approximately 16,139.00 cubic meters or 18.00% and the Group has consumed a total of approximately 105,822.00 cubic meters of water resources. The Shenzhen Production Plant has located the leaking water pipes as aforementioned and immediately carried out repair works.

During the reporting period, the Group's use of water resources is as follows:

WATER RESOURCES	2020 (Cubic Meters)	2019 (Cubic Meters)
Total	105,822.00	89,683.00
Intensity[1]	377.91	287.11

Note:

1 The consumption intensity is measured in terms of the production per hundred tonne.

ENVIRONMENTAL PROTECTION (continued)

Management of Use of Resources (continued)

3. Management of Use of Packaging Materials

The packaging materials used by the Group are mainly painting cans, protective rings, cartons and stickers. The packaging materials of all production plants are centrally purchased by the Shenzhen Production Plant. The marketing department, production planning department and procurement department of the Group follow the Procedures for Control on Procurement to carry out the related procurement processes. The marketing department of the Group formulates product design plans based on the Group's product characteristics, safety and environmental requirements and the national standards. The production planning department of the Group prepares requisition form for raw materials procurement according to production needs. The purchasing department of the Group selects suitable suppliers from the approved vendor list according to the design plan and the raw materials requisition form. In order to strengthen the warehouse management, the Group has established the Procedures for Control of Warehouse Management to regulate receipt, dispatch and storage of packaging materials and to carry out physical count and sample check of the packaging materials regularly. The Group also inspects and conducts repairs and maintenance to the material warehouse periodically to ensure that the warehouse environment is suitable for storing packaging materials in order to maintain its quality and to increase the materials' durability.

During the reporting period, the Group has consumed a total of approximately 2,807.43 tonnes of packaging materials, which has decreased by 716.48 tonnes or 20.33% when compared with the previous year.

4. Paper Conservation

The Group actively promotes the Paperless Office policy and encourages employees to read documents in electronic format and reduce photocopying and printing. Employees are also encouraged to set double-sided printing as default, to check the format of the document before copying or printing, fully utilise papers by reusing single-sided papers and collect double-sided used papers in recycling bins pending collection by qualified recyclers. During the reporting period, due to the drop in the number of employees and the active implementation of different measures in building a "paperless office" by employees, the volume of paper used have effectively reduced. The amount of paper consumption had decreased by approximately 1.00 tonne or 14.01% when compared with the previous year and the Group has consumed a total of approximately 6.14 tonnes of paper.

The Environment and Natural Resources

The Group pays attention to the protection of natural resources, promotes the idea of "caring and protecting the environment is everyone's responsibility" and hopes to engage everyone to work together for a better world. The Group follows the Procedures for Identification, Evaluation and Control of Environmental Factors/Source of Danger to assess the impact on the environment from the new or changed processes and workflow in production and in the course of providing the services, makes reference to the most updated relevant laws and regulations, integrates the stakeholders' expectations and requirements to monitor and enhance the environmental performance of each production plant continuously. In response to the Measures for the Disclosure of Environmental Information, the Group disclosed the environmental information of major production plants, including the company's general information, sewage discharge information, construction progress and operation of pollution prevention facilities, wastewater online monitoring equipment status, environmental impact assessment of construction projects and other environmental protection administrative permits, emergency plans for environmental incidents, etc.

ENVIRONMENTAL PROTECTION (continued)

The Environment and Natural Resources (continued)

Climate change is a pressing global concern and the Group firmly believes that everyone is responsible for controlling their carbon emission. Therefore, in order to provide employees with a better understanding of the importance of environmental protection and the close relationship between the environment and business development, the Group continues to adopt different policies, measures and actions (please refer to the sections headed "Management of Emissions" and "Management of Use of Resources" above for details), implement appropriate environmental management policies for the reduction of energy consumption within production and control waste generation at source, raise the environmental awareness of everyone in the production plants, their families, friends and business partners and minimise the environmental impacts from the Group's business activities.

The Group is aware of the structural change to the industry and the increasing demand for product quality by consumers. The paint and coating manufacturing industry is expected to face increasing challenges in the future. As a responsible enterprise, the Group will establish management policies and measures to meet the national standards, continuously improve and transform its production facilities and processes, use clean energy and raw materials, and increase resource utilisation rate, so as to reduce pollutants generation during production. The Group aims to establish a path to green development that fits its business characteristics in the near future. This plan not only meets the stakeholders' growing concern about environmental protection but also contributes to the protection of the environment as a whole.

EMPLOYMENT AND LABOUR PRACTICES

Employees are the Group's most valuable assets. The Group adheres to the "fair, talent-oriented and virtuous" principle in its governance culture. A set of comprehensive talent management mechanism has been established to attract and retain competent talents for sustainable development and inherit the mission of "developing industry for the nation, creating a colourful life". The Group devotes to create a non-discriminatory, equal, harmonious and safe workplace and build up a mutual respect relationship with its employees. The Group encourages the employees to be innovative, flexible and committed when dealing with customers and to provide high-quality products and services. To accomplish these goals, the Group understands the thoughts and needs of employees through various communication methods such as suggestion box and questionnaire, etc. and established effective communication channels with management to enhance daily operation, provide timely assistance to employees and listen to the employees' suggestions so as to establish competitive remuneration policy to attract, retain and reward talents, including the provision of appropriate remuneration, personal and career development training together with other fringe benefits. The Group also promotes work-life balance and cares about the physical and mental well-being of its employees. The Group organises various activities to enrich their leisure time and enhance the cohesiveness of its teams.

Talent Selection

The Group is a fair job opportunity employer and respects employees' privacy. It has established the Recruitment Management Policy and Procedures for Recruitment Management and adhered to the concept of "talent oriented" in recruiting talents through various recruitment channels. Department heads set out job duties description to define the job responsibilities and requirements of each position clearly and the human resources department assesses and screens applicants according to the requirements. The appropriate candidates would be selected based on working experience, professional knowledge, academic background, communication and presentation skills, regardless of their ethnic group, religion, nationality, gender, age, marital status. The policy applies to all phases of the employment relationship, including but not limited to hiring, promotion, performance appraisal, training, personal development and termination. On the basis of job equality, the Group hopes to identify talents who are committed and dedicated to work, willing to take responsibility, keep learning, continuously improving their abilities and willing to move forward with the Group.

EMPLOYMENT AND LABOUR PRACTICES (continued)

Labour Standards

The Group complies with the Labour Law of the People's Republic of China, the Hong Kong Employment Ordinance and other applicable laws and regulations. The Group cherishes human rights and protects labour rights. Child and forced labour are strictly prohibited in accordance with the applicable laws and regulations. The human resources department of the Group conducts background checks and reference checks in its hiring process to prevent any child labour. Besides, the Group has also implemented various measures to prevent any forms of forced labour, including prisoners, indentured servitude, bonded labour. For example, labour contract is signed by the employee on a fair and voluntary basis, ensure employees do not need to bear any onboarding costs, no deduction of wages, benefits or property of employees, detention of employee's identity card or other identification documents is strictly prohibited, any form of physical abuse, assault, body search or insult, or forcing an employee to work by means of violence, threat or unlawful restriction of personal freedom are all forbidden. Employees' consent for work overtime is required to avoid involuntary 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 involve in any violation of the laws and regulations related to child and forced labour.

Compensation and Welfare

The Group attracts and retains outstanding talents by providing competitive remuneration packages and benchmarks up-to-date remuneration data in their industry and strives to establish a fair, reasonable and competitive remuneration scheme. Staff salaries level is decided based on their knowledge, skills, experiences and education background. Employee compensation varies among factories and offices by location. Some of the factories and offices implement remuneration system that consists of basic salary and performance-based bonus. The remuneration package includes salary, over-time allowance and bonus. Other benefits include the provision of employee housing dorm, employee shuttle bus service, free annual body medical checkup, festival red packets, maternity subsidy, meal allowance, etc.

In order to enhance the quality of work and competency of employees, the Group conducts periodic performance appraisal and fairly assesses the level of awards, salary increment and/or promotion recommendations based on a number of criteria, including working experience, seniority, knowledge and skills, performance, contributions, etc. During the performance appraisal process, the department head discusses with employees to set goals and development plan for work and organises appropriate training programmes for employees to develop their potential.

In accordance with the local labour laws and social security laws and regulations, the Group provides social security benefits for all employees. The Group contributes to various social security scheme (endowment insurance, medical insurance, unemployment insurance, work injury insurance and maternity insurance) and housing provident fund for the employees in Mainland China and contributes to the Mandatory Provident Fund Scheme for the employees in Hong Kong. The Group handles the dismissal of employees and compensates them in accordance with the local laws and regulations.

EMPLOYMENT AND LABOUR PRACTICES (continued)

Compensation and Welfare (continued)

The Group attaches importance to employees' health and work-life balance and protects the employees' entitlement to rest days and holidays. Employees' work hours are set in compliance with local labour laws. In order to enhance the cohesion among employees and help them to build up a sense of belonging and reduce stress, the Group provides recreational facilities to them. For example, the corporate culture department of the Shenzhen Production Plant provides a multi-purpose recreation centre for employees to use during their leisure time, which includes badminton courts, billiard room, basketball court, fitness room and lounge. Due to the outbreak of COVID-19 in early 2020, the Group did not organise leisure activities for employees to maintain proper social distance and prevent the spread of the COVID-19 in the workplace.

Besides, the Group did not reduce the employees' compensation and welfare nor lay off any employees during the COVID-19 in 2020. When the production plants resumed production, prior consent from employees was required to be obtained when they were required to work overtime and they are compensated in accordance with the applicable labour laws and regulations. Besides, for the sake of employees' health and safety, the Group has implemented various anti-epidemic prevention measures (please refer to the section headed "Health and Safety" below for details).

Development and Training

An excellent corporate team is critical for the Group's sustainable and long-term business development. Therefore, the Group has established a stringent and comprehensive recruitment system, standards and procedures, introduced a competition mechanism in order to explore and cultivate professional talents and to encourage staff to continue the study and lifelong learning. Apart from aligning the Group's corporate business plan, the Group also aims to enhance the quality, technical skills and knowledge of employees through continuous training.

New hires are required to participate in the induction training with an aim to introduce corporate culture, industry knowledge, organisational structure, rules and regulations, environmental protection, workplace safety, basic product knowledge and system certification knowledge, etc. The employees who are transferred to a new position are also required to receive training according to the skills requirements of the new position. They are required to pass the relevant assessment before putting into work. In accordance with Guideline for 3-level Safety Education, new hires and employees who are transferred to a new position are required to participate in a 3-level safety training to ensure the employees understand the national safety production laws and regulations, learn safety knowledge, acquaint themselves with the key safety production work of each position (please refer to the section headed "Health and Safety" below for details of workplace safety training).

In addition to the induction training, the Group also established a comprehensive staff training plan with reference to the manpower needs of each department. The Group organised internal training activities. The Group's human resources department manages and keeps proper records for the training programs, including training plan, training activities and participants. These comprehensive records are used as a reference for formulating training plan in future. During the reporting period, internal training covered internal control management, procurement management, warehouse management, environmental management, quality management (please refer to the section headed "Product Responsibility" below for details), production safety management (please refer to the section headed "Health and Safety" below for details), etc., covering internal auditors training, professionalism of purchaser and operation process training, vendor evaluation requirements for toy paint, guidelines for finished goods warehouse, guidelines for requisition of raw materials, manual for environmental quality and environmental protection laws and regulations, etc.

EMPLOYMENT AND LABOUR PRACTICES (continued)

Health and Safety

The Group cares about the employees' health and provides a safe working environment in order to protect employees from occupational hazards. To comply with Production Safety Law of the People's Republic of China and the applicable local safety production laws and regulations, the Group formulated the Safety Responsibility Policy to ensure safe production and established the safety and environmental protection department and safety management organisational structure. Supervisors and employees at all levels must clearly understand their safety responsibilities and sign the respective safety responsibility statement and strictly perform their duty in accordance with the requirements as stated in the statement. New employees must join different practical training, understand the workflow, equipment operation and guidelines of the production department and receive safety education conducted by the production department and team. In order to raise occupational safety awareness, the Group provides frequent training to its employees to improve their awareness, knowledge and skills in workplace safety. The Group also carries out regular role-based technical training, safety assessment and team activities to ensure that employees are prepared mentally and have adequate knowledge and skills to meet the safety standards and to fulfil their job duties. During the reporting period, the Group organised various safety training programs, which include safety management, safety production, occupational hygiene and laws and regulations, workflow and precautions of anti-corrosion coating test, measurement instrument management, product test methodology, RoHS, forklifts safety operation guideline, training and drill for production safety emergency incident, training of basic knowledge of dangerous chemicals, fire-fighting and safety equipment, volunteer fire brigade training, the implementation of environmental labelling product certification standards and certification of corporate clean production management, 7S training, etc. Staff of special work types (e.g. welders, forklift drivers, etc.) must receive relevant professional safety training and possess valid license from the government authority before they are put to work. The Group will continue to provide training to minimise occupational health and safety risks during the production process.

In order to follow the EHS management system and implement the production safety policy of Safety and Prevention First, the Group formulated a production safety emergency plan to stipulate the emergency management work, enhance the ability to respond to risks and prevent emergency incidents and protect the employees' safety and health and public safety so as to reduce economic loss and the adverse impact on the environment and society. The Group continuously identifies the potential hazardous factors that may occur in workplace, like fire, explosion, poisoning, electric shock, mechanical injury, falls from height, noise and leakage of hazardous chemicals and performs risk assessment and takes preventive measures in respect of likelihood of incident, severity level of the consequences of the incident and the frequency of employees exposing to hazardous sources in order to eliminate hazards source and to reduce the likelihood of an incident. In order to handle different types of emergencies effectively and to ensure the employees' safety at the scene of incident, the production safety emergency plan determined each department's responsibilities. After an incident occurred, the responsible departments arrive at the scene and understand when it happened, the casualties and pollution caused and to make a preliminary assessment as to its nature, time, location, causes, casualties and the impact on the surrounding environment, etc., so as to determine its severity level and to take appropriate measures to contain the damage. They also have to report to the safety production monitoring authority and to assist in the investigation of the government authorities. Besides, the Group reviews the compliance and effectiveness of the implemented EHS management system in accordance with the Internal Audit Control Procedures. During the reporting period, the Shenzhen Production Plant and the Xinfeng Production Plant held OHSAS 18001 Occupational Health and Safety Management System Certification and Safety Production Standardised Level Three Enterprise Certificate respectively which shows that the Group attaches importance to occupational health and safety and has affirmed its work in this area.

EMPLOYMENT AND LABOUR PRACTICES (continued)

Health and Safety (continued)

The Group's safety and environmental protection department, production department and engineering department work together to prevent safety incident from happening. The safety and environmental protection department is responsible for the monitoring and management of workplace hazards by conducting several safety inspections each day with the production department regarding the corridors and safety exit, fire-fighting equipment, the storage of hazardous chemicals and waste paints and the temperature and humidity in all paint and solvent production plants and warehouses to ensure potential safety hazards can be identified timely and to take remedial measures immediately or soonest possible to eliminate and control risk if any abnormalities are found and to keep detailed record. For example, when external drivers use mobile phone in the fire control area, the safety inspector will immediately take the driver away from the area to prevent fire from happening. When there is leakage in the raw material Class A warehouse, the safety inspector will immediately arrange personnel to clean up the floor and replace raw material bucket so as to eliminate safety hazard. To ensure equipment and facilities are in good condition and to control risk and prevent safety incidents from happening, the engineering department performs inspections on production equipment and fire facilities and provides status reports (including fire extinguishers, fire hose, etc.) to the management daily. If there is any malfunctioning of production equipment, repair work is required to be conducted immediately to ensure safe production and to keep proper regular inspection and maintenance records.

During the reporting period, in order to enhance the efficiency of identifying safety hazards in the production plants by the Group, the Xinfeng Production Plant has set up a safety hazard reporting box. Employees can assist the safety department to identify undiscovered safety hazards during work to speed up the processes of identifying safety hazards and remediation by safety department and also enhance the employees' awareness of production safety so as to prevent safety incidents from happening.

Pursuant to the requirements of the Production Safety Law of the People's Republic of China, Law of the People's Republic of China on Prevention and Control of Occupational Diseases, Provision on the Supervision and Administration of Occupational Health at Work Sites and applicable local laws and regulations, the Group has established the Occupational Health Management System, Occupational Disease Protection Equipment Management System, etc. Based on various safety and hazardous occupational factors, for example, the production of paint involves the process of mixing various materials, in which the chemicals, including benzene, toluene, xylene and dust, etc., would affect the employees' health, the Group provides its employees with protective equipment (such as face masks, earmuffs, uniforms, protective shoes and high altitude working safety belts, etc.) and supervises its employees to equip them according to guidelines and performs inspections on an irregular basis to ensure the protective equipment are equipped properly. The Group also conducts pre-employment and regular occupational hygiene training, optimises occupational hygiene internal control policy and so on, strengthens supervision so as to enhance employees' knowledge on occupational hygiene. During the reporting period, the Shenzhen Production Plant, the Xinfeng Production Plant and the production plant in Hubei (the "Hubei Production Plant") engaged qualified agencies to inspect the occupational hazards of each job position. The inspection covers hazardous chemicals, noise, use of protective equipment and operation of protective facilities. During the inspection, it was found that workers are exposed to benzene, toluene, and xylene at one of the operating mixers in the Shenzhen Production Plant and failed to meet the occupational hygiene standards. The Shenzhen Production Plant has then used raw materials that do not contain benzene, toluene and xylene instead to replace the existing raw materials so as to eliminate the hazards of benzene, toluene and xylene at source. Besides, new hires in Mainland China are required to conduct pre-employment medical checkup and employees are required to perform medical checkup every year and to pass the medical assessment as a prerequisite for continuous employment, which indicates that the Group cares about employees' health and occupational safety.

EMPLOYMENT AND LABOUR PRACTICES (continued)

Health and Safety (continued)

With the outbreak of COVID-19 in early 2020, the Group has implemented the following preventive measures to protect the health and personal safety of employees:

- ➢ Launched the Emergency Plan for Epidemic Prevention and Control and set up the epidemic prevention and control team to cope with the possible spread of the COVID-19 in offices, production plants and dormitories;
- ➢ Set up isolation measures for employees returning to offices, production plants and dormitories from the epidemic areas;
- ➢ Conducted sterilisation in the entire factory area, including offices, production workshops, warehouses, dormitories, canteens, washrooms, etc. and keep sterilisation record;
- ➢ Strictly controlled the access of personnel to the production plant area. All employees and visitors must wear a surgical mask, measure body temperature, fill in personal health conditions form and sanitise their hands and ensure that they do not have any suspected symptoms of infection before accessing to the production plant area;
- ➢ The driver must sterilise the interior and exterior of the vehicles every time before and after using the vehicles and all personnel must wear a surgical mask when using company vehicles;
- ➢ Non-company vehicles must be sterilised before accessing to production plant area;
- ➢ Ensured sufficient stock of the COVID-19 prevention materials, such as thermometers, disinfection sprayers, hand sanitisers and surgical masks;
- ➢ Required employees to use electronic communication, reminded employees to keep safe social distance from others;
- ➢ Employees must wear a surgical mask at work and be aware of hand hygiene;
- ➢ Implemented staggered work, and arranged shuttle bus and work from home for employees; and
- ➢ Strengthened the hygiene management in canteens, strictly limit the number of persons and keep safe distance for staff sharing table, employees shall avoid eating together and implemented staggered meal time.

During the reporting period, an employee of the Hubei Production Plant was infected with the COVID-19 before resuming work. The management of the Hubei Production Plant continuously communicated with the employee on the phone to care about his health. The employee returned to work one month after the production plant resumed production. The employee has undergone three nucleic acid tests during the period and all the results were negative. During the outbreak of the COVID-19, the salaries, subsidies and welfare of the Group's employees were not reduced nor were they dismissed. During the reporting period, the Group did not involve in any non-compliance incidents relating to employment, health and safety and labour standards that would have a significant impact on the Group.

OPERATING PRACTICES

Supply Chain Management

The Group conveys its concerns on environmental protection issues to the suppliers and business partners and expects them to join hands with the Group to fulfill the corporate social responsibility. The Group aims to develop business with its suppliers on the basis of equality to achieve a win-win situation. Therefore, the Group has established strict internal rules and regulations and procurement management and evaluation systems for both new and existing suppliers and has prepared an approved vendor list. When selecting a new supplier, the Group adheres to the five principles in procurement which are timeliness, quality, quantity, location and price. At the same time, it determines the technical standards for the items purchased and it is required to assess the potential, production scale, management system, production equipment, reputation, publicity, customer base, scope of services, etc. and suppliers are categorised into approved vendors or substandard vendors according to the assessment result. The Group selects the best suppliers after conducting trial tests on new raw materials. The Group will re-assess the substandard suppliers if they could complete rectification work within a reasonable time. The Group has segregation of duties on each stage from the signing of contracts with suppliers to the acceptance of the products. The suppliers are required to obtain recognised certifications, adopt a sound internal management system, achieve stability in product quality, make on-time delivery, comply with relevant laws and regulations and possess professional skills and qualifications. As such, the Group can ascertain that the selected suppliers are capable of providing competitive and qualified products and services. The Group's Procedures for Raw Materials Inspection provides guidance on quality inspection to ensure the raw materials can fulfill the internal and hazardous substance requirements. The Group regularly conducts performance assessment on suppliers according to the frequency of purchase from suppliers. The assessment covers quality, delivery time, co-ordination and service and the suppliers are rewarded and penalised based on the performance assessment result and ratings. Besides, the Group also conducts annual vendor evaluation according to the raw materials criticality and risk level. The Group establishes a supply chain management system with strict requirements to provide various reporting channels to its employees, suppliers, customers and other business parties to report any violations of laws or regulations. Prior to entering into the contract stage with key business partners, the Group conducts an assessment based on a variety of criteria, including attitude towards environmental and social issues. During the reporting period, the Group did not have significant issues relating to non-compliance or violations in this respect.

Product Responsibility

To achieve the philosophy of "quality, consumer and environmental protection first", the Group satisfies customers with high-quality products and services. With technological advancement and improving living standards, customers are increasingly demanding product quality. Therefore, the Group equips with advanced production equipment and measuring instruments, cultivates professional production and technical teams, keeps improving product quality and implements an effective quality control system. The Group has established a comprehensive sales network in Mainland China and Hong Kong, established sales branches in various cities and co-operated with the technical service centre in Shenzhen. The Group can provide 24-hour professional technical services, point-to-point on-site technical consultation and guidance, thereby improving the quality of customer service. The Group conducts customer satisfaction surveys continuously to understand their view on the Group's product and service quality. It also formulates Procedures for Control of After-sales Services to ensure that it can meet the customer's requirements in the after-sales services. Based on the concern on customers' complaints, the Group establishes a stringent customer complaint handling system. For example, customers can lodge complaints and provide recommendations through 24-hour service hotline and online service, to deal with complaints promptly, to analyse the root cause and to take rectification and preventive measures. During the reporting period, the Xinfeng Production Plant has immediately responded to comments received from the customers relating to logistics and transportations and strengthened the management and training in this area, and strived to enhance the work in logistics and transportations.

OPERATING PRACTICES (continued)

Product Responsibility (continued)

The Group believes that employees' quality has a positive impact on the product quality, thereby regularly providing training courses relating to product quality, such as the requirements of IATF 16949 Quality Management System, product test procedures training, product, process and system audit training, Mattel standard training, phthalates limit under RoHS, etc. so as to ensure that the quality inspectors possess the latest skill and knowledge. The Group hopes that employees can gain a sense of satisfaction and accomplishment at work, seize every opportunity to improve the product quality with the Group together and move towards a higher quality goal.

Confidentiality is one of the Group's core values. Customers' information is always handled diligently and confidentially. For any confidential information obtained through business relationships, employees are prohibited from disclosing any information to third parties without proper authorisation unless there is a legal or professional right or duty to do so.

The production plants of the Group in Mainland China have obtained various international accreditation certificates, such as Labels for China Compulsory Certification and Labels for Environmental Labelling Products (Type I). The Group strictly complies with Product Quality Law of the People's Republic of China, Regulations of Use of China Environmental Labelling, Regulation Concerning Management of Compulsive Product Certification and applicable laws and regulations relating to product responsibility. In order to protect customers' legitimate rights effectively, the Group establishes Guideline on Printing, Procurement, Custody and Use of Labels and Procedures for Product Labelling and Tracking to monitor the use of each type of certification labels and strictly prohibits employees from using labels on unauthenticated or substandard products and selling such products in the market. These are to ensure the product quality and to protect consumers' interests. In order to reduce the impact of counterfeit items on the Group's products, the Group strictly monitors the sales channels and sets up a customer service hotline to promptly collect information on counterfeit products and handle the issue properly. The Group has also affixed anti-counterfeit labels on the outer packaging of products. Customers can perform product authentication online or through enquiry hotline, or conduct the authentication themselves to prevent counterfeit products from entering the market and to defend the rights of the company and consumers. Besides, in respect of the production of paint and coating products, the Group has complied with the international standards in the processes of selection of raw materials, production and product testing. Over the years, the Group has been awarded numerous honours for its products which recognise the Group's determination in providing its customers with the best service and high-quality products (please refer to the section headed "Awards and Honours" below for details).

During the reporting period, the Group's products and services did not involve in any significant issues relating to violations, nor did the Group receive any complaints concerning breaches of customer 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 adopts a zero-tolerance approach for all kinds of corruption, bribery, extortion situation. To comply with the Criminal Law of the People's Republic of China, the Prevention of Bribery Ordinance enforced by the Hong Kong Independent Commission Against Corruption and other applicable laws and regulations, the Group established different policies and procedures and working guidelines to strictly regulate the behaviour of directors, management and employees. The Group has set out strict penalties in the employee handbook to combat inappropriate collection and acceptance of bribes, commissions or other illegal interests (such as property, banquet activities, etc.). The Group requires all personnel to abide by rules and regulations and does not tolerate any bribery act at all. Integrity is the key in the code of conduct for the sales and procurement department in view of their nature of work. Therefore, the Group established Sales Department Management Policy, Guidelines for the Code of Conduct of Salesperson and Anti-Corruption Commitment Letter for Procurement Staff which set out guidelines for the sales and procurement staff to tackle the related issues and regulate misconduct behaviour. For example, salespersons are prohibited from making any promise with dealers by offering any discount, rewards or gifts, etc. on behalf of the Company without prior approval. The Group conducts disciplinary inspections and monitoring in the production and business process to ensure whistle-blowing channels, such as "Chairman's Mailbox", are in place for people to use in confidence, to lodge complaints regarding behaviours in violation of rules, regulations and laws, such as the abuse of power for personal gains, bribery, blackmailing, frauds or money laundering. The Group is determined to combat corruption and contributes to building a clean society. Before employees are on board, they are required to attend training in business ethics. Employees who are in breach of the Company's code of conduct are disciplined and/or dismissed. During the reporting period, there is no litigation of corruption involving the Group or its employees.

COMMUNITY INVESTMENT

The Group emphasises community involvement and advocates accountability in its corporate culture. Everyone is accountable to oneself, their family, their employer and society. The Group believes that corporate development relies not only on the advanced technology, talented and hard-working employees, but also on close tie and development with the stakeholders. During the reporting period, the Group sponsored more than RMB50,000 of bursaries for a number of students of Xinfeng No. 1 Middle School in China and continued to participate in "6.30 Guangdong Poverty Day" by donating RMB100,000, hoping to actively involve in practising social responsibilities; at the same time of business development, the company also pay attention to contributing to society and sincerely put it into action and to spread love. The Group will continuously encourage its employees to participate in more voluntary activities and services in the coming year.

AWARDS AND HONOURS

The Group obtained the following major awards and honours in 2020:

Hong Kong

➢ Various products of "*Flower (菊花牌)*" and "*Golden Flower (金菊花牌)*" of China Paint (1932) were awarded "*Hong Kong Green Labels*".

➢ "*Flower (菊花牌)*" of China Paint (1932) was awarded "*Hong Kong Top Brand*".

Mainland China

➢ China Paint (Shenzhen) was awarded "*ISO 9001:2015 Quality Management System Certificate*".

➢ China Paint (Xinfeng) and Hubei Giraffe were awarded "*GB/T 19001-2016/ISO 9001:2015 Quality Management System Certificate*".

➢ China Paint (Shenzhen) was awarded "*GB/T 28001-2011/OHSAS 18001:2007 Occupational Health and Safety Management System Certificate*".

➢ China Paint (Shenzhen), China Paint (Xinfeng) and Hubei Giraffe were awarded "*GB/T 24001-2016/ISO 14001:2015 Environmental Management System Certificate*".

➢ China Paint (Shenzhen) was awarded "*IATF 16949:2016 Quality Management System Certificate*".

➢ China Paint (Shenzhen) was awarded "*IECQ QC 080000:2017 Hazardous Substance Process Management System Certificate*".

➢ China Paint (Shenzhen) was awarded "*ISO/IEC 17025:2015 Laboratory Accreditation Certificate by China National Accreditation Service for Conformity Assessment (中國合格評定國家認可委員會實驗室認可證書)*".

➢ China Paint (Shenzhen) was awarded "*Certificate for China Compulsory Product Certification (中國國家強制性產品認證證書)*".

➢ China Paint (Shenzhen) was awarded "*Certificate for China Environmental Labelling Production Certification (中國環境標誌產品認證證書)*".

➢ China Paint (Shenzhen) was awarded "*Top Ten Competitor (Architectural Coatings) (競爭力十強(建築塗料))*".

➢ China Paint (Shenzhen) was awarded "*2020 Excellent Supplier (2020年度優秀供應商)*".

➢ Paint products of "*Flower (菊花牌)*" of China Paint (Shenzhen) was awarded "*The Eleventh Golden Paint Award for Outstanding Exterior Coating Products (第十一屆金漆獎傑出外牆塗料品牌)*".

➢ Paint products of "*Flower (菊花牌)*" of China Paint (Shenzhen) was awarded "*Outstanding Brand in Construction Coating Products (工程建築塗料傑出品牌)*".

➢ Paint products of "*Giraffe (長頸鹿牌)*" of China Paint (Shenzhen) was awarded "*Influential Brand in Exterior Wall Paints (牆面漆影響力品牌)*".

AWARDS AND HONOURS (continued)

Mainland China (continued)

➢ Paint products of "*Giraffe (長頸鹿牌)*" of China Paint (Shenzhen) was awarded "*Influential Brand in Water-based Industrial Paints (水性工業漆影響力品牌)*".

➢ Paint products of "*Giraffe (長頸鹿牌)*" of China Paint (Shenzhen) was awarded "*Famous Brand in Guangdong Province (廣東省(行業類)名牌產品)*".

➢ Paint products of "*Toy Brand (玩具牌)*" of China Paint (Shenzhen) was awarded "*Influential Brand in Light Industry Coating Products (輕工業塗料影響力品牌)*".

➢ Water-based Two-component Putty Products of China Paint (Xinfeng) was awarded "*Guangdong Provincial High Technology Product Certificate (廣東省高新技術產品證書)*".

➢ Oily Metallic Paint and its Preparation, Use Method and Application Products of China Paint (Xinfeng) was awarded "*Guangdong Provincial High Technology Product Certificate (廣東省高新技術產品證書)*".

➢ China Paint (Xinfeng) was awarded "*Production Safety Standardisation Level III Enterprise (Dangerous Chemical) Certificate (安全生產標準化三級企業(危險化學品)證書)*".

VISION AND OUTLOOK

The business environment of paint and coating products changes from time to time. Factors like environmental protection, government policies, market trends, nurturing talent, etc. exert significant influence on the Group's operation. The major issues for the Group are to strengthen the position of its brand, to adjust its structure and to overcome new challenges. As a good corporate citizen, the Group strives to strike a balance between achieving corporate missions and business objectives and fulfilling its social responsibility. The Group will continue to evaluate its performance on environmental protection, employee care, product and service quality and community investment so as to build edge for the sustainable development of the Group.

Under the global trend of economic integration, the Group has a positive and optimistic view on its prospects and development in science and innovative technology. The Group will continue to comply with the stringent laws and regulations in environmental protection, allocate resources and undertake various environmental improvement projects, including improving emissions, wastewater and solid waste treatment facilities. The Group will also put employee satisfaction and workplace safety as its top priority. The Group aims at attracting more talents through providing a safe workplace and competitive remuneration policy. As for product and service quality, the Group will continue to invest resources for further improvement to its products so as to meet the environmental standards. At the same time, the Group is committed to fulfilling its social responsibility by actively participating in charitable activities and promoting the community's sustainable development.

The Group always aspires to be a respectable enterprise and hopes to enhance its business performance through the implementation of sustainable development strategies and create more meaningful long-term value for the enterprise and its stakeholders.

SUMMARY OF ENVIRONMENTAL DATA AND PERFORMANCE

	Unit	2020	2019
GREENHOUSE GAS EMISSIONS			
Scope1[1]:			
Total	Tonnes	423.79	419.33
Intensity[3]	Tonnes	1.51	1.34
Scope2[2]:			
Total	Tonnes	2,895.76	2,873.52
Intensity[3]	Tonnes	10.34	9.20
AIR EMISSIONS			
Nitrogen oxides	Kilograms	747.74	773.67
Sulfur oxide	Kilograms	1.38	1.60
Particulate matters	Kilograms	50.12	53.41
HAZARDOUS WASTES			
Solid Wastes Generated:			
Total	Tonnes	84.89	86.63
Intensity[3]	Tonnes	0.30	0.28
NON-HAZARDOUS WASTES			
Solid Wastes Generated:			
Total	Tonnes	1,167.67	508.18
Intensity[3]	Tonnes	4.17	1.63
Wastewater Discharged:			
Total	Tonnes	8,945.64	9,655.00
Intensity[3]	Tonnes	31.95	30.91
PACKAGING MATERIALS USED FOR FINISHED GOODS			
Total	Tonnes	2,807.43	3,523.91
Intensity[3]	Tonnes	10.03	11.28
ENERGY AND WATER RESOURCES CONSUMPTION			
Electricity:			
Total	MWh	3,449.30	3,422.20
Intensity[3]	MWh	12.32	10.96
Diesel:			
Total	Tonnes	21.37	21.98
Intensity[3]	Tonnes	0.08	0.07
Gasoline:			
Total	Tonnes	48.30	59.36
Intensity[3]	Tonnes	0.17	0.19
Water Resources:			
Total	Cubic Meters	105,822.00	89,683.00
Intensity[3]	Cubic Meters	377.91	287.11
Refrigerants:			
Total	Kilograms	105.40	78.20
Intensity[3]	Kilograms	0.38	0.25

Notes:

1. Scope 1 refers to the direct greenhouse gas emissions from the Group's business, including combustion of gasoline and diesel and consumption of refrigerants.
2. Scope 2 refers to the indirect greenhouse gas emissions from the Group's business, including consumption of purchased electricity.
3. The emission/production/consumption intensities are calculated in terms of the production per hundred tonne.

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

GENERAL DISCLOSURE/KEY PERFORMANCE INDICATORS ("KPI(s)")	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.	34-43
KPI A1.1	The types of emissions and respective emissions data.	39, 41-42, 59
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	44-45, 59
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	41,59
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	39, 42,59
KPI A1.5	Description of measures to mitigate emissions and results achieved.	34-43
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	37-42
ASPECT A2	**USE OF RESOURCES**	
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	43-47
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (MWh in '000s) and intensity (e.g. per unit of production volume, per facility).	44-45, 59
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	46,59
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	43-45
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	46
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	59
ASPECT A3	**THE ENVIRONMENT AND NATURAL RESOURCES**	
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	47-48
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	47-48

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

GENERAL DISCLOSURE/KEY PERFORMANCE INDICATORS ("KPI(s)")	REPORTING GUIDE	PAGE
	B. SOCIAL[1]	
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.	48-50
ASPECT B2	**HEALTHY 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.	51-53
ASPECT B3	**DEVELOPMENT AND TRAINING**	
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	50
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.	49
ASPECT B5	**SUPPLY CHAIN MANAGEMENT**	
General Disclosure	Policies on managing environmental and social risks of the supply chain.	54
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.	54-55
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.	56
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.	56

Note:

1 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 disclosures.

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2020.

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 and investment holding. Details of the activities of the principal subsidiaries are set out in note 1 to the financial statements. 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 3 to 19 of this annual report. The discussion forms part of this directors' report.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2020 and the state of affairs of the Group at that date are set out in the financial statements on pages 74 to 149.

The Directors have resolved to recommend the payment of a final dividend of HK1.0 cent 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 Friday, 18 June 2021 to the Shareholders whose names appear on the Company's register of members on Wednesday, 2 June 2021.

MAJOR SUPPLIERS AND CUSTOMERS

In the year under review, purchases from the Group's five largest suppliers accounted for approximately 30% 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 10% 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 interest 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.

Results

	Year ended 31 December				
	2020	2019	2018	2017	2016
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**712,886**	713,328	617,254	995,958	937,450
Profit/(loss) before tax	**(12,638)**	(27,102)	(162,509)	23,600	73,267
Income tax credit/(expense)	**1,903**	(815)	22,867	(6,585)	(17,801)
Profit/(loss) for the year	**(10,735)**	(27,917)	(139,642)	17,015	55,466
ATTRIBUTABLE TO:					
Owners of the parent	**(10,801)**	(28,036)	(139,260)	17,332	55,448
Non-controlling interest	**66**	119	(382)	(317)	18
	(10,735)	(27,917)	(139,642)	17,015	55,466

SUMMARY OF FINANCIAL INFORMATION (continued)

Assets, Liabilities and Non-Controlling Interest

	31 December				
	2020	2019	2018	2017	2016
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**1,145,383**	989,774	1,069,178	1,309,202	1,201,165
Total liabilities	**(561,630)**	(456,081)	(496,767)	(553,426)	(522,794)
Non-controlling interest	**(3,358)**	(3,078)	(3,023)	(3,566)	(3,618)
	580,395	530,615	569,388	752,210	674,753

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL

Details of the Company's share capital during the year are set out in note 31 to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles or the laws of Cayman Islands, 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 33 to the financial statements and in the consolidated statement of changes in equity respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2020, the Company's reserves available for distribution, calculated in accordance with the Companies Law of the Cayman Islands, amounted to approximately HK$126,539,000.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$484,000.

DIRECTORS

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

Executive Directors

Tsui Ho Chuen, Philip
Li Guangzhong
Wong Anders

Non-executive Directors

Lam Ting Ball, Paul
Chong Chi Kwan

Independent Non-executive Directors

Chiu Kam Hing, Kathy
Chua Joo Bin
Xia Jun

In accordance with the Articles, Mr. Lam Ting Ball, Paul, Mr. Chong Chi Kwan and Ms. Chiu Kam Hing, Kathy 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				
Tsui Ho Chuen, Philip	57	Executive Director and Managing Director	36	Qualified solicitor and more than 36 years' experience in the paint and coating industry
Li Guangzhong	51	Executive Director and Sales Director	28	More than 27 years' experience in the paint and coating industry
Wong Anders	48	Executive Director and Finance Director	13	More than 25 years' experience in finance and accounting
Non-executive Directors				
Lam Ting Ball, Paul	79	Non-executive Director and Chairman	48	More than 48 years' experience in management and the paint and coating industry
Chong Chi Kwan	53	Non-executive Director	15	More than 29 years' experience in auditing, finance, accounting and management

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Directors (continued)

Name	Age	Position held	Number of years of service	Business experience
Independent Non-executive Directors				
Chiu Kam Hing, Kathy	71	Independent Non-executive Director	4	More than 29 years' experience in banking experience in Canada and Asia Pacific Region
Chua Joo Bin	68	Independent Non-executive Director	4	More than 44 years' experience in finance and accounting
Xia Jun	65	Independent Non-executive Director	4	Qualified PRC lawyer with more than 31 years' experience in PRC legal practice

Senior management

Name	Age	Position held	Number of years of service	Business experience
Cao Hualong	50	General Manager – Production and Operation	6	More than 26 years' experience in the chemical, paint and coatings industry in the PRC
Lin Shu	67	Senior Assistant to Chairman	23	More than 21 years' experience in the paint and coating industry

Notes:

(1) Mr. Tsui Ho Chuen, Philip is a director of CNT Enterprises Limited and a non-executive director of CNT Group Limited. Both CNT Enterprises Limited and CNT Group Limited are the substantial shareholders of the Company. CNT Group Limited is a company listed on the Stock Exchange.

(2) Mr. Lam Ting Ball, Paul is a director of CNT Enterprises Limited and an executive director and the chairman of CNT Group Limited.

(3) Mr. Chong Chi Kwan is a director of CNT Enterprises Limited and an executive director and the managing director of CNT Group Limited.

CHANGE IN DIRECTOR'S INFORMATION

There is no change in the information of the Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules except the changes in the Directors' remuneration which are set out in note 9 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.

CONTRACTS WITH CONTROLLING SHAREHOLDERS

Save as disclosed in note 37 to the financial statements, there was no contract of significance entered into between the Company or any of its subsidiaries and any controlling Shareholder or any of its subsidiaries, nor there was any contract of significance for the provision of services to the Company or any of its subsidiaries by a controlling Shareholder or any of its subsidiaries during the year ended 31 December 2020 or subsisted as at 31 December 2020.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

None of the 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 Articles, 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 during the year ended 31 December 2020.

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 2020, 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 Share Option Scheme was adopted on 4 June 2020. Its key terms are summarised below:

(i) The purpose of the Share Option Scheme is to provide the eligible participants an opportunity to have a personal stake in the Company and help motivate them to optimise their future performance and efficiency to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such eligible participants who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally in the case of the executives of the Company, to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

(ii) The eligible participants of the Share Option Scheme include any employee or proposed employee (whether full time or part time) of the Company, any of its subsidiaries or any Invested Entity, including any executive director of the Company or any of its subsidiaries or any Invested Entity; any non-executive directors (including independent non-executive Directors) of the Company or any of its subsidiaries or any Invested Entity; any supplier of goods or services to any member of the Group or any Invested Entity; any customer of the Group or any Invested Entity; and any person or entity that provides research, development or other technological support to the Group or any Invested Entity.

(iii) The total number of Shares available for issue under the Share Option Scheme is 100,000,000 which represents 10% of the total number of Shares in issue as at the date of this report.

(iv) The maximum number of Shares issued and which may fall to be issued upon exercise of the share options granted under the Share Option Scheme and any other share option schemes of the Company (including both exercised and outstanding options) and such Shares which were subsequently cancelled, to each eligible participant in any 12-month period up to the date of offer shall not exceed 1% of the number of Shares in issue as at the date of offer. Any further grant of share options in excess of this 1% limit shall be subject to the issue of a circular by the Company and the approval of the Shareholders at a general meeting.

(v) A share option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the share option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The period during which the option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted.

SHARE OPTIONS (continued)

(vi) Save as determined by the Board and provided in the offer of the grant of the relevant share options, there is no minimum period for which a share option must be held before it can be exercised.

(vii) The amount payable by the grantee(s) to the Company on acceptance of the offer for the grant of a share option is HK$1.00.

(viii) The exercise price in relation to each share option offered to an eligible participant shall be determined by the Board in its absolute discretion but in any event shall not be less than the highest of: (a) the closing price of the Shares as stated in the daily quotations sheet of the Stock Exchange on the date of offer; (b) the average closing price of the Shares as stated in the daily quotations sheet of the Stock Exchange for the 5 business days immediately preceding the date of offer; and (c) the nominal value of the Share.

(ix) The Share Option Scheme remains in force until 3 June 2030.

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

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 31 December 2020, the register maintained by the Company under Section 336 of the SFO showed that the following persons had interests in the Shares and underlying shares of the Company:

Name	Note	**Capacity**	**Number of Shares**	**Percentage of issued share capital**
CNT Enterprises Limited	1	Beneficial owner	750,000,000	75.00%
CNT Group Limited	1	Interest of controlled corporation	750,000,000	75.00%

Note:

(1) The reference to the 750,000,000 Shares relate to the same block of 750,000,000 Shares beneficially interested by CNT Enterprises Limited.

CNT Enterprises Limited was a wholly-owned subsidiary of CNT Group Limited. CNT Group Limited was deemed under the SFO to be interested in these 750,000,000 Shares which were owned by CNT Enterprises Limited.

Save as disclosed above, the Company has not been notified by any person who had interests or short positions in the Shares or underlying shares of the Company as at 31 December 2020 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
CPM Group Limited

Lam Ting Ball, Paul
Chairman
Hong Kong, 30 March 2021

To the shareholders of CPM Group Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of CPM Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 74 to 149, which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020, 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 matter	How our audit addressed the key audit matter
Expected credit losses ("ECLs") for trade receivables	
As at 31 December 2020, the Group recorded trade receivables of HK$422.8 million before loss allowance of HK$60.9 million. Significant management judgement and estimation were required in assessing the ECLs for the trade receivables, with reference to the grouping of various customer segments, ageing profile of the trade receivable balances, and past repayment history of customers and forecast economic conditions. Disclosures in relation to trade receivables are included in notes 4 and 22 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 customer groups 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 ECLs 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.

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, 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.

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

- 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.

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

30 March 2021

Consolidated Statement of Profit or Loss

Year ended 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
REVENUE	6	**712,886**	713,328
Cost of sales		**(496,935)**	(516,512)
Gross profit		**215,951**	196,816
Other income and gains, net	6	**22,318**	11,963
Selling and distribution expenses		**(97,867)**	(126,219)
Administrative expenses		**(107,249)**	(113,118)
Other expenses less reversal, net		**(39,699)**	12,170
Finance costs	8	**(6,092)**	(8,714)
LOSS BEFORE TAX	7	**(12,638)**	(27,102)
Income tax credit/(expense)	11	**1,903**	(815)
LOSS FOR THE YEAR		**(10,735)**	(27,917)
ATTRIBUTABLE TO:			
Owners of the parent		**(10,801)**	(28,036)
Non-controlling interest		**66**	119
		(10,735)	(27,917)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	13	**HK(1.08) cents**	HK(2.80) cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2020

	Notes	**2020** **HK$'000**	2019 HK$'000
LOSS FOR THE YEAR		**(10,735)**	(27,917)
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		**48,554**	(11,845)
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Remeasurement of net pension scheme assets	20	**773**	1,044
Gain on property revaluation	14, 16	**28,624**	–
Income tax effect	29	**(7,156)**	–
		21,468	–
Net other comprehensive income that will not be reclassified to profit or loss in subsequent period:		**22,241**	1,044
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**70,795**	(10,801)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**60,060**	(38,718)
ATTRIBUTABLE TO:			
Owners of the parent		**59,780**	(38,773)
Non-controlling interest		**280**	55
		60,060	(38,718)

Consolidated Statement of Financial Position

31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**197,029**	209,048
Investment properties	15	**79,830**	15,393
Right-of-use assets	16(a)	**82,554**	87,138
Equity investment designated at fair value through other comprehensive income	18	**300**	300
Deposits for purchases of property, plant and equipment	19	**815**	9,522
Net pension scheme assets	20	**5,464**	4,694
Deferred tax assets	29	**16,213**	16,277
Total non-current assets		**382,205**	342,372
CURRENT ASSETS			
Inventories	21	**70,726**	56,158
Trade and bills receivables	22	**385,374**	304,494
Prepayments, deposits and other receivables	23	**64,708**	62,378
Structured deposits	24	**5,958**	–
Cash and cash equivalents	25	**236,412**	224,372
Total current assets		**763,178**	647,402
CURRENT LIABILITIES			
Trade payables	26	**224,530**	145,626
Other payables and accruals	27	**89,226**	69,171
Interest-bearing bank borrowings	28	**215,301**	215,340
Lease liabilities	16(b)	**2,933**	2,658
Tax payable		**10,320**	10,460
Total current liabilities		**542,310**	443,255
NET CURRENT ASSETS		**220,868**	204,147
TOTAL ASSETS LESS CURRENT LIABILITIES		**603,073**	546,519

Consolidated Statement of Financial Position

31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
NON-CURRENT LIABILITIES			
Lease liabilities	16(b)	**1,780**	631
Deferred tax liabilities	29	**16,259**	10,709
Deferred income	30	**1,281**	1,486
Total non-current liabilities		**19,320**	12,826
Net assets		**583,753**	533,693
EQUITY			
Equity attributable to owners of the parent			
Issued capital	31	**100,000**	100,000
Reserves	33	**480,395**	430,615
		580,395	530,615
Non-controlling interest		**3,358**	3,078
Total equity		**583,753**	533,693

Tsui Ho Chuen, Philip
Director

Lam Ting Ball, Paul
Director

	Attributable to owners of the parent													
	Issued capital HK$'000 (note 31)	Share premium account HK$'000	Merger reserve HK$'000	Capital contribution^ HK$'000	Contributed surplus HK$'000	Fair value reserve (non-recycling) HK$'000	Leasehold land and building revaluation reserve HK$'000	General reserve HK$'000	Exchange fluctuation reserve HK$'000	Reserve funds** HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interest HK$'000	Total equity HK$'000
At 1 January 2019	100,000	94,614	(15,017)	2,630	(18,616)	(500)	11,291	10,485	(22,363)	28,866	377,998	569,388	3,023	572,411
Profit/(loss) for the year	-	-	-	-	-	-	-	-	-	-	(28,036)	(28,036)	119	(27,917)
Other comprehensive income/(loss) for the year:														
Remeasurement of net pension scheme assets	-	-	-	-	-	-	-	-	-	-	1,044	1,044	-	1,044
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	(11,781)	-	-	(11,781)	(64)	(11,845)
Total comprehensive income/(loss) for the year	-	-	-	-	-	-	-	-	(11,781)	-	(26,992)	(38,773)	55	(38,718)
At 31 December 2019	100,000	94,614#	(15,017)#	2,630#	(18,616)#	(500)#	11,291#	10,485#	(34,144)#	28,866#	351,006#	530,615	3,078	533,693

	Attributable to owners of the parent													
	Issued capital HK$'000 (note 31)	Share premium account HK$'000	Merger reserve HK$'000	Capital contribution^ HK$'000	Contributed surplus HK$'000	Fair value reserve (non-recycling) HK$'000	Leasehold land and building revaluation reserve HK$'000	General reserve HK$'000	Exchange fluctuation reserve HK$'000	Reserve funds** HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interest HK$'000	Total equity HK$'000
At 1 January 2020	100,000	94,614	(15,017)	2,630	(18,616)	(500)	11,291	10,485	(34,144)	28,866	351,006	530,615	3,078	533,693
Profit/(loss) for the year	-	-	-	-	-	-	-	-	-	-	(10,801)	(10,801)	66	(10,735)
Other comprehensive income for the year:														
Remeasurement of net pension scheme assets	-	-	-	-	-	-	-	-	-	-	773	773	-	773
Gain on property revaluation, net of tax	-	-	-	-	-	-	21,468	-	-	-	-	21,468	-	21,468
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	48,340	-	-	48,340	214	48,554
Total comprehensive income/(loss) for the year	-	-	-	-	-	-	21,468	-	48,340	-	(10,028)	59,780	280	60,060
Final 2019 dividend declared and paid	-	-	-	-	(10,000)	-	-	-	-	-	-	(10,000)	-	(10,.000)
At 31 December 2020	100,000	94,614#	(15,017)#	2,630#	(28,616)#	(500)#	32,759#	10,485#	14,196#	28,866#	340,978#	580,395	3,358	583,753

** Pursuant to the relevant laws and regulations for foreign investment enterprises, a portion of the profit of certain subsidiaries of the Group 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$480,395,000 (2019: HK$430,615,000) in the consolidated statement of financial position.

^ The capital contribution reserve represents equity-settled share option expense related to the Group's business granted by the ultimate holding company, CNT Group Limited, on behalf of the Group.

Consolidated Statement of Cash Flows

Year ended 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(12,638)**	(27,102)
Adjustments for:			
Finance costs	8	**6,092**	8,714
Bank interest income	6	**(1,234)**	(692)
Depreciation of property, plant and equipment	7	**22,450**	20,580
Depreciation of right-of-use assets	7	**6,274**	5,753
Amortisation of intangible assets	7	**–**	815
Recognition of deferred income	6	**(287)**	(291)
Gain on disposal of items of property, plant and equipment, net	6	**(474)**	(72)
Write-off of items of property, plant and equipment	7	**274**	850
Gain on termination of leases		**(23)**	–
Write-down of inventories to net realisable value, net	7	**595**	43
Fair value loss on investment properties	7	**1,468**	–
Reversal of provision for impairment of trade receivables	7	**(462)**	(27,490)
Impairment of property, plant and equipment	7	**5,011**	–
Gain on deposits paid for purchases of property, plant and equipment	6	**(9,350)**	–
Net pension benefit expenses	7	**3**	37
		17,699	(18,855)
Increase in inventories		**(10,738)**	(694)
Decrease/(increase) in trade and bills receivables		**(57,013)**	141,890
Decrease in prepayments, deposits and other receivables		**1,656**	4,345
Increase/(decrease) in trade payables		**64,750**	(35,503)
Increase in other payables and accruals		**15,951**	3,991
Exchange realignment		**2,743**	1,998
Cash generated from operations		**35,048**	97,172
Interest paid		**(6,028)**	(8,515)
Interest element of lease payments		**(102)**	(228)
Overseas taxes paid		**(537)**	(951)
Net cash flows from operating activities		**28,381**	87,478

Consolidated Statement of Cash Flows

Year ended 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(24,306)**	(2,589)
Investments in structured deposits		**(5,958)**	–
Proceeds from disposal of items of property, plant and equipment		**556**	129
Interest received		**1,234**	692
Proceeds from termination of an acquisition agreement		**16,813**	–
Deposits paid for purchases of property, plant and equipment		**(1,795)**	(11,695)
Net cash flows used in investing activities		**(13,456)**	(13,463)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**158,039**	200,027
Repayment of bank loans		**(157,848)**	(203,417)
Decrease in amount due to the Remaining Group		**–**	(68)
Dividend paid		**(10,000)**	–
Principal portion of lease payments		**(3,516)**	(2,825)
Net cash flows used in financing activities		**(13,325)**	(6,283)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**1,600**	67,732
Cash and cash equivalents at beginning of year		**224,372**	160,280
Effect of foreign exchange rate changes, net		**10,440**	(3,640)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**236,412**	224,372
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	25	**224,443**	222,922
Non-pledged time deposits with original maturity of less than three months when acquired	25	**11,969**	1,450
Cash and cash equivalents as stated in the consolidated statement of financial position		**236,412**	224,372

1. CORPORATE AND GROUP INFORMATION

CPM Group Limited (the "Company") is an exempted company with limited liability incorporated in the Cayman Islands on 19 September 2016. The registered office of the Company is located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business of the Company is situated at 31st Floor, CNT Tower, 338 Hennessy Road, Wanchai, Hong Kong.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were engaged in the manufacture and sale of paint and coating products, and investment holding.

In the opinion of the directors of the Company (the "Directors"), CNT Group Limited ("CNT Group"), a company incorporated in Bermuda and listed on the main board of The Stock Exchange of Hong Kong Limited, is the ultimate holding company of the Company.

CNT Group and its subsidiaries, but excluding the Group, are collectively referred to as the "Remaining Group".

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		Principal activities
			Direct	Indirect	
China Molybdenum & Vanadium Development Limited	Hong Kong	HK$1,000	–	100	Investment holding
The China Paint Manufacturing Company (1932) Limited	Hong Kong	Ordinary HK$200,000 Non-voting deferred HK$1,761,300	–	100	Manufacture and sale of paint and coating products and investment holding
CNT Resene (Distribution) Limited	Hong Kong	HK$1	–	100	Sale of paint and coating products
CNT Resene Limited	Hong Kong	HK$2	–	100	Manufacture and sale of paint and coating products and investment holding
CP Industries (BVI) Limited	British Virgin Islands ("BVI")	United States dollars ("US$") 1,635,512	100	–	Investment holding
CP New Material Technology Holdings Limited	Hong Kong	HK$1,000,000	–	100	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
Majority Faith Corporation	BVI	US$1	–	100	Investment holding
New Rainbow Ventures Limited	BVI	US$1	–	100	Investment holding
Top Dreamer Limited	BVI	US$1	–	100	Investment holding
R, J & Thomas Secretaries Limited	Hong Kong	HK$30,000	–	100	Investment holding
中華製漆(深圳)有限公司 The China Paint Manufacturing (Shenzhen) Co., Ltd.#^	PRC/ Mainland China	HK$70,000,000	–	100	Manufacture and sale of paint and coating products
中華製漆(新豐)有限公司 The China Paint Mfg. Co., (Xinfeng) Ltd.#^	PRC/ Mainland China	US$25,000,000	–	100	Manufacture and sale of paint and coating products
長頸鹿製漆(上海)有限公司 Giraffe Paint Mfg. Co., (Shanghai) Ltd.#^	PRC/ Mainland China	US$4,000,000	–	100	Sale of paint and coating products
長頸鹿製漆(徐州)有限公司 Giraffe Paint Mfg. Co., (Xuzhou) Ltd.#^	PRC/ Mainland China	US$2,000,000	–	100	Manufacture and sale of paint and coating products
湖北長頸鹿製漆有限公司 Hubei Giraffe Paint Mfg. Co., Ltd.##^	PRC/ Mainland China	Renminbi ("RMB") 40,000,000	–	90.5	Manufacture and sale of paint and coating products
中山市永成化工有限公司 Zhongshan Yongcheng Chemical Co., Ltd.#^	PRC/ Mainland China	RMB90,000,000	–	100	Manufacture and sale of paint and coating products

Wholly-foreign-owned enterprises registered under PRC law

Sino-foreign-owned enterprise registered under PRC law

^ The English names represent management's best effort in translating the Chinese names of these entities as no English names of these entities have been registered.

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, an equity investment, 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.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2020. 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 interest, even if this results in the non-controlling interest 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 *Conceptual Framework for Financial Reporting 2018* and the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 3	*Definition of a Business*
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*
Amendment to HKFRS 16	*Covid-19-Related Rent Concessions* (early adopted)
Amendments to HKAS 1 and HKAS 8	*Definition of Material*

The nature and the impact of the *Conceptual Framework for Financial Reporting 2018* and the revised HKFRSs are described below:

(a) *Conceptual Framework for Financial Reporting 2018* (the "Conceptual Framework") sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.

(b) 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 has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

(c) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate ("RFR"). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. 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 did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(d) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the Coronavirus Disease 2019 ("COVID-19") pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively. The amendments did not have any impact on the financial position and performance of the Group.

(e) 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, or both. The amendments did not have any significant impact on the financial position and 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	*Reference to the Conceptual Framework*[2]
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	*Interest Rate Benchmark Reform – Phase 2*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKFRS 17	*Insurance Contracts*[3, 6]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current*[3, 5]
Amendments to HKAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[2]
Amendments to HKAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*[2]
Annual Improvements to HKFRSs 2018-2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41[2]

1 Effective for annual periods beginning on or after 1 January 2021
2 Effective for annual periods beginning on or after 1 January 2022
3 Effective for annual periods beginning on or after 1 January 2023
4 No mandatory effective date yet determined but available for adoption
5 As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion
6 As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

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

The Group is still in the process of assessing the impact of the above new and revised HKFRSs, further information about those HKFRSs that are currently expected to be applicable to the Group is described below.

Amendments to HKFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is 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, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative RFR. The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 and shall be applied retrospectively, but entities are not required to restate the comparative information.

The Group had certain interest-bearing bank borrowings denominated in Hong Kong dollars based on the Hong Kong Interbank Offered Rates and the Hong Kong Prime Rate as at 31 December 2020. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply this practical expedient upon the modification of these borrowings when the "economically equivalent" criterion is met and expects that no significant modification gain or loss will arise as a result of applying the amendments to these changes.

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

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 clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

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

Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g. direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g. an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

Annual Improvements to HKFRSs 2018-2020 sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- *HKFRS 9 Financial Instruments:* clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.

- *HKFRS 16 Leases:* removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

The Group measures its investment properties, equity investment, structured deposits 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.

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, net pension scheme assets, financial assets, investment properties and deferred tax assets), 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

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.

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.

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.

3. 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	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.

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 are stated at cost less any impairment losses, and are 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.

3. 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 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.

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 accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

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
Other 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 lease. 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Group as a lessee (continued)

(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.

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Initial recognition and measurement (continued)

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.

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 designated 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.

3. 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.

3. 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 and contract assets 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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Simplified approach

For trade receivables and contract assets 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 trade payables, other payables and accruals, lease liabilities and interest-bearing bank borrowings.

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.

3. 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 consolidated statement 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, 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, and 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.

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, for which it is intended to compensate, are expensed. When 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 with 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.

Sale of paint and coating products

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

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).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

- 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.

3. 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 and articles of association 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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.

4. 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:

Operating lease commitments – 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.

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.

4. 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.

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 a similar nature. The Group's management reassesses the estimation at the end of each reporting period.

Provision for income tax

Provision for income tax is 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.

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).

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 product) are expected to deteriorate over the next year which can lead to an increased number of defaults, 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 22 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).

4. 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, 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) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The carrying amount of investment properties at 31 December 2020 was HK$79,830,000 (2019: HK$15,393,000). Further details, including the key assumptions used for fair value measurement and a sensitivity analysis, are given in note 15 to the financial statements.

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial 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.

5. OPERATING SEGMENT INFORMATION

For management purposes, the Group has only one reportable operating segment which is the paint and coating products segment engaged in the manufacture and sale of paint and coating products. Since this is the only reportable operating segment of the Group, no further operating segment analysis thereof is presented.

Geographical information

(a) Revenue from external customers

	2020 HK$'000	2019 HK$'000
Hong Kong	**68,078**	75,167
Mainland China	**644,808**	638,161
	712,886	713,328

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

(b) Non-current assets

	2020 HK$'000	2019 HK$'000
Hong Kong	**2,563**	2,454
Mainland China	**357,665**	318,647
	360,228	321,101

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 years ended 31 December 2020 and 2019, no revenue from any single customer accounted for 10% or more of the total revenue of the Group.

6. REVENUE, OTHER INCOME AND GAINS, NET

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

	2020 HK$'000	2019 HK$'000
Revenue from contracts with customers	**712,886**	713,328

(i) Disaggregated revenue information

	2020 HK$'000	2019 HK$'000
Type of paint and coating products sold		
Industrial paint and coating products	**275,470**	292,525
Architectural paint and coating products	**316,282**	286,456
General paint and coating and ancillary products	**121,134**	134,347
	712,886	713,328
Timing of revenue recognition		
Goods transferred at a point in time	**712,886**	713,328

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:

	2020 HK$'000	2019 HK$'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of paint and coating products	**2,489**	1,588

(ii) Performance obligations

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

Sale of paint and coating products

The performance obligation is satisfied upon delivery of the paint and coating products and payment is generally due within 30 to 90 days from delivery, except for new customers, where payment in advance is normally required.

As a practical expedient, the amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) are not disclosed in the notes to the financial statements because all the remaining performance obligations in relation to the sale of paint and coating products are a part of contracts that have an original expected duration of one year or less.

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

	Note	2020 HK$'000	2019 HK$'000
Other income and gains, net			
Bank interest income		**1,234**	692
Government grants*		**2,847**	5,079
Government subsidies^		**2,872**	–
Gain on deposits paid for purchases of property, plant and equipment#		**9,350**	–
Gain on disposal of items of property, plant and equipment, net		**474**	72
Foreign exchange differences, net		**–**	226
Recognition of deferred income	30	**287**	291
Rental income from investment properties		**2,016**	811
Other rental income		**1,967**	2,212
Others		**1,271**	2,580
Total other income and gains, net		**22,318**	11,963

* 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.

^ Government subsidies were granted from the Employment Support Scheme under the Anti-epidemic Fund of the Hong Kong government. As a condition of receiving the subsidies from the Employment Support Scheme, the Group undertook not to make redundancies until 30 November 2020.

During the year ended 31 December 2020, a termination agreement was signed between the government of Xinfeng, Guangdong, the PRC and an indirect wholly-owned subsidiary of the Company, to terminate the previous signed acquisition agreement (i.e. a parcel of land located in Xinfeng). The Xinfeng government paid a compensation of approximately RMB15,000,000 (equivalent to approximately HK$16,813,000) for several initial payments made by the indirect wholly-owned subsidiary of the Company. The aggregate carrying amount of such several initial payments was approximately RMB6,658,000 (equivalent to approximately HK$7,463,000).

7. LOSS BEFORE TAX

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

	Notes	**2020** HK$'000	2019 HK$'000
Cost of inventories sold		**496,935**	516,512
Depreciation of property, plant and equipment	14	**22,450**	20,580
Depreciation of right-of-use assets	16	**6,274**	5,753
Amortisation of intangible assets	17	**–**	815
Lease payments not included in the measurement of lease liabilities		**4,719**	6,457
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties		**713**	714
Auditor's remuneration:			
Audit related services		**2,863**	2,801
Other services		**325**	357
		3,188	3,158
Employee benefit expense (including Directors' remuneration (note 9)):			
Wages, salaries, bonuses, allowances and welfare		**138,591**	138,587
Pension scheme contributions (defined contribution schemes)#		**4,606**	14,439
Net pension benefit expenses recognised (defined benefit schemes)	20	**3**	37
		143,200	153,063
Foreign exchange differences, net*		**1,050**	(226)
Staff termination cost*		**18,926**	–
Provision for impairment of property, plant and equipment*		**5,011**	–
Write-down of inventories to net realisable value, net@		**595**	43
Reversal of provision for impairment of trade receivables*	22	**(462)**	(27,490)
Gain on disposal of items of property, plant and equipment, net*		**(474)**	(72)
Gain on deposits paid for purchases of property, plant and equipment*		**(9,350)**	–
Fair value loss on investment properties*		**1,468**	–
Product improvement and development		**13,910**	12,078
Write-off of items of property, plant and equipment*	14	**274**	850

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

@ The balance is included in "Cost of sales" in the consolidated statement of profit or loss.

\# At 31 December 2020 and 2019, the Group had no material forfeited contributions available to reduce its contributions to the retirement benefit schemes in future years.

During the year, the Group's social insurance contributions in the PRC of HK$6,382,000 have been temporarily reduced and exempted by the PRC government as a relief measure amid COVID-19 and such a temporary reduction and exemption is presented net of the respective cost category.

8. FINANCE COSTS

An analysis of finance costs is as follows:

	2020 HK$'000	2019 HK$'000
Interest on bank loans	**5,990**	8,486
Interest expense on lease liabilities	**102**	228
	6,092	8,714

9. 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:

	2020 HK$'000	2019 HK$'000
Fees	**1,600**	1,600
Other emoluments:		
Salaries, allowances and benefits in kind	**9,627**	9,227
Discretionary bonuses	**977**	926
Pension scheme contributions	**437**	469
	11,041	10,622
	12,641	12,222

(a) Independent non-executive Directors

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

	2020 HK$'000	2019 HK$'000
Chiu Kam Hing, Kathy	**200**	200
Chua Joo Bin	**200**	200
Xia Jun	**200**	200
	600	600

There were no other emoluments payable to the independent non-executive Directors during the year (2019: Nil).

9. DIRECTORS' REMUNERATION (continued)

(b) Executive Directors and non-executive Directors

2020	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Executive Directors:					
Tsui Ho Chuen, Philip	**200**	**5,644**	**730**	**350**	**6,924**
Wong Anders	**200**	**1,387**	**168**	**18**	**1,773**
Li Guangzhong	**200**	**2,596**	**79**	**69**	**2,944**
	600	**9,627**	**977**	**437**	**11,641**
Non-executive Directors:					
Lam Ting Ball, Paul	**200**	**–**	**–**	**–**	**200**
Chong Chi Kwan	**200**	**–**	**–**	**–**	**200**
	400	**–**	**–**	**–**	**400**
	1,000	**9,627**	**977**	**437**	**12,041**

2019	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Executive Directors:					
Tsui Ho Chuen, Philip	200	5,640	730	350	6,920
Wong Anders	200	1,220	159	18	1,597
Li Guangzhong	200	2,367	37	101	2,705
	600	9,227	926	469	11,222
Non-executive Directors:					
Lam Ting Ball, Paul	200	–	–	–	200
Chong Chi Kwan	200	–	–	–	200
	400	–	–	–	400
	1,000	9,227	926	469	11,622

There was no arrangement under which a Director waived or agreed to waive any remuneration during the year (2019: Nil).

10. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid employees during the year included two Directors (2019: two), details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining three (2019: three) highest paid employees who are non-Directors for the year are as follows:

	2020 HK$'000	2019 HK$'000
Salaries, allowances and benefits in kind	**7,326**	7,326
Discretionary bonuses	**1,608**	2,108
Pension scheme contributions	**36**	36
	8,970	9,470

The number of the highest paid employees who are non-Directors whose remuneration fell within the following bands is as follows:

	Number of employees	
	2020	2019
HK$2,000,001 to HK$2,500,000	**1**	–
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**	1
	3	3

During the years ended 31 December 2020 and 2019, no emoluments were paid by the Group to the Directors or any of the highest paid employees who are non-Directors as an inducement to join or upon joining the Group or as compensation for loss of office nor has any Director waived or agreed to waive any emoluments.

11. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the current and prior years.

All subsidiaries of the Group established in Mainland China were subject to the PRC corporate income tax at a standard rate of 25% (2019: 25%) during the year, except for a subsidiary of the Group which qualified as a PRC High and New Technology Enterprise in Mainland China and a lower PRC corporate income tax rate of 15% (2019: 15%) had been applied during the year.

	Note	**2020 HK$'000**	2019 HK$'000
Current – Elsewhere			
Charge for the year		**793**	815
Over-provision in prior years		**(1,097)**	(654)
Deferred	29	**(1,599)**	654
Total tax charge/(credit) for the year		**(1,903)**	815

11. INCOME TAX (continued)

A reconciliation of the tax credit applicable to loss before tax for the year 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:

	2020 HK$'000	2019 HK$'000
Loss before tax	**(12,638)**	(27,102)
Tax at the statutory tax rate	**(2,085)**	(4,472)
Different tax rates for subsidiaries in the PRC, net	**(1,785)**	(1,811)
Effect of withholding tax on the distributable profits of the Group's subsidiaries	**319**	–
Adjustments in respect of current tax of previous periods	**(1,097)**	(654)
Income not subject to tax	**(485)**	(642)
Expenses not deductible for tax	**1,168**	1,914
Tax losses utilised from previous periods	**(436)**	(1,568)
Tax losses brought forward from previous periods now recognised	**(2,015)**	–
Tax losses not recognised	**5,819**	9,940
Reversal of withholding taxes on the unremitted earnings	**(3,100)**	(1,687)
Others	**1,794**	(205)
Tax charge/(credit) at the Group's effective tax rate	**(1,903)**	815

12. DIVIDEND

	2020 HK$'000	2019 HK$'000
Proposed final – HK1.0 cent (2019: HK1.0 cent) per ordinary share	**10,000**	10,000

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 for the year ending 31 December 2021.

At the annual general meeting held on 4 June 2020, the Company's shareholders approved the distribution of the final dividend for the year ended 31 December 2019 of HK1.0 cent per share which amounted to HK$10,000,000.

13. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic and diluted loss per share amounts is based on the loss for the year attributable to ordinary equity holders of the parent of HK$10,801,000 (2019: HK$28,036,000) and the weighted average number of ordinary shares of 1,000,000,000 (2019: 1,000,000,000) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2020 and 2019.

14. 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 2020							
At 1 January 2020:							
Cost or valuation	288,066	637	29,270	138,357	34,256	17,358	507,944
Accumulated depreciation	(123,584)	–	(14,408)	(116,840)	(28,440)	(15,624)	(298,896)
Net carrying amount	164,482	637	14,862	21,517	5,816	1,734	209,048
At 1 January 2020, net of accumulated depreciation	164,482	637	14,862	21,517	5,816	1,734	209,048
Additions	–	13,887	4,963	2,369	2,165	922	24,306
Disposals	–	–	–	(63)	(3)	(16)	(82)
Write-off (note 7)	–	(42)	(147)	(56)	(29)	–	(274)
Transfer from deposits for purchases of property, plant and equipment (note 19)	–	2,777	–	67	164	67	3,075
Surplus on revaluation	9,372	–	–	–	–	–	9,372
Depreciation provided during the year (note 7)	(10,275)	–	(4,414)	(4,759)	(2,130)	(872)	(22,450)
Transfer to investment properties (note 15)	(33,752)	–	(13)	–	–	–	(33,765)
Transfer	–	(7,930)	7,504	181	245	–	–
Impairment (note 7)	–	–	–	(5,011)	–	–	(5,011)
Exchange realignment	9,119	1,248	1,088	988	304	63	12,810
At 31 December 2020, net of accumulated depreciation and impairment	138,946	10,577	23,843	15,233	6,532	1,898	197,029
At 31 December 2020:							
Cost or valuation	274,586	10,577	43,288	147,446	36,524	15,861	528,282
Accumulated depreciation and impairment	(135,640)	–	(19,445)	(132,213)	(29,992)	(13,963)	(331,253)
Net carrying amount	138,946	10,577	23,843	15,233	6,532	1,898	197,029

14. PROPERTY, PLANT AND EQUIPMENT (continued)

	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:							
Cost or valuation	294,134	54	17,415	148,769	35,409	17,736	513,517
Accumulated depreciation	(115,210)	–	(13,157)	(121,516)	(29,087)	(14,780)	(293,750)
Net carrying amount	178,924	54	4,258	27,253	6,322	2,956	219,767
At 1 January 2019, net of accumulated depreciation	178,924	54	4,258	27,253	6,322	2,956	219,767
Additions	–	459	497	325	1,317	–	2,598
Disposals	–	–	–	(48)	(9)	–	(57)
Write-off (note 7)	–	–	–	(706)	(144)	–	(850)
Transfer from deposits for purchases of property, plant and equipment (note 19)	–	12,183	–	12	464	–	12,659
Depreciation provided during the year (note 7)	(10,984)	–	(1,525)	(4,795)	(2,080)	(1,196)	(20,580)
Transfer	–	(11,753)	11,753	–	–	–	–
Exchange realignment	(3,458)	(306)	(121)	(524)	(54)	(26)	(4,489)
At 31 December 2019, net of accumulated depreciation	164,482	637	14,862	21,517	5,816	1,734	209,048
At 31 December 2019:							
Cost or valuation	288,066	637	29,270	138,357	34,256	17,358	507,944
Accumulated depreciation	(123,584)	–	(14,408)	(116,840)	(28,440)	(15,624)	(298,896)
Net carrying amount	164,482	637	14,862	21,517	5,816	1,734	209,048

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Certain of the Group's leasehold land and buildings situated in 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 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.

During the year ended 31 December 2020, impairment loss of HK$5,011,000 was made for certain property, plant and equipment (note 7) by management based on their recoverable amounts which were determined by value-in-use calculations.

Had the Group's ownership interests in properties held for own use been carried at historical cost less accumulated depreciation and impairment, their total carrying amounts at 31 December 2020 and 2019 would have been nil.

At 31 December 2020, certain of the above ownership interests in properties held for own use with aggregate net carrying amounts of HK$6,985,000 (2019: HK$6,897,000) were pledged to secure general banking facilities granted to the Group (note 28).

15. INVESTMENT PROPERTIES

	Notes	2020 HK$'000	2019 HK$'000
Carrying amount at 1 January		**15,393**	15,713
Fair value loss	7	**(1,468)**	–
Transfer from an owner-occupied property	14	**33,765**	–
Transfer from leasehold land	16	**27,575**	–
Exchange realignment		**4,565**	(320)
Carrying amount at 31 December		**79,830**	15,393

The Group's investment properties are industrial properties located in Xuzhou and Shanghai, the PRC. The Directors have determined that the investment properties consist of one class of asset, i.e., industrial in the PRC, based on the nature, characteristics and risks of the properties. The Group's investment properties were revalued on 31 December 2020 based on the valuation performed by BMI Appraisals Limited, an independent professionally qualified valuers, at HK$79,830,000. The Group's finance department who reports directly to the senior management selects an external valuer to be responsible for the external valuation 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 value of the Group's investment properties are generally derived by using the investment approach. The Group's finance department has discussions with the external valuer on the valuation assumptions and valuation results when the valuation is performed for annual financial reporting.

15. INVESTMENT PROPERTIES (continued)

The income capitalisation method is based on the capitalisation of the net income and reversionary income potential by adopting 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 has been assessed with reference to recent lettings, within the subject properties and other comparable properties. Capitalisation rates are estimated by valuer based on the risk profile of the properties being valued.

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 as at 31 December 2020 and 2019
Industrial properties in Mainland China	Level 3	Income capitalisation method	Prevailing markets rents (per sq.m. and per month)	RMB21 and RMB46 (2019: RMB25)
			Capitalisation rates	5.5% to 6.0% (2019: 5.5% to 6.0%)

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.

Under the investment approach, a significant increase (decrease) in the unit rental rate in isolation would result in a significant increase (decrease) in the fair value of the investment properties. A significant increase (decrease) in the term yield and reversion yield in isolation would result in a significant decrease (increase) in the fair value of the investment properties.

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Industrial properties	
	2020	2019
	HK$'000	HK$'000
Carrying amount at 1 January	**15,393**	15,713
Fair value loss	**(1,468)**	–
Transfer from an owner-occupied property	**33,765**	–
Transfer from leasehold land	**27,575**	–
Exchange realignment	**4,565**	(320)
Carrying amount at 31 December	**79,830**	15,393

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

16. LEASE

The Group as a lessee

The Group has lease contracts for various items of land, 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 between 2 and 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.

(a) 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$'000	Leasehold land HK$'000	Motor vehicles HK$'000	Other equipment HK$'000	Total HK$'000
As at 1 January 2019	4,073	88,460	1,082	41	93,656
Additions	1,001	–	–	–	1,001
Depreciation charge	(2,484)	(2,880)	(382)	(7)	(5,753)
Disposal	–	–	–	(9)	(9)
Exchange realignment	(4)	(1,753)	–	–	(1,757)
As at 31 December 2019 and 1 January 2020	2,586	83,827	700	25	87,138
Additions	5,637	–	–	–	5,637
Depreciation charge	(3,127)	(2,760)	(382)	(5)	(6,274)
Termination	(854)	–	–	–	(854)
Surplus on revaluation	–	19,252	–	–	19,252
Transfer to investment property (note 15)	–	(27,575)	–	–	(27,575)
Exchange realignment	182	5,048	–	–	5,230
As at 31 December 2020	4,424	77,792	318	20	82,554

16. LEASE (continued)

The Group as a lessee (continued)

(b) Lease liabilities

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

	2020 HK$'000	2019 HK$'000
Carrying amount at 1 January	**3,289**	5,118
New leases	**5,637**	1,001
Accretion of interest recognised during the year	**102**	228
Termination	**(877)**	–
Payments	**(3,618)**	(3,053)
Exchange realignment	**180**	(5)
Carrying amount at 31 December	**4,713**	3,289
Analysed into:		
Current portion	**2,933**	2,658
Non-current portion	**1,780**	631

The maturity analysis of lease liabilities is disclosed in note 40 to the financial statements.

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

	2020 HK$'000	2019 HK$'000
Interest on lease liabilities	**102**	228
Depreciation charge of right-of-use assets	**6,274**	5,753
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)	**4,719**	6,457
Total amount recognised in profit or loss	**11,095**	12,438

(d) The total cash outflow for leases is disclosed in note 34(c) to the financial statements.

16. LEASE (continued)

The Group as a lessor

The Group leases its investment properties (note 15) consisting of two industrial properties in Mainland China and an insignificant portion of buildings in Mainland China (note 14) (2019: an industrial property in Mainland China and an insignificant portion of buildings in Mainland China) 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 then prevailing market conditions. Rental income from the investment properties and an insignificant portion of buildings recognised by the Group during the year was HK$2,016,000 and HK$1,967,000 (2019: HK$811,000 and HK$2,212,000), respectively, details of which are included in note 6 to the financials statements.

At 31 December 2020, the undiscounted lease payment receivables by the Group in future period under non-cancellable operating leases with third parties are as follows:

	2020 **HK$'000**	2019 HK$'000
Within one year	**4,198**	1,956
After one year but within two years	**3,996**	1,956
After two years but within three years	**2,502**	1,473
After three years but within four years	**–**	796
	10,696	6,181

17. INTANGIBLE ASSETS

	Note	**2020** **HK$'000**	2019 HK$'000
Licences			
Cost and net carrying amount at 1 January		**–**	805
Amortisation provided during the year	7	**–**	(815)
Exchange realignment		**–**	10
Carrying amount at 31 December		**–**	–
At 31 December:			
Cost		**1,265**	1,265
Accumulated amortisation		**(1,265)**	(1,265)
Net carrying amount		**–**	–

18. EQUITY INVESTMENT DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2020 HK$'000	2019 HK$'000
Equity investment designated at fair value through other comprehensive income		
Unlisted club membership debenture, at fair value	**300**	300

The above equity investment was irrevocably designated at fair value through other comprehensive income as the Group considers the investment to be strategic in nature. The fair value of the unlisted club membership debenture held by the Group was based on a quoted market price.

19. DEPOSITS FOR PURCHASES OF PROPERTY, PLANT AND EQUIPMENT

	Note	2020 HK$'000	2019 HK$'000
Carrying amount at 1 January		**9,522**	10,675
Transfer to property, plant and equipment	14	**(3,075)**	(12,659)
Additions		**1,795**	11,695
Exchange realignment		**36**	(189)
Termination of an acquisition agreement		**(7,463)**	–
Carrying amount at 31 December		**815**	9,522

The carrying amounts represented deposits paid for purchases of machinery and equipment. As at 31 December 2019, the carrying amounts also included deposits paid for the purchases of a parcel of land in Xinfeng, Guangdong Province, the PRC. During the year ended 31 December 2020, the acquisition agreement for the above land was terminated as detailed in note 6 to the financial statements.

20. 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 number of past service years plus 70% of their final monthly salaries multiplied by their respective number 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% global equities and 15% to 45% in global bonds and deposits.

20. NET PENSION SCHEME ASSETS (continued)

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 2020, by Grant Sherman Appraisal Limited, an independent professional actuarial advisor, using the projected unit credit actuarial valuation method.

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

	2020	2019
Discount rate	**0.4%**	1.8%
Expected rate of salary increases	**2.5%**	2.5%

The actuarial valuation showed that the market value of the scheme assets was HK$7,974,000 (2019: HK$7,593,000), and that the actuarial value of these assets represented 318% (2019: 262%) 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**	**Decrease in rate**	**Increase/ (decrease) in net pension scheme assets**
	%	HK$'000	%	HK$'000
2020				
Discount rate	**5**	**2**	**5**	**(2)**
Future salary increase	**5**	**(16)**	**5**	**15**
2019				
Discount rate	5	10	5	(11)
Future salary increase	5	(16)	5	15

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.

20. NET PENSION SCHEME ASSETS (continued)

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

	2020 HK$'000	2019 HK$'000
Current service cost	**85**	127
Interest cost	**(82)**	(90)
Net pension benefit expenses recognised in administrative expenses	**3**	37

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

	2020 HK$'000	2019 HK$'000
Carrying amount at 1 January	**2,899**	4,319
Current service cost	**85**	127
Interest cost	**51**	63
Remeasurements:		
– Actuarial gains arising from changes in demographic assumptions	**(6)**	(164)
– Actuarial losses arising from changes in financial assumptions	**157**	19
– Experience adjustments	**(62)**	73
Benefit paid	**(614)**	(1,538)
Carrying amount at 31 December	**2,510**	2,899

20. NET PENSION SCHEME ASSETS (continued)

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

31 December 2020

		Pension cost credited/(charged) to profit or loss				Remeasurement gains/(losses) in other comprehensive income					
	1 January 2020 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 2020 HK$'000
Fair value of scheme assets	7,593	–	133	133	(614)	862	–	–	–	862	7,974
Defined benefit obligations	(2,899)	(85)	(51)	(136)	614	–	6	(157)	62	(89)	(2,510)
Net pension scheme assets	4,694	(85)	82	(3)	–	862	6	(157)	62	773	5,464

31 December 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

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

20. NET PENSION SCHEME ASSETS (continued)

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

	2020 HK$'000	2019 HK$'000
Equities, quoted in active markets	**5,191**	5,163
Bonds	**2,623**	2,278
Money market instruments	**160**	152
	7,974	7,593

At 31 December 2020, the weighted average duration of the defined benefit obligations at the end of the reporting period was 6 years (2019: 6 years).

21. INVENTORIES

	2020 HK$'000	2019 HK$'000
Raw materials	**41,804**	32,602
Work in progress	**4,601**	4,172
Finished goods	**24,321**	19,384
	70,726	56,158

22. TRADE AND BILLS RECEIVABLES

	2020 HK$'000	2019 HK$'000
Trade receivables	**422,790**	334,053
Impairment	**(60,892)**	(57,453)
	361,898	276,600
Bills receivable	**23,476**	27,894
	385,374	304,494

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one month, extending up to three months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department 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, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade and bills receivable balances. Trade and bills receivables are non-interest-bearing.

22. TRADE AND BILLS RECEIVABLES (continued)

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:

	2020 HK$'000	2019 HK$'000
Within three months	**229,186**	191,356
Over three months and within six months	**85,485**	74,470
Over six months	**70,703**	38,668
	385,374	304,494

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

	Note	2020 HK$'000	2019 HK$'000
At beginning of year		**57,453**	86,787
Reversal of provision for impairment of trade receivables	7	**(462)**	(27,490)
Exchange realignment		**3,901**	(1,844)
At end of year		**60,892**	57,453

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). 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.

22. TRADE AND BILLS RECEIVABLES (continued)

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 2020

	Credit-impaired receivables	Current	Past due: Within 3 months	Past due: 3 to 6 months	Past due: Over 6 months	Total
Expected credit loss rate	**100.0%**	**4.8%**	**6.3%**	**13.7%**	**27.5%**	**14.4%**
Gross carrying amount (HK$'000)	**27,620**	**221,712**	**91,498**	**40,833**	**41,127**	**422,790**
Expected credit losses (HK$'000)	**27,620**	**10,580**	**5,762**	**5,612**	**11,318**	**60,892**

As at 31 December 2019

	Credit-impaired receivables	Current	Past due: Within 3 months	Past due: 3 to 6 months	Past due: Over 6 months	Total
Expected credit loss rate	100.0%	6.0%	7.8%	18.9%	32.4%	17.2%
Gross carrying amount (HK$'000)	17,294	155,206	72,867	26,784	61,902	334,053
Expected credit losses (HK$'000)	17,294	9,358	5,691	5,065	20,045	57,453

None of the bills receivable was either past due or impaired as at 31 December 2020 and 2019. There was no recent history of default for bills receivable.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2020 HK$'000	2019 HK$'000
Prepayments	**2,329**	2,583
Deposits and other receivables	**62,379**	59,795
	64,708	62,378

The financial assets included in the above balances related to receivables for which there was no recent history of default and past due amounts. As at 31 December 2020 and 2019, the loss allowance was assessed to be minimal.

24. STRUCTURED DEPOSITS

Structured deposits were stated at fair value and represented several wealth management products issued by a bank. As at 31 December 2020, the aggregate principal of deposits was fully guaranteed by the bank while the rates of return were not guaranteed. These deposits were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest. The Group used the structured deposits primarily to enhance the return on investment.

25. CASH AND CASH EQUIVALENTS

	2020 HK$'000	2019 HK$'000
Cash and bank balances	**224,443**	222,922
Time deposits:		
– with original maturity of less than three months when acquired	**11,969**	1,450
	236,412	224,372

At the end of the reporting period, the cash and bank balances and time deposits of the Group denominated in RMB amounted to HK$162,261,000 (2019: HK$185,883,000). 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.

26. TRADE PAYABLES

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

	2020 HK$'000	2019 HK$'000
Within three months	**204,398**	143,964
Over three months and within six months	**19,878**	1,426
Over six months	**254**	236
	224,530	145,626

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

27. OTHER PAYABLES AND ACCRUALS

	Notes	2020 HK$'000	2019 HK$'000
Deferred income	30	**317**	297
Contract liabilities	a	**2,477**	3,294
Other payables	b	**38,141**	32,993
Accruals		**48,291**	32,587
Carrying amount at 31 December		**89,226**	69,171

Notes:

(a) Details of contract liabilities are as follows:

	31 December 2020 HK$'000	31 December 2019 HK$'000	1 January 2019 HK$'000
Short-term advances received from customers			
Sale of paint and coating products	**2,477**	3,294	1,588

Contract liabilities include advances received to deliver paint and coating products. The decrease and increase in contract liabilities in 2020 and 2019 were mainly due to the decrease and increase in sales orders, respectively, received from customers in relation to sales of paint and coating products near year end whereas the Group had not yet delivered the products to the customers.

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

28. INTEREST-BEARING BANK BORROWINGS

	31 December 2020			31 December 2019		
	Effective interest rate per annum (%)	**Maturity**	**HK$'000**	Effective interest rate per annum (%)	Maturity	HK$'000
Current						
Bank loans – secured	**1.2-2.4**	**2021-2022**	**165,301**	3.5-4.4	2020-2022	189,689
Bank loans – unsecured	**3.0**	**2023**	**50,000**	7.2	2020	20,808
Import loans – secured			**–**	3.0-3.8	2020	4,843
			215,301			215,340

	2020 HK$'000	2019 HK$'000
Analysed into:		
Bank loans and import loans repayable:		
Within one year or on demand	**215,301**	215,340

Notes:

(a) The above bank loans of HK$215,301,000 (2019: HK$194,532,000) containing a repayment on demand clause were already included in total current liabilities as at 31 December 2020. 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 period.

Ignoring the effect of any repayment on demand clause and based on the maturity terms of the bank borrowings, the bank borrowings as at 31 December 2020 and 31 December 2019 are repayable:

	2020 HK$'000	2019 HK$'000
Analysed into:		
Bank loans and import loans repayable:		
Within one year	**156,101**	187,740
In the second year	**21,700**	18,400
In the third to fifth years, inclusive	**37,500**	9,200
	215,301	215,340

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

(i) the Group's ownership interests in properties held for own use with an aggregate net book value at the end of reporting period of HK$6,985,000 (2019: HK$6,897,000) (note 14);

(ii) an investment property and certain portion of a building and carparks held by the Remaining Group as at 31 December 2020 and 2019; and

(iii) charges over shares of an indirect subsidiary of the Company as at 31 December 2020 and 2019.

28. INTEREST-BEARING BANK BORROWINGS (continued)

Notes: (continued)

(c) The carrying amounts of the Group's bank borrowings which are denominated in the following currencies are as follows:

	2020 HK$'000	2019 HK$'000
US$	–	4,595
RMB	–	20,808
HK$	215,301	189,937
	215,301	215,340

29. DEFERRED TAX

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

Deferred tax liabilities

	Right-of-use assets		Revaluation of properties		Withholding taxes		Depreciation allowance in excess of related depreciation		Total	
	2020 HK$'000	2019 HK$'000	2020 HK$'000	2019 HK$'000	2020 HK$'000	2019 HK$'000	2020 HK$'000	2019 HK$'000	2020 HK$'000	2019 HK$'000
At beginning of the year	285	589	2,042	2,075	8,667	10,308	–	–	10,994	12,972
Deferred tax charged/ (credited) to the statement of profit or loss during the year*	89	(303)	(366)	–	(2,781)	(1,686)	443	–	(2,615)	(1,989)
Deferred tax charged to the statement of comprehensive income during the year	–	–	7,156	–	–	–	–	–	7,156	–
Exchange realignment	28	(1)	503	(33)	590	45	5	–	1,126	11
At end of the year	402	285	9,335	2,042	6,476	8,667	448	–	16,661	10,994

29. DEFERRED TAX (continued)

Deferred tax assets

	Lease liabilities		Impairment of trade receivables		Losses available for offsetting against future taxable profit		Depreciation in excess of related depreciation allowance		Accruals		Total	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At beginning of the year	**293**	589	**4,240**	7,383	**7,617**	7,776	**3,677**	3,085	**735**	764	**16,562**	19,597
Deferred tax credited/ (charged) to the statement of profit or loss during the year*	**84**	(295)	**1,321**	(2,986)	**(730)**	–	**(1,415)**	651	**(276)**	(13)	**(1,016)**	(2,643)
Exchange realignment	**27**	(1)	**302**	(157)	**514**	(159)	**189**	(59)	**37**	(16)	**1,069**	(392)
At end of the year	**404**	293	**5,863**	4,240	**7,401**	7,617	**2,451**	3,677	**496**	735	**16,615**	16,562

* Net deferred tax credited (2019: charged) to the consolidated statement of profit or loss for the year ended 31 December 2020 amounted to HK$1,599,000 (2019: HK$654,000) (note 11).

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:

	2020	2019
	HK$'000	HK$'000
Net deferred tax assets recognised in the consolidated statement of financial position	**16,213**	16,277
Net deferred tax liabilities recognised in the consolidated statement of financial position	**16,259**	10,709

At the end of the reporting period, deferred tax assets arising in certain of the Group's subsidiaries have not been recognised in respect of tax losses arising in Hong Kong of HK$377.8 million (2019: HK$347.2 million), subject to the agreement by the Hong Kong Inland Revenue Department, that are available indefinitely and in Mainland China of HK$72.3 million (2019: HK$69.7 million) that are available for a maximum of five years, as these subsidiaries have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised in the foreseeable future.

29. DEFERRED TAX (continued)

Deferred tax assets (continued)

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 2020, deferred tax has not been fully recognised for withholding taxes that would be payable on certain portions of the unremitted earnings that are subject to withholding taxes of certain of the Group's subsidiaries established in Mainland China. In the opinion of the Directors, it is not probable that these subsidiaries will distribute these unremitted earnings in the foreseeable future. The aggregate amount of temporary differences associated with the investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$135.5 million (2019: HK$194.8 million) at 31 December 2020.

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

30. DEFERRED INCOME

	Notes	**2020** **HK$'000**	2019 HK$'000
Carrying amount at 1 January		**1,782**	2,111
Recognised during the year	6	**(287)**	(291)
Exchange realignment		**103**	(37)
Carrying amount at 31 December		**1,598**	1,783
Portion classified as current liabilities	27	**(317)**	(297)
Non-current portion		**1,281**	1,486

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 also 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.

31. SHARE CAPITAL

Shares

	2020 HK$'000	2019 HK$'000
Authorised:		
8,000,000,000 (2019: 8,000,000,000) ordinary shares of HK$0.10 each	**800,000**	800,000
Issued and fully paid:		
1,000,000,000 (2019: 1,000,000,000) ordinary shares of HK$0.10 each	**100,000**	100,000

Share options

Details of the Company's share option scheme are included in note 32 to the financial statements.

32. SHARE OPTION SCHEME

A share option scheme (the "Scheme") was adopted by the Company on 4 June 2020 (the "Adoption Date") pursuant to a resolution passed at the extraordinary general meeting held on the same date. Unless terminated by a resolution in a general meeting or by the board of Directors, the Scheme remains valid and effective for the period of 10 years commencing on 4 June 2020, after which period no further options will be offered or granted but, in all other aspects, the provisions of the Scheme shall remain in full force and effect. Further details are set out in the circular of the Company dated 27 April 2020.

The Scheme will expire on 3 June 2030. From the Adoption Date up to 31 December 2020, no share options were granted under the Scheme.

33. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 78 and 79 of this annual report.

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

i. During the year ended 31 December 2020, the Group completed the acquisition of certain items of property, plant and equipment, the consideration of which was partially settled by deposits previously paid with an aggregate carrying amount of HK$3,075,000 (2019: HK$12,659,000).

ii. During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of HK$5,637,000 (2019: HK$1,001,000) and HK$5,637,000 (2019: HK$1,001,000), respectively in respect of lease arrangement for properties.

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

(b) Changes in liabilities arising from financing activities

	2020 Interest-bearing bank borrowings HK$'000	2020 Lease liabilities HK$'000
As at 1 January 2020	**215,340**	**3,289**
Changes from financing cash flows	**191**	**(3,516)**
New leases	**–**	**5,637**
Interest expenses	**–**	**102**
Interest paid classified as operating cash flows	**–**	**(102)**
Termination	**–**	**(877)**
Foreign exchange movement	**(230)**	**180**
As at 31 December 2020	**215,301**	**4,713**

	2019 Interest-bearing bank borrowings HK$'000	2019 Lease liabilities HK$'000	2019 Amount due to the Remaining Group HK$'000
At 1 January 2019	219,380	5,118	68
Changes from financing cash flows	(3,390)	(2,825)	(68)
New leases	–	1,001	–
Interest expenses	–	228	–
Interest paid classified as operating cash flows	–	(228)	–
Foreign exchange movement	(650)	(5)	–
At 31 December 2019	215,340	3,289	–

(c) Total cash outflow for leases

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

	2020 HK$'000	2019 HK$'000
Within operating activities	**4,821**	6,685
Within financing activities	**3,516**	2,825
	8,337	9,510

35. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's bank borrowings are included in note 28 to the financial statements.

36. CAPITAL COMMITMENTS

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

	2020 **HK$'000**	2019 HK$'000
Contracted, but not provided for:		
Construction and purchases of items of property, plant and equipment	**3,278**	6,316
Purchases of land use rights*	**–**	1,742
	3,278	8,058

* On 21 January 2008, an indirect wholly-owned subsidiary of the Company entered into an agreement with the government of Xinfeng, Guangdong, the PRC to purchase a parcel of land located in Xinfeng at a consideration of RMB8,220,000, of which RMB6,658,000 had been paid by the indirect wholly-owned subsidiary of the Company as at 31 December 2019. The agreement was terminated during the year ended 31 December 2020 as detailed in note 6 to the financial statements.

37. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	Notes	**2020** **HK$'000**	2019 HK$'000
Lease payments paid to the Remaining Group	(i)	**2,908**	3,288
Pledge fees paid to the Remaining Group	(ii)	**1,060**	262

(i) The Group leased certain office premises from the Remaining Group at rates mutually agreed between the parties.

(ii) Pledge fees were charged by the Remaining Group for pledging certain properties in Hong Kong as securities for certain banking facilities granted to the Group at mutually agreed fees.

(b) During the year ended 31 December 2020, the transactions in respect of item (a)(i) and (a)(ii) above are also a continuing connected transaction as defined under Chapter 14A of the Listing Rules which are exempted from reporting, annual review and independent shareholders' approval under Chapter 14A of the Listing Rules.

During the year ended 31 December 2019, the transaction in respect of item (a)(i) above was also a continuing connected transaction of the Company as defined under Chapter 14A of the Listing Rules. The transaction referred to item a(ii) above was also a continuing connected transaction exempted from reporting, annual review and independent shareholders' approval under Chapter 14A of the Listing Rules.

37. RELATED PARTY TRANSACTIONS (continued)

(c) Compensation of key management personnel of the Group

	2020 HK$'000	2019 HK$'000
Short term employment benefits	**12,088**	11,796
Post-employment benefits	**479**	541
Total compensation paid to key management personnel	**12,567**	12,337

Further details of Directors' remuneration are included in note 9 to the financial statements.

38. 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:

31 December 2020

Financial assets

	Financial assets at amortised cost HK$'000	Financial assets at fair value through profit or loss (Mandatorily designated as such) HK$'000	Financial assets at fair value through other comprehensive income HK$'000	Total HK$'000
Equity investment designated at fair value through other comprehensive income	–	–	300	300
Trade and bills receivables	385,374	–	–	385,374
Financial assets included in prepayments, deposits and other receivables	6,615	–	–	6,615
Structured deposits	–	5,958	–	5,958
Cash and cash equivalents	236,412	–	–	236,412
	628,401	5,958	300	634,659

38. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

31 December 2020 (continued)

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade payables	**224,530**
Financial liabilities included in other payables and accruals	**34,187**
Lease liabilities	**4,713**
Interest-bearing bank borrowings	**215,301**
	478,731

31 December 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 investment designated at fair value through other comprehensive income	–	300	300
Trade and bills receivables	304,494	–	304,494
Financial assets included in prepayments, deposits and other receivables	4,800	–	4,800
Cash and cash equivalents	224,372	–	224,372
	533,666	300	533,966

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade payables	145,626
Financial liabilities included in other payables and accruals	28,689
Lease liabilities	3,289
Interest-bearing bank borrowings	215,340
	392,944

39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, trade and bills receivables, trade payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, and interest-bearing bank borrowings 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 value of the equity investment designated at fair value through other comprehensive income is based on quoted market prices.

The fair values of structured deposits are determined in accordance with discounted cash flow analysis with reference to the expected return of structured deposits.

Below is a summary of significant unobservable inputs to the valuation of structured deposits together with a quantitative sensitivity analysis as at 31 December 2020:

	Valuation technique	**Significant unobservable input**	**Range**	**Sensitivity of fair value to the inputs/ relationship of unobservable inputs to fair value**
Structured deposits	Discounted cash flow method	Expected rate of return	2020: 2.69%-3.00% (2019: N/A)	10% (2019: N/A) increase/(decrease) in expected rate of return would not result in significant impact on fair value
		Discount rate	2020: 1.10% (2019: N/A)	10% (2019: N/A) increase/(decrease) in discount rate would not result in significant impact on fair value

39. 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:

	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 2020				
Equity investment designated at fair value through other comprehensive income	**–**	**300**	**–**	**300**
Structured deposits	**–**	**–**	**5,958**	**5,958**
	–	**300**	**5,958**	**6,258**
At 31 December 2019				
Equity investment designated at fair value through other comprehensive income	–	300	–	300

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

	2020 HK$'000	2019 HK$'000
Structured deposits		
At 1 January	**–**	–
Purchases	**5,958**	–
At 31 December	**5,958**	–

Liabilities measured at fair value:

The Group did not have any financial liabilities at fair value as at 31 December 2020 and 2019.

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.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank 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 trade and bills receivables, deposits and other receivables, equity investment designated at fair value through other comprehensive income, structured deposits, trade payables, other payables and accruals, 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 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 loss before tax HK$'000**
2020		
HK$	**50**	**893**
RMB	**50**	**(830)**
HK$	**(50)**	**(893)**
RMB	**(50)**	**830**

	Increase/ (decrease) in basis points	Increase/ (decrease) in loss before tax HK$'000
2019		
HK$	50	900
RMB	50	(920)
HK$	(50)	(900)
RMB	(50)	920

40. 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 trade 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 loss before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in RMB rate %	**Increase/ (decrease) in loss before tax HK$'000**
2020		
If HK$ weakens against RMB	**5**	**(1,644)**
If HK$ strengthens against RMB	**(5)**	**1,644**

	Increase/ (decrease) in RMB rate %	Increase/ (decrease) in loss before tax HK$'000
2019		
If HK$ weakens against RMB	5	(655)
If HK$ strengthens against RMB	(5)	655

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.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Maximum exposure and year-end staging

The table 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 2020

	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*	–	–	–	422,790	422,790
Bills receivable	23,476	–	–	–	23,476
Financial assets included in prepayment, deposits and other receivables					
– Normal**	6,615	–	–	–	6,615
Cash and cash equivalents					
– Not yet past due	236,412	–	–	–	236,412
	266,503	–	–	422,790	689,293

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*	–	–	–	334,053	334,053
Bills receivable	27,894	–	–	–	27,894
Financial assets included in prepayment, deposits and other receivables					
– Normal**	4,800	–	–	–	4,800
Cash and cash equivalents					
– Not yet past due	224,372	–	–	–	224,372
	257,066	–	–	334,053	591,119

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 22 to the financial statements.

** The credit quality of the 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".

40. 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**
2020			
Trade payables	**224,530**	**–**	**224,530**
Financial liabilities included in other payables and accruals	**34,187**	**–**	**34,187**
Interest-bearing bank borrowings*	**215,301**	**–**	**215,301**
Lease liabilities	**3,007**	**1,801**	**4,808**
	477,025	**1,801**	**478,826**

	On demand or within one year HK$'000	In the second to fifth years HK$'000	Total HK$'000
2019			
Trade payables	145,626	–	145,626
Financial liabilities included in other payables and accruals	28,689	–	28,689
Interest-bearing bank borrowings*	216,838	–	216,838
Lease payables	2,719	682	3,401
	393,872	682	394,554

40. 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 an aggregate carrying amount as at 31 December 2020 of HK$215,301,000 (2019: HK$194,532,000), 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 within 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:

	On demand or within one year HK$'000	In the second to fifth years HK$'000	Total HK$'000
31 December 2020	**158,530**	**61,174**	**219,704**
31 December 2019	168,493	28,367	196,860

Notwithstanding the above clause, the Directors do not believe that such bank loans will be called in their 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 2020 and 2019.

The Group monitors capital using a gearing ratio, which is bank 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:

	2020 HK$'000	2019 HK$'000
Bank borrowings	**215,301**	215,340
Equity attributable to owners of the parent	**580,395**	530,615
Gearing ratio	**37.1%**	40.6%

41. 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:

	2020 HK$'000	2019 HK$'000
NON-CURRENT ASSET		
Investment in a subsidiary	**27,094**	27,094
CURRENT ASSETS		
Prepayments	**344**	249
Loan to a subsidiary	**127,883**	–
Due from subsidiaries	**58,718**	148,415
Cash and cash equivalents	**14,840**	10,293
Total current assets	**201,785**	158,957
CURRENT LIABILITIES		
Other payables and accruals	**1,468**	964
Due to fellow subsidiaries	**872**	816
Total current liabilities	**2,340**	1,780
NET CURRENT ASSETS	**199,445**	157,177
Net assets	**226,539**	184,271
EQUITY		
Issued capital	**100,000**	100,000
Reserves (note)	**126,539**	84,271
Total equity	**226,539**	184,271

Note:

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

	Share premium account HK$'000	Contributed surplus HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 January 2019	94,614	27,094	(32,262)	89,446
Total comprehensive loss for the year	–	–	(5,175)	(5,175)
At 31 December 2019 and 1 January 2020	**94,614**	**27,094**	**(37,437)**	**84,271**
Total comprehensive income for the year	**–**	**–**	**52,268**	**52,268**
Final 2019 dividend declared and paid	**–**	**(10,000)**	**–**	**(10,000)**
At 31 December 2020	**94,614**	**17,094**	**14,831**	**126,539**

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of Directors on 30 March 2021.

INVESTMENT PROPERTIES

Location	Percentage of interest in property attributable to the Group	Type of existing leasehold	Existing Use
Nos. 3889 and 3899 Waiqingsong Highway Qingpu District Shanghai the PRC	100	Medium term	Industrial
22 Jinshui Road Xuzhou Economic Development Zone Xuzhou Jiangsu Province the PRC	100	Medium term	Industrial

Glossary

AC Chairlady	The chairlady of the Audit Committee
AC or Audit Committee	The audit committee of the Board
AGM	Annual general meeting of the Company
Articles	The articles of association of the Company
Board	The board of Directors
CG Code	Corporate Governance Code contained in Appendix 14 to the Listing Rules
Chairman	The chairman of the Company
China Paint (1932)	The China Paint Manufacturing Company (1932) Limited, a wholly-owned subsidiary of the Company
China Paint (Shenzhen)	The China Paint Manufacturing (Shenzhen) Co., Ltd. (中華製漆（深圳）有限公司), a wholly-owned subsidiary of the Company
China Paint (Xinfeng)	The China Paint Mfg. Co., (Xinfeng) Ltd. (中華製漆（新豐）有限公司), a wholly-owned subsidiary of the Company
Company	CPM Group Limited
Company Secretary	The company secretary of the Company
COVID-19	Coronavirus Disease 2019
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
Hubei Giraffe	Hubei Giraffe Paint Mfg. Co., Ltd. (湖北長頸鹿製漆有限公司), a non-wholly owned subsidiary of the Company
Invested Entity	Any entity in which any member of the Group holds any equity interest
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 Chairlady	The chairlady of the Nomination Committee

Glossary

NC or Nomination Committee	The nomination committee of the Board
PRC	The People's Republic of China
RC Chairlady	The chairlady 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
Share Option Scheme	The share option scheme adopted by the Company on 4 June 2020
Shareholder(s)	Shareholder(s) of the Company
Stock Exchange	The Stock Exchange of Hong Kong Limited
substantial shareholder(s)	has the meaning as defined in the Listing Rules

中漆集團有限公司
CPM GROUP LIMITED