中漆集團有限公司
# CPM GROUP LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

Stock code: 1932

# ANNUAL REPORT 2023

# Contents

# Corporate Information

## HONORARY CHAIRMAN

Lam Ting Ball, Paul

## BOARD OF DIRECTORS

**Executive Director and Chairman**

Tsui Ho Chuen, Philip *(Managing Director)*

**Executive Directors**

Li Guangzhong *(Sales Director)*
Mak Chi Wah *(Finance Director)*

**Non-executive Director**

Chong Chi Kwan

**Independent Non-executive Directors**

Chua Joo Bin
Xia Jun
Meng Jinxia

## AUDIT COMMITTEE

Chua Joo Bin *(AC Chairman)*
Xia Jun
Chong Chi Kwan

## REMUNERATION COMMITTEE

Xia Jun *(RC Chairman)*
Chong Chi Kwan
Chua Joo Bin

## NOMINATION COMMITTEE

Xia Jun *(NC Chairman)*
Tsui Ho Chuen, Philip
Chua Joo Bin

## COMPANY SECRETARY

Fok Pik Yi, Carol

## AUDITORS

Ernst & Young
Certified Public Accountants
Registered Public Interest Entity Auditor
27th Floor, One Taikoo Place, 979 King's Road
Quarry Bay, Hong Kong

## SHARE REGISTRARS

**Hong Kong**

Tricor Investor Services Limited
17/F, Far East Finance Centre
16 Harcourt Road, 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
Nanyang Commercial Bank, Limited

**PRC**

HSBC Bank (China) Company Limited
Bank of China Limited
Shenzhen Rural Commercial Bank Corporation Limited

## 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

The global economy in 2023 encountered different levels of uncertainties due to the regional conflicts in Europe and the Middle East and the geopolitical issues between leading countries or economic powerhouses. The interest rates remained at high levels throughout the year, which created financial constraints and discouraged large-scale capital investments. As a result, the average global gross domestic product (the "GDP") only recorded a modest growth of approximately 3% in 2023, whilst the GDP of Mainland China in 2023 surpassed the global average, according to the International Monetary Fund ("IMF") report. In the past decades, China significantly relied on exports of goods to maintain economic growth and the growth in the GDP. However, this conventional growth driver has become increasingly challenging due to the surge in different types of trade barriers amongst the target export markets of Mainland China. Hence, the Chinese government implemented a series of measures in 2023 for the purpose of bolstering the domestic demand within the country. The economic rebound in Mainland China in 2023 exhibited different extents in different sectors. The percentage of contributions to the GDP growth from the increase in consumption expenditures, net exports of goods and services and gross domestic capital investment was 1.182%, 0.415%, and 1.403% in 2022 to 4.291%, -0.594%, and 1.504% in 2023, as reported by the National Bureau of Statistics of China ("NBSC").

Moreover, the Chinese industrial purchasing price index, which reduced to a range of 3.4% to 13.8%, indicated continuous decreases in the raw material prices in Mainland China in 2023. These decreases were due to the sluggish demand and exports and the decrease in crude oil prices. In response to the challenges posed by supply chain disruptions and significant fluctuations in the raw material prices and supply over recent years, the Group converted the underutilised production plants and office premises in Mainland China into investment properties. This arrangement was aimed to optimise the assets allocation of the Group, thereby improving the operating cash flows. Furthermore, the establishment of a new business segment focused on holding of investment properties in 2022 has underscored the Group's commitment to providing the shareholders of the Company with greater transparency. As at 31 December 2023, the value of the Group's investment properties significantly rose to HK$309.09 million, up from HK$240.94 million as at 31 December 2022, which represented 31.8% of the Group's total assets. While this is a positive development, the Group continues to maintain a cautious approach in managing its investment property portfolio in 2023 in alignment with its business strategies.

According to the information released by the NBSC, the paint and coating industry is classified under the manufacturing sector of the secondary industry. In 2023, the nominal GDP of the secondary industry and the industry sector recorded increases of 4.7% and 4.2%, respectively, as compared to 2022. Additionally, a preliminary estimate highlighted a 3.5% growth in the production of paint and coating product (measured in tonnes) and a 3.0% increase in the sales of paint and coating products (measured in Renminbi) within the industry in Mainland China. The increase in production outstripped the increase in sales, intensifying market competition. The situation was further exacerbated by a sluggish real estate market and a substantial decrease in the accumulated construction area of new projects in Mainland China in 2023. In response to these changes in the domestic market in Mainland China, and aiming to balance the cost and benefit outcome, the Group continued to emphasise on the stable, reliable quality and timely delivery of its products to customers while implementing cost-saving measures through the integration of the underutilised production plants in Mainland China. Consequently, despite the revenue generated from sales of paints and coating products experienced a significant decrease of 29.8% during the year ended 31 December 2023, the amount of gross profit only recorded an insignificant decrease of 1.2%, and the gross profit margin was increased by 8.8 percentage points, as compared to 2022. The decrease in the sales of the Group in 2023 was primarily driven by a notable 34.9% decrease in the sales of architectural paint and coating products and 24.1% decrease in the sales of industrial paint and coating products.

## OVERVIEW (continued)

Moreover, in 2023, the real estate industry recorded a mild decrease in the growth rate of 0.1% while the building and construction industry sector recorded a growth rate of 2.8%. Notably, the accumulated construction area of construction-in-progress in Mainland China's real estate industry was also decreased by 7.4% in 2023, as compared to the decrease of 7.2% in 2022. The accumulated construction area of new projects was decreased by 20.9% in 2023, as compared to the decrease of 39.4% in 2022. Amid mounting financial pressures and adverse reports concerning property developers in Mainland China, the Group carefully evaluated and rigorously controlled the flexibility of credit terms provided to customers in the real estate industry, details of which are set out in the section headed "Proactive Credit Management and Provision for Impairment of Trade and Bills Receivables" in the business plans. This led to a significant decrease of 42.0% in the Group's revenue generated from sales to customers in the construction industry and property and infrastructure projects in Mainland China during the year ended 31 December 2023, as compared to the decrease of 39.7% in 2022. Conversely, as per the 2023 GDP report published by the Census and Statistics Department ("C&SD") in Hong Kong, the gross domestic fixed capital formation ("GDFCF") of both private and public sectors in the building and construction industry in Hong Kong was increased by 5.6% in 2023, as compared to the increase of 9.0% in 2022. Such increase was primarily attributable to the private sector's expenditure on building and construction projects, which was increased by 12.1% in 2023, and the public sector's expenditure, which was, however, decreased by 1.8% in 2023, as compared to 2022. The Group's revenue generated from the sale to customers in the building and construction sector in Hong Kong increased by approximately 5.0% in 2023, as compared to the decrease of 8.7% in 2022.

Furthermore, the nominal GDP of the wholesale and retail trade sector in Mainland China was increased by 7.5% in 2023, as compared to the increase of 3.6% in 2022, as reported by the NBSC. Retail sales of furniture goods, including paint and coating products for furniture manufacturing purposes, was decreased by 7.3% in 2023, as compared to the decrease of 1.9% in 2022. Additionally, the retail sales of construction and decorative paint and coating products was decreased by 17.9% in 2023, as compared to the decrease of 2.8% in 2022. The Group's revenue from the sales to the wholesale distributors and retail distributors in Mainland China was decreased by 19.4% in 2023, as compared to the decrease of 18.4% in 2022, which exceeded the average in the performance of the wholesale and retail trade sectors. The use of architectural paint and coating products is important to the paint and coating market in Mainland China, of which contributed more than 50% of the total market share. This substantial contribution exceeded sales in wholesale and retail, usage in industrial manufacturing, and export activities. The production volume (measured in tonnes) of paint and coating products was increased by 3.5%, albeit a decrease of 7.0% in the overall accumulated construction area in the real estate sector. Additionally, there was an increase of 3.0% in the sales of these products (measured in Renminbi). The overall demand for paint and coating products in Mainland China was decreased significantly, particularly within the real estate sector in Mainland China, while the supply of these products from the domestic manufacturers has a significant upsurge. The post-COVID-19 and challenging market conditions prompted paint and coating manufacturers to strategically boost their production volume and the market shares by offering discounts, which intensified the competition in the industry. Consequently, the competitive landscape within the paint and coating industry in Mainland China was much more intense when compared to 2022. This was one of the key reasons why the decrease in the sales to distributors was more than the decrease in the performance of the wholesale and retail trade sectors in Mainland China. In Hong Kong, paint and coating products are classified as the paints and other building renovation materials under the other consumer goods, not elsewhere classified (the "Other Consumer Goods") of the retail sales. According to the Report on Monthly Survey of Retail Sales in December 2023 published by the C&SD, the sales of the Other Consumer Goods were increased by 22.3% in 2023, as compared to the increase of 3.9% in 2022. However, when comparing the growth rate of the retail sales in Hong Kong, the Group's sales revenue generated from the sales to distributors in Hong Kong in 2023 recorded a decrease of 16.9%, which was contrary to the growth rate of the retail sales in Hong Kong in 2023. This variance was primarily attributable to the reduction in payment terms and credit control provided to customers.

## OVERVIEW (continued)

In 2023, the paint and coating industry in Mainland China was benefited from the low prices of raw materials, which reduced the production costs. This was due to the anticipated increase in the crude oil supply and subsequent decrease in the international crude oil prices after several measures were implemented by the G7 and the European Union in December 2022. These measures established an initial price cap of US$60 per barrel on Russian seaborne oil and included an adjustment mechanism to maintain the cap at 5% below the market price, with regular reviews in every two months. Despite the high inflation in 2023, these measures resulted in a decrease of 18.1% in the international crude oil prices, with the lowest price reaching US$66 per barrel in March 2023. Consequently, despite there was a decrease of 29.8% in the Group's sales of paint and coating products, the amount of gross profit was increased by 10.5% to approximately HK$157.54 million, as compared to 2022. The increase was also due to the implementation of effective business revamp measures and initiatives resulting from the establishment of the business segment of property investment, which contributed to a significant increase in rental income from investment properties, and the achievement of cost savings through the integration of underutilised production plants in Mainland China. These directly resulted in the increase in gross profit and the improvement of the gross profit margin for the year ended 31 December 2023, as compared to 2022.

## RESULTS

Despite a significant 29.8% decrease in sales during the year ended 31 December 2023, the Group experienced a significant improvement in profitability, with increases in both the amount of gross profit and the gross profit margin due to the ongoing enhancement of effective business revamp measures and initiatives. Additionally, the property sales in Mainland China were sluggish in 2023, leading to a significant negative impact on the operating cash flows of the developers in the construction industry and property and infrastructure projects in Mainland China. This also impacted the valuation of investment properties in Mainland China. These market conditions affected the payment records of the Group's customers in the construction industry and from property and infrastructure projects in Mainland China, as well as the valuation of investment properties in Mainland China. Despite the Group's efforts to address these challenges, based on delayed payment records from customers and changes in investment property valuations, the Group had to make the provision for the impairment of trade and bills receivables of HK$50.13 million, as well as the net fair value loss on investment properties of HK$11.48 million. This contrasts with the provision for the impairment of trade and bills receivables of HK$16.31 million and the net fair value gain of HK$0.59 million recorded in 2022. Reflecting the combined effects, the Group recorded a loss of approximately HK$66.98 million for the year ended 31 December 2023, as compared to the loss of approximately HK$98.47 million in 2022. Following the improvement of profitability and operational efficiencies, resulting in cost savings in selling and distribution expenses and administrative expenses, the amount of loss of the Group in 2023 was primarily due to the provision for impairment of trade and bills receivables of HK$50.13 million, the net fair value loss on investment properties of HK$11.48 million, the increase in the finance costs of HK$5.81 million, and the absence of the combined effect of positive contributions from one-off transactions of subsidy receipts and one-off expenses related to the integration of production plants in Mainland China.

In addition, as at 31 December 2023, the Group experienced a decrease of 13.9% in the amount of net assets, as compared to the decrease of 2.3% as at 31 December 2022. This negative outcome was attributable to a couple of non-cash factors, including (i) the provision for impairment of trade and bills receivables of approximately HK$50.13 million; (ii) the net fair value loss on investment properties of approximately HK$11.48 million; and (iii) the exchange difference on the translation of foreign operations of approximately HK$23.18 million, in relation to the depreciation of 2.4% of Renminbi between the two financial year-end dates. Notably, as a result of prudent financial and strategic planning (further information on which is included under the "Strategic Financial Restructuring and Optimisation" section in the business plans), the Group's net working capital (net current assets) recorded a substantial increase of 59.1%, which was primarily attributable to the optimised capital structure achieved through the refinancing of the short-term bank borrowings by the long-term borrowings. This arrangement positively affected the Group's liquidity position and financial stability when compared to 2022.

## RESULTS (continued)

The enhancements in gross profit, gross profit margin, liquidity position and financial stability of the Group are the indicators of the Group towards profitability and enduring foundation. The Group continues to put effort into rectifying inefficiencies amid the operation, resulting in cost reduction and increase in productivity. Looking ahead, it is imperative for the Group to consistently monitor its financial performance and diligently identify and address any remaining inefficiencies or areas at concern.

## BUSINESS OUTLOOK

It is expected that the global uncertainties and geopolitical issues will continue to affect the world in 2024. Through a series of corporate consolidations and merger acquisitions of the paint and coating industry in Mainland China in 2023, a number of paint and coating manufacturers have shifted their focus on the production of industrial paint and coating products, thereby reducing their reliance on the production and sales of the architectural paint and coating products. Moreover, there is an increasing number of paint and coating manufacturers to expand their production scale by acquiring brands of architectural paint and coating products. Furthermore, horizontal acquisitions have taken place in the paint and coating industry as a result of incursions by the building material industry to bolster the market shares of its conglomerates. As a result, the paint and coating industry is expected to confront increased competition, when compared to 2023, along with a multitude of new challenges.

On the supply side, the Chinese government has recently implemented the project whitelist mechanism by identifying commercially viable projects for property developers in the whitelist. Therefore, these property developers have secured development loans for these projects, thereby facilitating the generation of operating cash flows and supporting the stable and healthy development of the real estate market. In addition, on the demand side, the ongoing government policies including the largest reduction of the five-year loan prime rate, have led to a substantial increase in home sales in China for the first time since mid-2022. This has had a positive impact on the liquidity of property developers in Mainland China. In order to support the economy and stabilise the sluggish real estate market, the Chinese government has launched a large-scale government-led urban redevelopment program in Mainland China, which is expected to include the development of affordable housing projects, the redevelopment of shantytowns, and the construction of recreational facilities. This program is expected to bolster the stability and growth of the real estate market in Mainland China. The Group considers that these measures will drive an overall increase in demand for paint and coating products.

Furthermore, with regard to the prices of the raw materials at the beginning of 2024, there has been a significant increase in the prices of key raw materials, such as titanium dioxide and solvents. The surge in the prices of solvent solution was primarily caused by the decrease in the production by OPEC+, while the rise in titanium dioxide prices was mainly attributable to the strong export demand, resulting in a global shortage and subsequent local price hikes. These price escalations signify substantial changes in the raw materials market driven by specific supply and demand factors. The Group is actively monitoring the gross profit margin and operational margin and will take necessary proactive and strategic measures and positioning. The Directors maintain a cautious yet optimistic outlook for profitability in the paint and coating industry.

In the context of fierce market competition and challenging economic conditions, the Group has effectively utilised its advantages of stable products, reliable quality and on-time delivery to gain a competitive advantage. This strategic advantage has led to the improvement in the profitability and enhancement of operating efficiencies of the Group. The Group has fortified its financial position by enhancing current financial liquidity and stability. In view of the Group's proactive and strategic measures and positioning, the Directors remain cautiously optimistic about the prospects of paint and coating manufacturers in Mainland China and Hong Kong in 2024.

## BUSINESS REVIEW

In order to enhance and establish sustainable profitability while addressing supply chain challenges, such as the volatility of raw material prices, the Group continued to enact effective business revamp measures and initiatives, which including the conversion of the underutilised production plants and office premises into investment properties. This strategic move allowed the Group to overcome challenges, optimise assets allocation, and improve its operating cash flow. As at 31 December 2023, the total value of the Group's investment properties had increased significantly to approximately HK$309.09 million from approximately HK$240.94 million as at 31 December 2022. Investment properties now represent 31.8% of the Group's total assets, providing a robust foundation for the business segment. This signified the Group's commitment to maximising value through strategic asset management. Despite this favourable development, the Group adopted a cautious and focused approach to managing its investment portfolio in 2023 to align with its overall business strategy. The paint and coating business remained the largest segment, while the second segment focused on property investment.

For the paint and coating business, 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

In 2023, the Group's total revenue amounted to approximately HK$469.09 million, which included the sales of paint and coating products of HK$448.48 million and rental income from investment properties of HK$20.61 million. The amount of the total revenue represented a significant decrease of 27.1%, as compared to the Group's total revenue of approximately HK$643.05 million in 2022, which included sales of the paint and coating products of HK$639.13 million and rental income from investment properties of HK$3.92 million.

### Paint and Coating Products

For the year ended 31 December 2023, the Group's revenue from the sales of the paint and coating products amounted to approximately HK$448.48 million, representing a significant decrease of 29.8%, as compared to approximately HK$639.13 million in 2022. The following sets forth an analysis of the Group's revenue from the sales of the paint and coating products for the year ended 31 December 2023 (with comparative figures for the year ended 31 December 2022):

| | **Year ended 31 December** | | | | |
|---|---|---|---|---|---|
| | **2023** | | 2022 | | % of net |
| | **HK$'000** | **%** | HK$'000 | % | change |
| Industrial paint and coating products | **172,863** | **38.6** | 227,764 | 35.6 | (24.1) |
| Architectural paint and coating products | **178,225** | **39.7** | 273,717 | 42.8 | (34.9) |
| General paint and coating and ancillary products [(1)] | **97,387** | **21.7** | 137,653 | 21.6 | (29.3) |
| | **448,475** | **100.0** | 639,134 | 100.0 | (29.8) |

(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.

## REVIEW OF OPERATION (continued)

### Paint and Coating Products (continued)

Industrial paint and coating products, architectural paint and coating products, and general paint and coating and ancillary products accounted for 38.6% (2022: 35.6%), 39.7% (2022: 42.8%) and 21.7% (2022: 21.6%) of the total revenue generated from the sales of the paint and coating products in 2023, respectively. The Group continued to focus on Mainland China market which contributed to 86.8% (2022: 89.3%) of the amount of the total revenue generated from the sales of the paint and coating products in 2023.

***Significant decrease in demand for paint and coating products from the real estate market in Mainland China***

The Group experienced a significant decrease in sales of its architectural paint and coating products from the real estate market in Mainland China, with a decrease of 42.0% for the year ended 31 December 2023, as compared to the same in 2022. Such decrease was primarily due to several key developments. Firstly, the persistent sluggishness of the real property market since 2022 led to a reduced construction area for new residential and commercial property projects in Mainland China, resulting in the continuous decreasing demand for paint and coating products from the real estate market. Secondly, the credit crunch in the real estate market in Mainland China and ongoing concerns regarding the sustainability and going concern issues related to property developers in the region prompted the Group to be cautious in its sales strategies in order to maintain a healthy and stable financial position and performance. This adjustment reduced the sales of paint and coating products in the real estate market. Lastly, the overall economic slowdown in the real estate market in Mainland China and increased competition in the paint and coating industry in the region also contributed to the decrease in sales.

Meanwhile, this decrease also had a direct and indirect negative influence on the demand for general paint and coating and ancillary products, which are used in conjunction with the architectural paint and coating products.

***Significant decrease in demand for paint and coating products from the industrial manufacturing market in Mainland China***

The Group experienced a significant decrease in sales of its industrial paint and coating products from the industrial manufacturing market in Mainland China, with a decrease of 32.5% for the year ended 31 December 2023, as compared to the same in 2022. The primary factors contributing to this decrease were challenging economic conditions, which is evidenced by a significant decrease in exports indicating reduced demand for manufacturing goods. Furthermore, the China Manufacturing Purchasing Managers Index recorded below 50.0 for most of the year 2023. In addition, the sluggish performance of the real estate industry led to continuous decreasing demand for architectural paint and coating products. Several paint and coating manufacturers responded by enhancing their production capacity for industrial paint and coating products and implementing competitive pricing strategies to attract potential users. The combination of reduced demand in the industrial paint and coating product sector and intensified competition led to a significant sales decrease of 32.5% for the Group's industrial paint and coating products for the year ended 31 December 2023.

Meanwhile, this decrease also had a direct and indirect negative influence on the demand for general paint and coating and ancillary products, which are used in conjunction with the industrial paint and coating products.

## REVIEW OF OPERATION (continued)

### Geographical Analysis of Revenue

Geographically, for the year ended 31 December 2023, the Group's revenue generated from the sales in Mainland China and Hong Kong accounted for approximately 86.8% and 13.2%, respectively, as compared to approximately 89.3% and 10.7%, respectively for the year ended 31 December 2022. Most of the Group's revenue was generated from the sales to customers in the Southern China, the Central China and the Eastern China. Revenue generated from the sales to the customers in these regions, in aggregate, accounted for approximately 81.4% of the Group's total amount of revenue for the year ended 31 December 2023, as compared to approximately 83.4% in 2022.

***Significant decrease in the sales of paint and coating products to construction and renovation contractors for property and infrastructure projects in the Southern China, the Central China and the Eastern China***

For the year ended 31 December 2023, the Group experienced a significant decrease in the sales of paint and coating products to construction and renovation contractors for property and infrastructure projects in the Southern China, the Central China and the Eastern China, with a total decrease of HK$81.77 million. Specifically, the sales decreased by 35.5% to approximately HK$69.88 million in the Southern China, 51.2% to approximately HK$25.27 million in the Central China, and 42.6% to approximately HK$22.57 million in the Eastern China. These decreases were attributable not only to the sluggish economic environment but also to the escalating financial strain among property developers, resulting in the reduction of revenue from the sales during the year.

In response to customer risks, in alignment with actions taken by other paint and coating manufacturers, the Group adjusted its sales strategy by reducing production capacity in architectural paint and coating products, focusing on industrial paint and coating products for industrial manufacturers, and implementing more stringent credit terms for its real estate customers. Furthermore, the Group enhanced the straight implementation of the credit period provided to its real estate customers. Cumulatively, these measures significantly contributed to the overall decrease of HK$92.59 million, representing a 42.0% reduction in the Group's revenue generated from the sales of paint and coating products to construction and renovation contractors for property and infrastructure projects in Mainland China for the year ended 31 December 2023.

***Significant decrease in the sales to industrial manufacturers in the Southern China and the Eastern China***

For the year ended 31 December 2023, the Group's revenue from the sales of paint and coating products to industrial manufacturers in the Southern China decreased by HK$39.88 million and the Eastern China decreased by HK$7.81 million, marking a decrease of 32.0%, as compared to a 3.1% decrease in 2022. The main factors contributing to this downturn were (i) a 3.9% decrease in the export of goods; (ii) Chinese government's regulations promoted the adoption of Low-VOC Coatings, leading several industrial manufacturers to switch to using powder coatings; and (iii) heightened competition in the industrial paint and coating products market sector. Furthermore, some paint and coating manufacturers adjusted their production capacity from architectural paint and coating products to industrial paint and coating products. The overall intensification of the paint and coating industry in the industrial sector was driven by environmental concerns, government-supported upgrades, an increase in overall production capacity in the industrial paint and coating market sector, and decreased demand from the overall industrial paint and coatings products market sector due to a reduction in export of goods. These combined factors significantly affected the Group's overall revenue generated from the sales to industrial manufacturers in Mainland China, precipitating a decrease of HK$51.40 million or 32.5% for the year ended 31 December 2023.

## REVIEW OF OPERATION (continued)

### Geographical Analysis of Revenue (continued)

***Significant decrease in the sales of paint and coating products to distributors in the Southern China and the Eastern China***

The Group experienced a significant decrease in the sales of paint and coating products to the distributors in the Southern China and the Eastern China, resulting in a total decrease of HK$35.35 million for the year ended 31 December 2023. Specifically, sales decreased by 16.6% to approximately HK$111.12 million in the Southern China and 32.0% to approximately HK$28.12 million in the Eastern China. This decrease was driven by the sluggish real estate market, with a substantial drop in sales of completed and second-hand properties in Mainland China. Consequently, there was a notable decrease in the demand for building, fitting out work, and renovation projects. These factors significantly affected the Group's revenue generated from the sales of paint and coating products to the distributors in Mainland China, which was decreased by HK$37.26 million or 19.4% for the year ended 31 December 2023.

***Decrease in the sales of paint and coating products to distributors in Hong Kong***

For the year ended 31 December 2023, the Group's revenue generated from the sales of paint and coating products to the distributors in Hong Kong was decreased by 16.9%, as compared to an increase of 4.2% in 2022. Apart from the impact of proactive credit management and provision for impairment of trade and bills receivables, such decrease was also influenced by the sluggish real estate market, leading to a reduction of sales of completed and second-hand properties in Hong Kong. Consequently, there was a notable decrease in demand for building, fitting out work, and renovation projects. Additionally, public information indicated a decrease of 2.7% in the sales of overall commercial and residential properties in Hong Kong, while sales of first-hand completed residential properties in the private sector in New Territories, Hong Kong dropped by 22.4%.

### 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. Fluctuations in crude oil prices directly and indirectly impact the prices of these raw materials, thereby significantly affecting the profitability of paint and coating manufacturers, as raw material costs comprise a substantial portion of the total production cost. In 2023, the anticipated increase in crude oil supply and subsequent decrease in international crude oil prices were observed following measures implemented by the G7 and the European Union in December 2022. These measures set an initial price cap of US$60 per barrel on Russian seaborne oil, along with an adjustment mechanism to maintain the cap at 5% below the market price, subject to regular reviews every two months. Despite prevailing high inflation in 2023, these measures resulted in a 18.1% decrease in international crude oil prices, with the lowest price reaching US$66 per barrel in March 2023. While paint and coating manufacturers experienced an improvement in their gross profit margin, such enhancement did not correspond with the decrease in the raw material prices. This disparity could be attributable to their strategic focus on operational efficiency, exemplified by recent expansions involving the establishment of new production facilities and the acquisition of substantial manufacturing plants in Mainland China, with the objective of attaining economies of scale in production. Consequently, these developments have intensified competition within the paint and coating market.

In addition to the decrease in raw material prices in Mainland China market, the Group also executed strategic initiatives to optimise raw material costs and diversify sourcing options. This led to a reduction of the raw material portion in the cost of sales to 86.3% in 2023, down from 87.2% as compared to 2022, demonstrating a concerted effort to drive efficiencies through strategic partnerships, as detailed in the 2022 Annual Report. Additionally, the Group achieved a notable 38.4% reduction in overall raw material costs in the cost of the sales, surpassing the 29.8% decrease in sales, thereby emphasising substantial improvements in cost management practices and the strategic alignment of partnerships.

## REVIEW OF OPERATION (continued)

### Cost of Sales (continued)

#### *Direct and indirect labour cost*

In comparison to the year ended 31 December 2022, the direct and indirect labour cost was decreased by 33.8% for the year ended 31 December 2023. This significant decrease was primarily a result of the Group's efforts to enhance its manufacturing operation processes and optimise production lines, resulting in a reduction of direct and indirect labour cost.

#### *Depreciation and production overhead*

For the year ended 31 December 2023, the Group achieved a substantial 32.7% reduction in depreciation and production overhead costs, aligning with the 29.8% decrease in the sales of paint and coating products. This cost reduction was attributable to the increased production efficiency, resulting in a 25.8% decrease in depreciation and a 40.8% decrease in production overhead. The conversion of underutilised production plants into investment properties contributed to a 25.8% reduction in depreciation, while comprehensive cost reduction initiatives optimised production processes and mitigated superfluous expenses.

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

As previously noted, the paint and coating industry enjoyed a favourable downward trend in relation to fluctuations in low to medium raw materials prices, as compared to 2022. This trend was caused by the downward adjustment of international crude oil prices, a sufficient supply of raw materials in Mainland China, and the controlled adjustment of raw material prices by the Chinese government throughout 2023. Additionally, the revenue generated from the sales of paint and coating products was decreased by 29.8%, as compared to the year ended 31 December 2022. Nevertheless, the Group's achieved a satisfactorily increase in gross profit margin from the sales of paint and coating products by 8.8 percentage points to 30.5%, up from 21.7% in 2022, as a result of effective business revamp measures and initiatives, such as the strategic integration of production facilities in the Southern China.

The Group's gross profit generated from the sales of paint and coating products was slightly decreased by HK$1.69 million, as compared to 2022. The substantial 29.8% sales decrease resulted in an estimated gross profit decrease of approximately HK$41.33 million. Nonetheless, a marginal increase in the gross profit margin, amounted to approximately HK$39.64 million, effectively offset this reduction. Consequently, the Group's loss attributable to the owners of the parent company was decreased to approximately HK$67.12 million in 2023 from loss of approximately HK$98.08 million in 2022.

### Other Income and Gains, Net

The net amount of other income and gains for the year ended 31 December 2023 showed a significant decrease of 78.9% to HK$7.69 million, as compared to HK$36.40 million for the year ended 31 December 2022. This decrease was primarily attributable to the absence of one-off transactions, in particular subsidy receipts from the Chinese government of HK$29.43 million for removal of solvent production lines and storage tanks in the Shajing Production Plant and Hubei Production Plant.

## REVIEW OF OPERATION (continued)

### Selling and Distribution Expenses and Administrative Expenses

After a 29.8% decrease in the sales of paint and coating products, the Group implemented stringent cost-saving measures in the associated selling and distribution expenses, resulting in a significant decrease. Consequently, the selling and distribution expenses for the year ended 31 December 2023, were decreased by 31.1% to approximately HK$62.29 million, as compared to approximately HK$90.46 million for the year ended 31 December 2022. Notably, remuneration for salespersons was decreased by HK$13.02 million, transportation costs were decreased by approximately HK$7.56 million, advertising expenses were decreased by approximately HK$1.61 million, entertainment and dining expenses with customers were decreased by approximately HK$1.52 million, and rental expenses for sales administration were decreased by approximately HK$1.30 million, in comparison to 2022.

Following the integration of the production plants in Mainland China in 2022, the administration expenses for the year ended 31 December 2023 were significantly decreased by 25.1% to approximately HK$83.91 million, as compared to approximately HK$112.07 million for the year ended 31 December 2022. Notably, remuneration and other related expenses (including depreciation, consumable goods, etc.) were decreased by approximately HK$18.67 million, primarily due to the cost savings from the integration of the production plants in Mainland China, as compared to 2022. Additionally, the absence of professional fees and demolition expenses incurred for removing solvent production lines and storage tanks in both the Shajing Production Plant and Hubei Production Plant, which amounted to HK$9.99 million in 2022. Lastly, staff share option expenses was decreased by approximately HK$3.93 million, as compared to 2022.

### Other Expenses, Net

For the year ended 31 December 2023, the amount of other expenses was decreased by 3.9% to approximately HK$56.57 million, as compared to approximately HK$58.86 million in 2022, primarily driven by a combination of factors. Favourable factors contributing to this result included a significant decrease in staff termination costs by HK$20.36 million, a decrease in local taxes, levies, and stamp duties by HK$2.88 million, the absence of provision for impairment of right-of-use assets and property, plant and equipment of HK$8.00 million, the reversal of provision for impairment of right-of-use assets and property, plant and equipment of HK$4.64 million, and a decrease in write-off of certain fixed assets of HK$1.30 million. However, adverse factors included a substantial increase in the provision for impairment of the trade and bills receivables, amounting to approximately HK$33.82 million, the net fair value loss on investment properties of HK$11.48 million and a loss on the revaluation of right-of-use assets and property, plant and equipment of HK$1.80 million.

During the year ended 31 December 2023, the Group recorded staff termination payments of approximately HK$1.22 million, signifying a substantial decrease of 94.3% from approximately HK$21.58 million in 2022. This adjustment in 2023 was a necessary step following the completion of the integration of production plants in Mainland China in 2022.

The Group made a provision for the impairment of trade and bills receivables in accordance with HKFRS 9, considering both historical credit loss experience and forward-looking information. Additionally, the Group applied the probability of default approach as an additional methodology for assessing property developers and contractors working for property developers, evaluated by a professional valuer as at 31 December 2023. However, the Group encountered challenges due to economic uncertainty stemming from heightened financial stress among property developers in Mainland China. Despite a 33.9% decrease in the gross amount of trade and bills receivable as at 31 December 2023, an additional provision for the impairment of trade and bills receivables of HK$50.13 million was necessary, resulting in a 63.0% increase in the gross provision for the impairment of trade and bills receivables to HK$121.56 million as at 31 December 2023.

## REVIEW OF OPERATION (continued)

### Other Expenses, Net (continued)

Following the adjustment and implementation of ongoing business revamp measures and initiatives to overcome challenges presented by the current environment, the Group was able to improve its profitability, like increase its gross profit margin by 8.8 percentage points to 30.5%, up from 21.7% in 2022. Despite this improvement, the Group recorded a segment loss of HK$58.15 million for the year ended 31 December 2023, which represents a significant decrease of 32.7%, as compared to the segment loss of HK$86.37 million in 2022. The decrease in segment loss was primarily attributable to the improvement in the gross profit margin and the cost savings in several main operations. The segment loss for the year ended 31 December 2023, was mainly driven by the provision for the impairment of trade and bills receivables of approximately HK$50.13 million and the 29.8% decrease in the sales of paint and coating products.

### Property Investment

As previously indicated, the Group implemented ongoing measures and initiatives to revamp its business operations. Within the framework of the strategy, the Group strategically transferred the underutilised production plants into investment properties. With this decision, the Group not only overcame challenges, but also optimised its asset allocation and improved its operating cash flow. As at 31 December 2023, the Group's investment properties had significantly increased in value to HK$309.09 million, up from HK$240.94 million as at 31 December 2022, and accounted for 31.8% of the Group's total assets. The ongoing movement continued to strengthen the Group's business segment of property investment, providing stakeholders with greater transparency and tracking. This shows the Group's commitment to maximising value through strategic asset management. Despite this positive development, the Group took a cautious and focused approach to managing its investment portfolio in 2023 to align with its overall business strategy.

As at 31 December 2023, the Group's investment property portfolio comprised of 6 properties (31 December 2022: 3) with a total land area of 175,669.5 square meters ("sq.m.") (31 December 2022: 126,472.7 sq.m.) and a total gross floor area of 76,300.4 sq.m. (31 December 2022: 46,612.4 sq.m.). These investment properties are industrial properties and a commercial property located in Mainland China, which generate stable recurring income and cash flows for long-term strategic and investment purposes.

Revenue generated from property investment for the year ended 31 December 2023 amounted to approximately HK$20.61 million, marking a substantial increase from approximately HK$3.92 million in 2022. Similarly, the segment profit for the year ended 31 December 2023 amounted to HK$6.36 million, as compared to approximately HK$4.27 million in 2022. This surge in the segment profit can be primarily attributable to the combined effect of a significant increase in rental income from investment properties, totalling approximately HK$16.69 million and changes in net fair value on investment properties (including loss of HK$11.48 million in 2023 and the absence of the gain of approximately HK$0.59 million in 2022). Notably, the full-year leasing of the factory in Shajing in 2023, as opposed to just one month in 2022, played a key role in driving this increase. Additionally, the absence of a subsidy receipt from the Chinese government of approximately HK$1.87 million for relocating the main factory entrances in the Shanghai Complex in 2022 further influenced the increase in segment profit. Moreover, an increase in property taxes related to the expanded portfolio of investment properties for the year ended 31 December 2023 also factored into this outcome.

The Group's business model is designed to achieve a balance between its short-term capital requirements and long-term financial strength. To achieve this objective, the Group strategically repositions its production plants and complexes into investment properties that generate stable recurring rental income and capital appreciation. Additionally, the Group may selectively divest certain properties to fund its business operations and expansion plans. This approach allows the Group to fund its operations through cash flows from rental income and also generate additional capital from property sales, thereby strengthening its overall financial position. Furthermore, the Group can potentially realise capital appreciation on its investment properties over the long-term, leveraging prime locations to enhance its returns.

## REVIEW OF OPERATION (continued)

### Profitability Analysis

The paint and coating industry encountered a myriad of challenges in 2023, including global conflicts, heightened interest rates, and financial constraints. However, amidst these adversities, Mainland China's manufacturing industry witnessed encouraging developments. Notably, the industry's production and the sales of paint and coating products exhibited growth. Nonetheless, surging competition and dwindling demand, particularly in the real estate sector, posed significant challenges for the paint and coating industry. To address these obstacles, the Group emphasised stable product quality, timely delivery, and cost-saving measures. Despite a marked decrease in the sales of paint and coating products, the Group achieved an augmented gross profit margin, which was attributable to the effective business revamp measures and initiatives. These included the consolidation of underutilised production plants and the optimisation of investment property portfolios. Furthermore, the industry benefited from reduced manufacturing costs due to low raw material prices, which contributed to an upsurge in gross profit margin. These strategic manoeuvres and cost-saving initiatives culminated in improved profitability and gross profit margin for the Group, underscoring a judicious and adaptive approach to the challenges encountered in the paint and coating industry in 2023.

From an alternative perspective, despite incurring a loss of approximately HK$66.98 million for the year ended 31 December 2023 (31 December 2022: loss of approximately HK$98.47 million), the Group, excluding specific costs, losses, and gains, might have generated a profit of HK$28.69 million for the year ended 31 December 2023 (31 December 2022: loss of approximately HK$7.24 million). The mentioned costs, losses, and gains encompassed (i) depreciation of property, plant, and equipment; (ii) staff termination costs; (iii) provision for impairment of trade and bills receivables; (iv) (reversal of provision for)/provision for impairment of right-of-use assets; (v) (reversal of provision for)/provision for impairment of items of property, plant and equipment; (vi) depreciation of right-of-use assets; (vii) loss on revaluation of property, plant and equipment; (viii) loss on revaluation of right-of-use assets; (ix) finance costs; (x) share option expenses; (xi) fair value gain/(loss) on investment properties, net; and (xii) income tax. This represents a significant improvement from the reported loss of approximately HK$66.98 million for the year ended 31 December 2023, reflecting the Group's commitment to driving its business revamp measures and initiatives towards greater efficiency and sustainability.

In addition to the improvement in the gross profit margin, the Group's profitability has been influenced by various factors, both positive and negative, including:

1. Revenue from the sales of paint and coating products and the rental income from investment properties – Excluding the impact of fluctuating Renminbi exchange rates, the Group's revenue generated from the sales of paint and coating products recorded a significant decrease of 29.8% in 2023, reflecting the challenging economic environment in the paint and coating industry. This industry reported an overall decrease in total profits for 2023, driven by heightened competition, pricing differentiation and diminished profit margins among manufacturers due to reduced demand from the sluggish real estate sector and changing industrial demands across sectors. Conversely, the rental income from investment properties experienced a remarkable upsurge of 426.6% in 2023. This surge was primarily attributable to the full-year leasing of the factory in Shajing in 2023, as opposed to just one month in 2022.

2. Cost of raw materials – As mentioned in the section headed "Cost of sales" above, the cost of sales experienced a 37.8% decrease for the year ended 31 December 2023, a more significant decrease compared to the 29.8% decrease in sales in 2022. This decrease was mainly attributable to the reduced cost of raw materials resulting from lower international crude oil prices. Additionally, the 33.8% decrease in direct and indirect labour costs, along with the 32.7% decrease in depreciation and production overhead, contributed to this improvement. These positive changes are the outcome of effective business revamp measures and initiatives.

## REVIEW OF OPERATION (continued)

### Profitability Analysis (continued)

3. Other income and gains, net – During the year ended 31 December 2023, there was a notable 76.3% decrease (approximately HK$31.02 million) in other income and gains, as compared to 2022. This decrease was primarily attributable to the absence of subsidy receipts of approximately HK$27.06 million from the Chinese government for removing solvent production lines and solvent storage tanks at the Shajing Production Plant, among other factors.

4. Staff costs – When compared to 2022, staff costs were decreased by approximately HK$30.52 million or 24.2% for the year ended 31 December 2023. Furthermore, as at 31 December 2023, there were 495 employees (excluding the Directors), which is 15.1% lower than the 583 employees as at 31 December 2022.

5. Selling and distribution expenses – For the year ended 31 December 2023, the selling and distribution expenses were decreased by 31.1% to approximately HK$62.29 million, as compared to approximately HK$90.46 million in 2022. The percentage of these expenses relative to the sales of paint and coating products improved by 2.1%, decreasing to 13.9% from 14.2% for the year ended 31 December 2022. Aside from the decrease in related expenses due to the 29.8% decrease in the sales of paint and coating products, the primary contributing factor was the termination of the distribution centre rental in Zhongshan during the year ended 31 December 2023.

6. Other expenses, net – For the year ended 31 December 2023, the Group's other expenses amounted to HK$69.96 million, as compared to approximately HK$59.78 million in 2022. A significant decrease of 94.3% in staff termination payments to approximately HK$1.22 million from HK$21.58 million in 2022, was a necessary adjustment following the integration of the production plants in Mainland China in 2022. The substantial decrease reflects the successful completion of this integration and the subsequent streamlining of operations, contributing to improved efficiencies. The impairment provision for trade and bills receivables of HK$50.13 million, in contrast to HK$16.31 million in 2022, significantly contributed to the overall increase in other expenses for the year ended 31 December 2023. The amount of the impairment provision for trade and bills receivables was determined following the prudent risk management practices and accounting standards, confirming the Group's commitment to effectively managing credit risks and ensuring financial stability. Additionally, the change in net fair value loss on investment properties of HK$11.48 million was determined by professional valuers, taking into account the dynamic conditions of the property market.

7. Finance costs – Finance costs for the year ended 31 December 2023 was increased by 78.2%, as compared to the same in 2022, primarily due to a significant rise in the average borrowing interest rate of both one-month HIBOR (Hong Kong Interbank Offered Rate). According to the Hong Kong dollars interest settlement rates, the average one-month rates for 2023 were increased between 15.0% and 2,163.8%, as compared to the corresponding months in 2022.

8. Renminbi exchange rate against Hong Kong dollars – The depreciation in Renminbi during the year ended 31 December 2023 had a positive financial impact on the Group's operating results.

## BUSINESS OUTLOOK AND BUSINESS PLANS

### Business Outlook

Looking ahead to 2024, the paint and coating industry in Mainland China and Hong Kong is poised for steady growth, benefiting various sectors, such as construction, automotive, and industrial manufacturing as the economies in both regions start to recover.

Furthermore, the industry is expected to shift towards more sustainable and environmentally-friendly products, driven by the increased awareness of environmental issues and a growing demand for eco-friendly products. In Mainland China, the industry is likely to continue benefiting from the government's emphasis on urbanisation, particularly with ongoing projects related to indemnificatory apartments and shanty area rebuilding. In Hong Kong, the government focuses on sustainability and green initiatives creates opportunities for paint and coating manufacturers to offer eco-friendly products, aligning with the government's plan to develop a green economy and invest in sustainable infrastructure.

Overall, the paint and coating industry in Mainland China and Hong Kong is anticipated to demonstrate continued growth in 2024. By focusing on offering innovative and sustainable products and services, the Group can effectively capitalise on these opportunities and meet the growing demand in these markets, positioning itself for success in the evolving industry landscape.

### Business Plans

As one of the paint and coating manufacturers in Mainland China and Hong Kong, the Group has faced numerous significant challenges in recent years. However, in 2023, the Group initiated a comprehensive restructuring of its business model to optimise profitability, strengthen financial stability, enhance liquidity, and secure additional financial resources from external sources, including financial institutions and its holding company and the fellow subsidiaries. During the year 2023, the paint and coating industry faced persistent intense competition, price differentiation, and decreased profit margins among manufacturers. Additionally, contraction in demand arising from the sluggish real estate sector and changing industrial demands across various sectors resulted in a 29.8% decrease in the sales of paint and coating products in 2023.

Consequently, in 2024, the Group aims to enhance the value and volume of the sales of paint and coating products, optimise financing facilities, minimise the costs of borrowings, and improve the recovery from trade and bills receivables. To achieve these objectives, the following business initiatives are currently being implemented:

1. **Leveraging Strategic Partnerships for Product Expansion and Market Reach**

   Starting from 2022, the Group has strategically collaborated with other manufacturing factories to diversify its portfolio of paint and coating products, leveraging mutual patent-sharing and innovative formulas to provide customers with an expanded array of pricing choices. In 2023, the Group successfully introduced modified products to both existing and new customers in Mainland China, marking an expansion of its market reach. Consequently, the Group's ongoing efforts to broaden its product range through partnerships enable it to meet evolving customer preferences and needs, fostering customer retention and acquisition.

   Moreover, the Group's initiative to offer a wider range of pricing options is driven by the utilisation of patents, new formulas, and advanced raw materials. This enables the Group to accommodate customers across various budget segments, thereby enlarging its customer base and bolstering sales.

   In addition, the Group's commitment to customer-centric product development and market expansion is a strategic step in the right direction. These efforts are expected to drive increase in the sales and customer satisfaction, ultimately leading the Group to the growth in the sales of paint and coating products in the future.

## BUSINESS OUTLOOK AND BUSINESS PLANS (continued)

**Business Plans** (continued)

**2. Strategic Financial Restructuring and Optimisation**

*Strategic Borrowing Arrangements and Enhanced Liquidity: Impact on Net Current Assets*

During the year 2023, the Group entered into 3-year loan agreements with its holding company and the fellow subsidiaries, which qualified as fully exempted connected transactions and were based on normal commercial terms. As at 31 December 2023, the outstanding balance was HK$95.97 million, denominated in both Hong Kong dollars and Renminbi. The purpose of these borrowing arrangements was to optimise the Group's liquidity and expedite the process of swapping by securing low-cost borrowings in Mainland China and replacing high-cost borrowings in Hong Kong. Consequently, as at 31 December 2023, the amount of the Group's net current assets was significantly increased by 59.1% to HK$114.96 million (31 December 2022: approximately HK$72.25 million).

*Restructuring of Financing Arrangements for Enhanced Cost Efficiency*

During the year 2023, the Group expanded its banking facilities in Mainland China and optimised financing by securing low-cost borrowings in Mainland China and replacing the high-cost borrowings in Hong Kong. Consequently, as at 31 December 2023, bank borrowings from Mainland China experienced a substantial increase, while banks borrowing from Hong Kong showed a significant decrease. As at 31 December 2023, the amount of the pledged deposits significantly was increased by 134.6% to approximately HK$98.99 million (31 December 2022: approximately HK$42.20 million). This restructuring of financing is an ongoing initiative, and this initiative will continue in 2024. Following this reorganisation of financing arrangements, the cost of banks borrowing could be significantly reduced.

*Strategic Utilisation of Renminbi Borrowing Funds for Internal Currency Risk Management*

With the expansion of its banking facilities and the borrowing of funds from Mainland China, the strategic utilisation of Renminbi borrowing funds as an internal natural hedge demonstrates the Group's prudent approach to managing currency risk. This internalisation of the hedging process reflects the Group's forward-thinking financial strategy. The Group is not only minimising the impact of currency fluctuations, but it is also optimising its resource allocation. From a financial standpoint, this approach highlights the shrewd use of internal mechanisms in risk management, emphasising the Group's dedication to efficient capital deployment. Moreover, it showcases a proactive approach to mitigating currency exposure without incurring the costs associated with external hedging instruments. This action contributes to optimising the Group's financial position, aligning with the overarching goal of enhancing stakeholder value and financial resilience.

**3. Proactive Credit Management and Provision for Impairment of Trade and Bills Receivables**

Amid the economic uncertainties caused by the heightened financial stress among property developers in Mainland China and various factors, the Group has proactively tackled these challenges through strategic credit management. In response to the impact of extended payment deferrals on cash flow, the Group adjusted its credit terms to mitigate associated risks. This involved shortening the credit term for customers and engaging in extensive discussions and negotiations to maintain financial stability and ensure timely receivables, safeguarding liquidity.

## BUSINESS OUTLOOK AND BUSINESS PLANS (continued)

**Business Plans** (continued)

**3. Proactive Credit Management and Provision for Impairment of Trade and Bills Receivables** (continued)

Furthermore, the decision to implement a straight credit period and prepare for the potential legal proceedings demonstrates the Group's commitment to proactive risk mitigation in response to the market dynamics. This strategic approach allows the Group to navigate economic uncertainties while upholding a disciplined credit management framework. By aligning credit terms with the prevailing market conditions and preparing for the potential legal matters, the Group strengthens resilience and ensures operational continuity, positioning itself to manage fluctuations in customer payment patterns and market uncertainties effectively.

Additionally, the determination of the amount of impairment provision for trade and bills receivables to be consistent with the prudent risk management practices and accounting standards confirming the Group's commitment to effectively manage credit risks and ensure financial stability. This proactive measure further enhances the Group's ability to navigate challenges arising from deferred payments and economic uncertainties, reflecting a comprehensive approach to credit risk management. The Group's readiness for potential litigation or arbitration also highlights its comprehensive approach to managing credit risks and ensuring a stable financial position amidst economic uncertainties, reflecting a comprehensive approach to credit risk management. By adhering to consistent and prudent standards for impairment provision for trade and bills receivables, the Group reinforces the transparency and prudence of its financial reporting, instilling confidence in its ability to mitigate credit risks and maintain sustainable operations.

## 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.

## RESULTS

The Group's loss attributable to the owners of the parent company was decreased by 31.6% to approximately HK$67.12 million for the year ended 31 December 2023, as compared to a loss of approximately HK$98.08 million for the year ended 31 December 2022. Despite a remarkable improvement in the Group's gross profit margin, which was increased by about 11.4 percentage points to 33.6% in 2023 from 22.2% in 2022, the Group incurred a loss during the year ended 31 December 2023. This loss was primarily attributable to the significant decrease of 29.8% in the sales of paint and coating products and the provision for impairment of trade and bills receivables of approximately HK$50.13 million. These results reflect the impact of challenging market conditions and evolving industry dynamics. The decrease in the sales of paint and coating products was influenced by changing industrial demands in different sectors and intensified competition, leading to a reduction in overall profitability. Furthermore, the provision for impairment of trade and bills receivables was made in accordance with prudent risk management practices and accounting standards, reflecting the Group's commitment to managing credit risks effectively.

## SEGMENT INFORMATION

### Business Segments

#### *Paint and coating products*

Paint operation continued to be the largest contributor to revenue, generating approximately HK$448.48 million, which accounted for 95.6% of the Group's total revenue. However, the paint and coating industry reported a decrease in overall total profit for the year 2023, attributing this to continued intense competition, price differentiation and reduced profit margins among manufacturers. Furthermore, the decreased demand from the sluggish real estate sector and changing industrial demands in different sectors resulted in a 29.8% decrease in segment revenue when compared to 2022. Amid these challenges, the industry benefitted from decreasing production costs due to low international crude oil prices, resulting in lower raw material costs for paint and coating products. By implementing business revamp measures and initiatives to combat intense competition and shifting demand challenges, the Group was able to increase its gross profit margin by 8.8 percentage points to 30.5%, up from 21.7% in 2022. Despite this improvement, the Group recorded a segment loss of approximately HK$58.15 million for the year ended 31 December 2023, representing a significant decrease of 32.7%, as compared to the segment loss of approximately HK$86.37 million for the year ended 31 December 2022. This segment loss was primarily attributable to the provision for impairment of trade and bills receivables of approximately HK$50.13 million, in accordance with HKFRS 9, considering both historical credit loss experience and forward-looking information, as well as the probability of default approach under the market conditions in the property development and construction sectors.

#### *Property investment*

The property investment segment of the Group reported a segment revenue of HK$20.61 million for the year ended 31 December 2023, which accounted for 4.4% of the total revenue of the Group. The segment profit for the year was increased by 48.9% or HK$2.09 million to approximately HK$6.36 million, in comparison to the segment profit of approximately HK$4.27 million in 2022. This significant increase in the segment profit was primarily due to that the full-year leasing of the factory in Shajing in 2023, as opposed to just one month in 2022, played a key role in driving this increase. Additionally, the absence of a subsidy receipt from the Chinese government of approximately HK$1.87 million for relocating the main factory entrances in the Shanghai Complex in 2022 further influenced the increase in segment profit. Moreover, the increase in segment profit was offset in part by an increase in property taxes related to the expanded portfolio of investment properties for the year ended 31 December 2023, as compared to the same for the year ended 31 December 2022.

### Geographical Segments

The businesses of the Group are operated in Mainland China and Hong Kong. For the year ended 31 December 2023, revenue from operations in Mainland China and Hong Kong amounted to HK$410.02 million (2022: HK$574.56 million) and HK$59.07 million (2022: HK$68.49 million), respectively.

## LIQUIDITY AND FINANCIAL INFORMATION

### Liquidity and Indebtedness

The Group's business operation is generally financed by a combination of internal and external financial resources available to the Group. The total cash and cash equivalents amounted to HK$144.94 million as at 31 December 2023, as compared to HK$147.52 million as at 31 December 2022. Such decrease was mainly due to the depreciation of Renminbi currency and changes of working capital. The total cash and bank balances including pledged deposits, amounted to approximately HK$243.94 million as at 31 December 2023 (31 December 2022: HK$189.72 million). Bank and other borrowings amounted to approximately HK$216.72 million as at 31 December 2023 (31 December 2022: approximately HK$237.26 million). The Group's bank and other borrowings mainly bear interest at floating rates. As at 31 December 2023, the Group's total bank and other borrowings amounted to approximately HK$120.75 million (55.7%) (31 December 2022: approximately HK$237.26 million (100.0%)) and were payable within one year or on demand. An amount of the remaining balance of approximately HK$95.97 million (44.3%) (31 December 2022: nil (0.0%)) is payable in the third years.

The Group's cash and bank balances were mainly denominated in Hong Kong dollars and Renminbi, while the Group's bank and other borrowings were all 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 its foreign exchange exposure and consider hedging its foreign currency exposure should the need arises.

Gearing ratio of the Group, expressed as a percentage of total bank and other borrowings to shareholders' funds, was 48.8% as at 31 December 2023 (31 December 2022: 45.8%). Liquidity ratio of the Group, which is expressed as a percentage of current assets to current liabilities, was 1.30 times as at 31 December 2023 (31 December 2022: 1.12 times).

Furthermore, the amount of the Group's net current assets was increased by 59.1% to approximately HK$114.96 million as at 31 December 2023, as compared to approximately HK$72.25 million as at 31 December 2022. Such significant increase in net working capital was achieved through prudent financial and strategic planning, as outlined in the "Strategic Financial Restructuring and Optimisation" section of the business plans. The enhancement of 59.1% was primarily due to the optimised capital structure resulting from the reorganisation of short-term bank borrowings to long-term borrowings from its holding company and the fellow subsidiaries. This deliberate action has significantly improved the Group's liquidity position and financial stability compared to the previous year.

During the year ended 31 December 2023, the Group recorded a slight increase in inventory turnover days[1], from 31 days to approximately 32 days, reflecting the consistent implementation of the marked improvement in inventory management. This improvement was attributable to the Group's adoption of more effective inventory management practices, including enhanced forecasting, ordering, and tracking of inventory in the product sales forecast, as well as better production planning and control. During the year ended 31 December 2023, the trade and bills receivables turnover days[2] were decreased to 134 days, as compared to 211 days in 2022, due to the significant decrease in the sales of paint and coating products and the provision for impairment of trade and bills receivables of HK$50.13 million for the year ended 31 December 2023.

1 The calculation of inventory turnover days is based on the closing balance of inventories divided by the cost of sales times 365 days (31 December 2022: 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 365 days (31 December 2022: 365 days).

## LIQUIDITY AND FINANCIAL INFORMATION (continued)

### Equity and Net Asset Value

Shareholders' funds of the Company as at 31 December 2023 amounted to approximately HK$444.47 million, as compared to approximately HK$518.07 million as at 31 December 2022. Net asset value per share as at 31 December 2023 amounted to approximately HK$0.45, as compared to approximately HK$0.52 as at 31 December 2022. 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 at 31 December 2023, the amount of utilised banking facilities granted to various subsidiaries subject to guarantees given by the Company was approximately HK$70.80 million (31 December 2022: approximately HK$220.34 million).

In addition, the Group entered into financial guarantee contracts on performance bonds issued by a bank for the quality of the paint and coating products under supply contracts. The performance bonds were secured by the pledged deposits of approximately HK$0.88 million as at 31 December 2023 (31 December 2022: approximately HK$1.80 million).

### Pledge of Assets

As at 31 December 2023, certain property, plant and equipment, right-of-use assets and cash deposits with an aggregate net book value of approximately HK$333.09 million, as compared to approximately HK$207.24 million as at 31 December 2022, were pledged to financial institutions as collaterals for bills payable, bank borrowings, performance bonds and lease liabilities. The significant increase in pledged assets was a transitional event resulting from the Strategic Financial Restructuring and Optimisation.

## 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 2023. The Group will continue to monitor its foreign currency exposure and requirements closely and arrange hedging facilities when necessary.

### Capital Expenditure

During the year ended 31 December 2023, the Group invested a total sum of HK$3.99 million in the plant and equipment. These investments were recorded in the consolidated financial statements as the property, plant and equipment.

During the year ended 31 December 2022, the Group invested a total sum of HK$21.74 million in the plant and equipment, as well as the new Research and Development Centre. These investments were recorded in the consolidated financial statements as the property, plant and equipment and the right-of-use asset.

## HUMAN RESOURCES

As at 31 December 2023, the Group had 495 employees, representing a significant decrease from the figure of 583 as at 31 December 2022. The staff costs for the year ended 31 December 2023 amounted to approximately HK$95.81 million, excluding directors' emoluments and including equity-settled share-based payments of approximately HK$1.05 million. This represents a decrease from the staff costs of approximately HK$126.33 million and a reduction in equity-settled share-based payments of approximately HK$2.45 million when compared to the year ended 31 December 2022.

The Group offers comprehensive and competitive staff remuneration and benefits that are based on individual performance. Trainings are provided to employees of the Group depending on their departments and the scope of their responsibilities. The human resources department would also arrange for employees to attend trainings, especially regarding workplace health and safety.

## PRINCIPAL RISKS AND UNCERTAINTIES

### Financial Risks

#### *Interest Rate Risk*

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

#### *Currency Rate Risk*

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

#### *Credit Risk*

The Group trades only with 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 Risk*

Market risk for the Group includes a loss of market share to competitors. Hong Kong and Mainland China, the core markets in which the Group operates, are becoming increasingly competitive. Failing to consider changes in Hong Kong and Mainland China could lead to a loss of business to competitors, which would adversely affect the Group's financial position. As part of its efforts to best protect its business, the Group has specialised sales and marketing teams in its regions, along with competitive pricing policies and high-quality green and safe paints and coating products.

## PRINCIPAL RISKS AND UNCERTAINTIES (continued)

### Financial Risks (continued)

#### *Operational Risk*

Operational risk occurs when internal processes, people and systems fail, or due to external events, which resulted in a loss of business. Every division and department in the Group is responsible for managing operational risks. There are sets of standard operating procedures, safety standards, limits of authority and reporting framework that guide key functions within the Group. As part of the management's risk management process, key operational exposures will be identified and assessed on a regular basis so that appropriate risk reduction steps can be taken.

## ENVIRONMENTAL POLICIES AND PERFORMANCE

During the year ended 31 December 2023, 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 ended 31 December 2023, as far as the Group is aware of, 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 2023.

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

There was no other significant investment acquired, nor was there any other material acquisitions or disposals of subsidiaries during the year ended 31 December 2023. The Board has not yet authorised any plan for other material investments or additions of capital assets.

## 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 2023, the Company has applied the principles and complied with the code provisions as set out in the CG Code except for the following deviation:

The code provision C.2.1 of the CG Code stipulates that the roles of Chairman and chief executive should be separate and should not be performed by the same individual. Since 1 April 2023, Mr. Tsui Ho Chuen, Philip has been taking the dual roles of the Chairman and the Managing Director. After evaluation of the current situation of the Company and taking into account of the experience and past performance of Mr. Tsui Ho Chuen, Philip, the Board is of the opinion that it is appropriate at the present stage for Mr. Tsui Ho Chuen, Philip to hold both positions as the Chairman and the Managing Director as it helps to maintain the continuity of the policies and the stability of the operations of the Company, and this structure can ensure the Company has consistent leadership. In addition, under the supervision by the Board which consists of three executive Directors, one non-executive Director and three independent non-executive Directors, the interests of the Shareholders will be adequately and fairly represented. Also, as all major decisions are made in consultation with and approved by the members of the Board, the Board believes that this arrangement will not have negative influence on the balance of power and authorisation between the Board and the management of the Company.

The Board will regularly review the effectiveness of this arrangement to ensure that it is appropriate to the circumstances of the Company. The Board will review and consider splitting the roles of the Chairman and the Managing Director at a time when the Group can identify a suitable candidate with capable leadership, knowledge and relevant skills and experience for the position. Owing to the business nature and scope of the Group as a whole, such appropriate candidate shall have profound understanding and experience on the business of the Group and therefore there is no definite timetable for such appointment.

## CULTURE

The Board dedicates to promote a desired corporate culture that encourages care, innovation, dedication, responsibility and happiness throughout the Group and is committed to maintaining a robust corporate governance and high standard of corporate social responsibility. All Directors and employees of the Group are offered training from time to time to enhance the standards in respect of ethics. The Group has also formulated a sustainability framework focusing on environment protection, resource management, employees and community well-being to ensure that the corporate culture aligns with the purpose, values and strategy.

## 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 *(Chairman and Managing Director) (appointed as Chairman on 1 April 2023)*
Li Guangzhong *(Sales Director)*
Mak Chi Wah *(Finance Director)*

### Non-executive Directors

Lam Ting Ball, Paul *(Chairman) (resigned as Chairman and non-executive Director on 1 April 2023)*
Chong Chi Kwan

### Independent Non-executive Directors

Chua Joo Bin
Xia Jun
Meng Jinxia

## THE BOARD (continued)

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 80 to 81. Save as disclosed, the Directors are not related to each other, including financial, business, family or other material/relevant relationship.

Under the CG Code, the role of the Chairman and the Managing Director should be separate and should not be performed by the same individual. During the year, Mr. Tsui Ho Chuen, Philip is the Chairman and the Managing Director and is responsible for the management of the Board and ensuring that the Board is functioning effectively with good corporate governance practices and procedures. He is also responsible for managing the Group's businesses, including implementation of major strategies and initiatives set by the Board. The considered reasons and explanation in respect of this deviation are set out above.

The Company has mechanisms in place to ensure independent views and input are available to 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, representing one-third of the members of the Board, and one of the independent non-executive Directors possesses appropriate professional accounting qualifications or financial management expertise. All the Board committees are chaired by the independent non-executive Director. The Nomination Committee strictly adheres to the independence assessment criteria as set out in the Listing Rules with regard to the nomination and appointment of independent non-executive Directors, and is mandated to assess annually the independence of independent non-executive Directors to ensure that they can continually exercise independence judgement. None of the independent non-executive Directors receives equity-based remuneration with performance-related elements. A Director (including the independent non-executive Director) who has a material interest in a contract or arrangement shall not vote or be counted in the quorum on any Board resolution approving the same. The Company has received from each of the independent non-executive Directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and the Company considers that all independent non-executive Directors are independent.

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

## THE BOARD (continued)

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

| Directors | Number of regular Board meetings attended/held | Number of general meeting attended/held |
|---|---|---|
| **Executive Directors** | | |
| Tsui Ho Chuen, Philip | 4/4 | 1/1 |
| Li Guangzhong | 4/4 | 1/1 |
| Mak Chi Wah | 4/4 | 1/1 |
| **Non-executive Directors** | | |
| Lam Ting Ball, Paul (Note 1) | 1/1 | N/A |
| Chong Chi Kwan | 4/4 | 1/1 |
| **Independent Non-executive Directors** | | |
| Chua Joo Bin | 3/4 | 1/1 |
| Xia Jun | 4/4 | 1/1 |
| Meng Jinxia | 4/4 | 1/1 |

Note:

(1) Mr. Lam Ting Ball, Paul resigned as the Chairman and a non-executive Director due to his retirement and has been appointed as the honorary chairman of the Company with effect from 1 April 2023. He is neither a Director nor an officer of the Company and he does not have any management role in the Company.

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

## APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

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

## BOARD DIVERSITY

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

During the year ended 31 December 2023 and as at the date of this report, the female Director accounted for 14.3% of the Board (1 female out of 7 Directors). The Board targets to maintain at least the current level of female representation and will continue to take opportunities to increase the proportion of female members over time as and when suitable candidates are identified. The Board would seek appropriate candidates to enhance gender diversity of the Board when considering the appointment of new Director and would ensure that appropriate balance of gender diversity is achieved with reference to stakeholders' expectation and international and local recommended best practices, and in accordance with the Listing Rules. The Board and the Nomination Committee shall review the rotation plan of each of the Board members at least once annually for succession planning, and appoint new Director based on the nomination policy of the Company.

The Company has taken necessary steps to promote diversity at all levels of its workforce. Opportunities for employment, training and career development are equally opened to all eligible employees without discrimination. For the year ended 31 December 2023, the total workforce of the Group comprised 41.77% female and 58.23% male.

Further details on the gender ratio in the workforce of the Group (including the senior management of the Group), together with the relevant data are set out in the "Environmental, Social and Governance Report" on page 61.

## 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, B, C |
| Li Guangzhong | A, C |
| Mak Chi Wah | A, B, C |
| **Non-executive Director** | |
| Chong Chi Kwan | A, B, C |
| **Independent Non-executive Directors** | |
| Chua Joo Bin | A, B, C |
| Xia Jun | A, B, C |
| Meng Jinxia | A, B, C |

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): Mr. Chua Joo Bin (AC Chairman), Mr. Chong Chi Kwan and Mr. Xia Jun.

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 2022 annual results and the 2023 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, internal audit and financial reporting functions as well as those relating to the Group's environmental, social and governance performance and reporting. The Audit Committee resolved by resolutions in writing to approve (i) the fee, terms and conditions of engaging the external auditors of the Company to audit and report on the financial statements of the Group for the year ended 31 December 2022; 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 2023. 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** |
|---|---|
| Chua Joo Bin *(AC Chairman)* | 2/2 |
| Chong Chi Kwan | 2/2 |
| Xia Jun | 2/2 |

## BOARD COMMITTEES (continued)

### Remuneration Committee

During the year, the Remuneration Committee comprised two independent non-executive Directors and one non-executive Director: Mr. Xia Jun (RC Chairman), Mr. Chong Chi Kwan and Mr. Chua Joo Bin.

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 and reviewing and approving matters related to share option schemes. 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 recommendation to the Board in relation to the renewal of service agreement for each of Mr. Tsui Ho Chuen, Philip and Mr. Li Guangzhong and the renewal of letter of appointment for each of Mr. Chong Chi Kwan, Mr. Chua Joo Bin and Mr. Xia Jun. The attendance record of each committee member is set out below:

| **Directors** | **Number of committee meetings attended/held** |
|---|---|
| Xia Jun *(RC Chairman)* | 1/1 |
| Chong Chi Kwan | 1/1 |
| Chua Joo Bin | 1/1 |

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

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

## BOARD COMMITTEES (continued)

### Remuneration Committee (continued)

### Summary of matters relating to the Share Option Scheme reviewed by the Remuneration Committee in 2022

On 15 June 2022, 80,000,000 share options were granted to three Directors and five employees of the Group (collectively, the "Grantees"), among of which 40,000,000 share options, representing 50% of the total share options granted, vested on and exercisable from the date of grant. Details of the vesting period are set out in note 30 to the financial statements. Having considered that the past performance and contributions to the Group of the Grantees and that the vesting period for the unvested share options is more than 12 months, the Remuneration Committee and the Board considered that the grant of such share options with a short vesting period: (i) aligned the interests of the Grantees with that of the Company and the Shareholders as a whole; (ii) rewarded and recognises the contribution of the Grantees to the Group; (iii) provided incentive to the Grantees to continue to work for the success and improved performance of the Group; and (iv) reinforced their commitment to long-term services to the Group. All of these were consistent with the purpose of the Share Option Scheme.

The Remuneration Committee noted that the purpose of the Share Option Scheme is to provide incentive or reward to the Grantees for their contribution to the Group and that the Share Option Scheme did not restrictively specify the contribution. The Remuneration Committee also considered (a) the importance of the roles and responsibilities of the Grantees; (b) the past performance and contributions of the Grantees; and (c) the expected contributions of the Grantees to be made to the future development of the Group and was of the view that the grant of share options without any performance target aligned with the purpose of the Share Option Scheme. There was no clawback mechanism attached to the share options. The share options granted shall lapse and cannot be exercised with immediate effect if the Grantees, who is an employee (including any director), ceases to be an employee of the Group or a Director on the ground including, but without limitation to, that he or she has been guilty of serious misconduct.

The Remuneration Committee considered that the Share Option Scheme was intended to reward eligible participants who had contributed to the business development of the Group and to encourage eligible participants to work towards enhancing the value of the Company for the benefit of the Company and the Shareholders as a whole. In addition, the Remuneration Committee also considered that: (a) the Grantees were eligible participants under the Share Option Scheme who would contribute directly to the overall business performance and sustainable development of the Group; (b) the granting of share options to the Grantees was a recognition for their past contributions to the Group; and (c) the share options were subject to the terms of the Share Option Scheme which provides for circumstances under which the share options may lapse.

The Remuneration Committee noted that there were no share options granted under the Share Option Scheme during the year ended 31 December 2023.

## BOARD COMMITTEES (continued)

### Nomination Committee

During the year, the Nomination Committee comprised two independent non-executive Directors and one executive Director: Mr. Xia Jun (NC Chairman), Mr. Tsui Ho Chuen, Philip and Mr. Chua Joo Bin.

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, the nomination policy and policy on independence of Directors of the Company. The Nomination Committee resolved by resolutions in writing to (i) make recommendation to the Board on the appointment of Mr. Tsui Ho Chuen, Philip as Chairman, having reviewed the qualifications, experience and skills of Mr. Tsui Ho Chuen, Philip and the structure, size, composition and diversity of the Board; and (ii) make recommendations to the Board on the reappointments on each of Mr. Tsui Ho Chuen, Philip and Mr. Li Guangzhong as the executive Directors, Mr. Chong Chi Kwan as the non-executive Directors and each of Mr. Chua Joo Bin and Mr. Xia Jun as the independent non-executive Directors. The attendance record of each committee member is set out below:

| Directors | Number of committee meeting attended/held |
|---|---|
| Xia Jun *(NC Chairman)* | 1/1 |
| Tsui Ho Chuen, Philip | 1/1 |
| Chua Joo Bin | 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.

The principal risks and uncertainties faced by the Group are set out in the section headed "Principal Risks and Uncertainties" under the "Management Discussion and Analysis".

A discussion of the policies on the financial risk management of financial risk which the Group is facing is included in note 39 to the financial statements.

## 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.

The Board confirmed that the internal control system is effective. The Risk Management and Internal Control Report is received by the Board to confirm that the system is effective and there are no significant areas of concern. There are no charges to the system that were implemented over the year.

## 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 the Group's business so that potential inside information can be escalated to the Board so as to decide whether announcement in relation to such inside information is to be made, in order to comply with the Listing Rules and the SFO.

## CORPORATE GOVERNANCE FUNCTIONS

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

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

## CODES FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in the Model Code. After specific enquiry by the Company, all Directors confirmed that they have complied with the required standard set out in the Model Code and the Company's own code during the year ended 31 December 2023.

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 AND RELATED MATTERS

In 2023, the remuneration of the Company's external auditors, Ernst & Young, is set out below:

| Services rendered to the Group | Remuneration HK$ |
|---|---|
| Audit services | 2,620,000 |
| Non-audit services | 309,500 |
| | 2,929,500 |

The non-audit services rendered by the Company's external auditors to the Group included performance of agreed-upon procedures on the 2023 interim financial statements and the preliminary results announcement for the year ended 31 December 2023, 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 2023.

## 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 2023, 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 88 to 91.

## COMMUNICATION WITH SHAREHOLDERS

The Company endeavors to maintain a high level of transparency in communicating with the Shareholders and has adopted a shareholders' communication policy to ensure that Shareholders and the investment community are provided with ready, equal and timely access to balanced and understandable information about the Company in order to enable Shareholders to exercise their rights in an informed manner, and to allow Shareholders and the investment community to engage actively with the Company. Information in relation to the Group is disseminated to the Shareholders and the investment community in a timely manner through a number of communication channels, including interim and annual reports, annual general meetings and other general meetings that may be convened, as well as by making available all the disclosures submitted to the Stock Exchange and the corporate communications and other corporate publications on the website of the Company.

The Board has conducted a review of the implementation and effectiveness of the shareholders' communication policy during the year to consider the different channels of communication with Shareholders and considered that the policy has been properly implemented and is appropriate.

The 2023 AGM provided an opportunity for communication between the Shareholders and the Board, at which the Chairman and the chairman 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.

## 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 or resolution 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 which has stated the full name of that person for election as a Director 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 at the general meeting as a Director; (ii) a notice in writing signed by that person of his/her willingness to be elected as a Director and a written consent to the publication of his/her personal data and; (iii) a notice in writing signed by that person of his/her willingness to be elected as a Director, together with that person's biographical details to be disclosed as required under 13.51(2) of the Listing Rules 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.

### 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

The Company has adopted a second amended and restated Articles at the AGM held on 6 June 2023. Details of the amendments to the amended and restated Articles have been set out in the circular of the Company dated 26 April 2023. An updated consolidated version of the second amended and restated Articles is available on the Company's website at www.cpmgroup.com.hk and the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk.

On behalf of the Board
**CPM Group Limited**

**Tsui Ho Chuen, Philip**
*Chairman and Managing Director*
Hong Kong, 27 March 2024

# Environmental, Social and Governance Report

## ABOUT THIS REPORT

### Overview

The Board is pleased to present the environmental, social and governance ("ESG") report (the "ESG Report") of the Company for the year ended 31 December 2023 (the "Reporting Period"). The ESG Report outlines the policies, sustainability strategies, management approaches and initiatives implemented by the Group and the performance of the Group in environmental and social aspects of its business.

### Reporting Scope

The ESG Report covers businesses in the manufacture and sale of paint and coating products of the Group in Mainland China and Hong Kong. Some subsidiaries of the Group are not covered in the ESG Report because their impacts on the revenue and ESG performance are not significant. The production plant of the Group in Shajing (the "Shajing Production Plant") ceased production since September 2022 and the production plant of the Group in Hubei (the "Hubei Production Plant") ceased operation by the end of March 2023. Except for this, there were no significant changes to the scope of reporting during the Reporting Period.

### Reporting Basis

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 (which has been reorganised as Appendix C2 with effect from 31 December 2023) to the Listing Rules. The relevant provisions and details are set out at the end of the ESG Report.

### Reporting Principles

The Group adheres to the following reporting principles as the basis for the preparation of the ESG Report.

1. **Materiality**

   The threshold at which ESG issues determined by the Board are sufficiently important to investors and other stakeholders of the Group that they should be reported, details of which are set out in the sections headed "Stakeholders' Engagement" and "Materiality Assessment" below.

2. **Quantitative**

   The quantified environmental and social key performance indicators ("KPI(s)") are disclosed in the ESG Report to give stakeholders of the Group a comprehensive picture of the Group's ESG performance. The information is accompanied by a narrative, explaining its purposes and impacts.

3. **Balance**

   Every effort has been made in the ESG Report to reflect the performance of the Group's ESG activities impartially and avoid selection, omission or presentation format that might inappropriately influence the decision or judgment of the readers of the ESG Report.

4. **Consistency**

   As far as is reasonably practicable, the Group has used consistent methodologies to allow for meaningful comparisons of ESG data over time.

## MANAGEMENT OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE

### The Board Statement

The Board takes overall responsibility for ESG matters and integrates such matters into the management approaches and strategies of the Group. It guides the management and monitors ESG matters that have been identified as relevant to the Group, and reviews the progress made against ESG-related goals and targets. For the disclosures about the supervision of the Board over ESG matters, the ESG management policies and strategies and the review progress of the Board made against ESG-related goals and targets and their relationship with the business of the Group, please refer to other disclosure in the section headed "Management of Environmental, Social and Governance", which form part of the Board statement.

### Report of Chairman

The Group is committed to corporate social responsibility and balancing environmental, social and economic benefits. It also aims to balance its business development with the interests of its key stakeholders and operates its business in a sustainable manner. To achieve this vision, the Group has set a sustainability framework that focuses on environmental protection, resource management, employees and community well-being and guides its sustainability efforts to ensure that sustainability elements are integrated into every business process and all business decisions.

Global warming is a major concern of governments worldwide. The Chinese government has developed more rigorous environmental laws and regulations. The Group takes the environmental protection policy of the Chinese government as the development blueprint, aligns with the strategy of safe, harmonious, green development and clean production, instills the concept of environmental management into the core of its operating activities, and at the same time pays attention to and loves nature, and makes joint efforts with employees to build an environmental-friendly and resource-saving enterprise.

The COVID-19 pandemic has been raging around the world in the past few years and the epidemic situation has undergone various changes. Since the end of 2022, the compulsory prevention measures in various regions have been gradually relaxed or cancelled, and the economy is gradually recovering. However, due to the global inflation and rising interest rates, the economic situation this year has still been very difficult. While praying these crises will pass, the Group keeps paying attention to the employee remuneration and benefits, career development opportunities, provides a safe working environment to employees, keeps the initial aim of embracing corporate social responsibility, actively participates in public welfare undertakings, continues to allocate resources to optimise various emission treatment facilities, adjusts the product structure and manufactures more environmental-friendly products to contribute positively to the global climate change. At the same time, the Group continues to assess climate risks and study various adaptation methods to help coping with potential challenges. By doing these, we can seize opportunities in the face of crisis during hard time.

To achieve this vision, the Board has set a number of environmental and social KPIs and taken a top-down approach to disintegrate the KPIs into the functional departments. The Board not only improved the well-being of the employees but also urged the employees to make changes in different areas, such as reducing greenhouse gas emissions and making good use of resources. During the Reporting Period, the Group has made achievements by actively supporting the sustainable development strategies and objectives of the Group from the management team and all employees. The relevant scope, progress and achievements relating to the environmental and social KPIs are disclosed in the ESG Report.

The Group always aspires to be a respectable enterprise and hopes that its professional management team can continue to commit to stable operation and prudent financial management policy, meet the challenges head-on with success, implement sustainable development strategies, improve business performance and create more meaningful long-term value for the enterprise and its stakeholders.

## MANAGEMENT OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE (continued)

### Governance Structure

The Board believes that sound ESG strategies can create investment value for the Group and deliver long-term returns to its stakeholders. The establishment of an appropriate governance framework is critical to the successful implementation of the ESG sustainability strategies of the Group. Therefore, the Group sets up the ESG governance structure with clear duties and responsibilities. The Board sets long-term policies and strategies for all sustainability matters, reviews the implementation status and progress of ESG work annually and reports on its performance. The Board also identifies, reviews and evaluates the corporate responsibility, sustainability and climate change response of the Group through internal meetings. The management team reports to the Board on a regular basis to assist the Board in assessing and determining whether the Company has established an appropriate and effective internal control system to contain the ESG risks. At the operational level, functional units are responsible for ensuring the integration of sustainability strategies and practices into the business operations of the Group and exploring new action plans or initiatives.

| | |
|---|---|
| **The Board** | Board members are responsible for:<br>■ Developing long-term sustainable development policies and strategies<br>■ Assessing and identifying ESG risks and opportunities<br>■ Ensuring appropriate and effective ESG risk management and internal monitoring systems<br>■ Reviewing and approving policies, objectives and action plans or measures related to ESG<br>■ Approving the ESG Report |
| **Management Team** | The management team is responsible for:<br>■ Developing and reviewing ESG-related policies, objectives and action plans or measures<br>■ Monitoring and reporting to the Board on the progress and quality of implementation of the action plans or measures<br>■ Identifying ESG risks and opportunities<br>■ Reviewing the ESG Report |
| **Functional Departments** | The functional departments are responsible for:<br>■ Identifying, assessing, defining and reporting to management on significant ESG issues<br>■ Performing ESG risk management and internal monitoring<br>■ Ensuring ESG policies, objectives and action plans or measures are integrated into business operations<br>■ Reporting to management on progress and quality of action plans or measures |

The Board has appointed an independent consultant to provide advice on the ESG matters and assist in collecting data and information for conducting various analyses and providing improvement recommendations on ESG performance. The Group has also collected the views of key stakeholders on ESG matters during daily operations and conducted a materiality assessment to identify important ESG issues for the Group, details of which are disclosed in the sections headed "Stakeholders' Engagement" and "Materiality Assessment" below. To effectively lead the ESG process of the Group, the Board monitors the work of all departments to ensure that they work closely together to achieve the sustainable development goals of operational compliance and social responsibility.

## MANAGEMENT OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE (continued)

### Stakeholders' Engagement

The Board recognises that the views of stakeholders are vital to the sustainability of the business and strives to establish a platform for communication between the Group and its key stakeholders to ensure a smooth flow of information. The Group controls and manages the related parties that can affect the operation and management systems of the Group 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. by using multiple channels and strives to balance their opinions and interests and understands their needs and expectations through constructive communications in order to determine the directions of its sustainable development. The Group assesses and determines its ESG 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<br>➢ Fulfill tax obligation<br>➢ Green operation | ➢ Periodic reports or announcements<br>➢ Communicate regularly with regulatory agencies<br>➢ Handle official business through government affairs website or application | ➢ Uphold integrity and operational compliance<br>➢ Pay tax on time and make contribution to society<br>➢ Establish comprehensive and effective internal control and environmental management systems<br>➢ Fully implement safety production responsibility system<br>➢ Actively implement various clean production measures |
| Shareholders/ investors | ➢ Return on investment<br>➢ Information transparency<br>➢ Corporate governance system<br>➢ Operational risk management | ➢ Information disclosed on the websites of the Stock Exchange and the Company<br>➢ Website and WeChat Official Account of the Company<br>➢ General meeting<br>➢ Investor meeting or production plants visit | ➢ Management possesses relevant experience and professional knowledge in business sustainability<br>➢ Regular information dissemination by publications on the websites of the Stock Exchange and the Company<br>➢ Dedicate to improvement in internal control and focus on risk management<br>➢ Effectively exchange opinions with investors through various communication channels |

## MANAGEMENT OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE (continued)

**Stakeholders' Engagement** (continued)

| Stakeholders | Expectations and requests | Means of communication | Management response |
|---|---|---|---|
| Employees | ➢ Labour rights<br>➢ Career development<br>➢ Compensation and welfare<br>➢ Health and workplace safety | ➢ Employee activities<br>➢ Employee performance evaluation<br>➢ Induction and on-the-job training<br>➢ Employee satisfaction survey<br>➢ Internal meetings and announcements<br>➢ Contact via email, phone and communication applications | ➢ Set up contractual obligations to protect labour rights<br>➢ Encourage employees to participate in continuous education and professional training to enhance competency<br>➢ Establish a fair, reasonable and competitive remuneration scheme<br>➢ Pay attention to occupational health and workplace safety<br>➢ 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 |
| Customers | ➢ High-quality and diversified products and customer services<br>➢ Protect customer rights<br>➢ Timely delivery<br>➢ Reasonable price | ➢ Business visit<br>➢ Contact via email, phone and communication applications<br>➢ Customer service team<br>➢ Customer satisfaction survey<br>➢ Product promotion meeting | ➢ Improve the quality of products and services continuously in order to satisfy customers' requirements<br>➢ Establish an effective, efficient and green supply chain system<br>➢ Formulate comprehensive quality assurance process and recall procedures<br>➢ Provide multiple channels for product anti-counterfeiting inquiries to combat counterfeit and inferior behaviours so as to protect consumer rights<br>➢ Ensure the performance of contractual obligations<br>➢ Establish and continuously improve the pre-sales, in-sales and after-sales services and customer training systems |

## MANAGEMENT OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE (continued)

**Stakeholders' Engagement** (continued)

| Stakeholders | Expectations and requests | Means of communication | Management response |
|---|---|---|---|
| Suppliers | ➢ Stable demand<br>➢ Good relationship with the Company<br>➢ Corporate reputation | ➢ Business visit<br>➢ Contact via email, phone and communication applications<br>➢ Product promotion meeting | ➢ Ensure the performance of contractual obligations<br>➢ Establish policies and procedures regarding supply chain management<br>➢ Establish and maintain long-term co-operation relationships with quality suppliers<br>➢ Stringent selection of suppliers |
| Community | ➢ Environmental protection<br>➢ Reduce greenhouse gas emissions and waste generation<br>➢ Effective resources utilisation<br>➢ Community contribution<br>➢ Economic development and community employment | ➢ Use website and WeChat Official Account of the Company and information publicity website of government department to publish the information of the Company<br>➢ Participate in community activities | ➢ Pay attention to the problem of climate change and actively take various clean production measures<br>➢ Continue to invest resources in environmental protection<br>➢ Actively innovate environmental protection technology<br>➢ Strengthen management in energy saving and emission reduction<br>➢ Encourage employees to participate in charitable activities and voluntary services<br>➢ Maintain good and stable financial performance and business growth |

## MANAGEMENT OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE (continued)

### Materiality Assessment

During the Reporting Period, the Group held discussions with the key management and conducted materiality assessment through various channels to identify ESG issues in which both the Group and its key stakeholders are interested and assessed the level of concern as viewed by them so as to select the relatively important ESG issues. For the materiality assessment, the Group has adopted the following three processes:

| | |
|---|---|
| **Identification** | ■ Through diverse channels and internal discussions<br>■ Examines and adopts the ESG issues of concern in the past stakeholders' engagement<br>■ Draws attention to emerging ESG issues |
| **Prioritisation** | ■ Synthesises, analyses and evaluates the views of all parties to identify and prioritise potential and important issues<br>■ Develops materiality matrix based on the importance of the issue to the Group and its key stakeholders |
| **Validation** | ■ Interacts with the management team to validate the materiality assessment and ensure that these issues are aligned with the sustainable development direction sought by the Group<br>■ Reports the materiality assessment to the Board and makes the required disclosures in the ESG Report |

## MANAGEMENT OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE (continued)

### Materiality Assessment (continued)

Materiality assessment helps the Group to ensure its business objectives and development direction are in line with the expectations and requirements of its stakeholders. The matters of concern of the Group and stakeholders are presented in the following materiality matrix:

**Materiality Matrix**

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

✧ Environmental ◆ Employee ➢ Operational

## ENVIRONMENTAL PROTECTION

### Emissions Management

The emissions in the production process of the Group 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 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 45001-2020/ISO 45001:2018 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 Chinese government. In addition to the accredited GB/T 24001-2016/ISO 14001:2015 Environmental Management System Certification, the production plant of the Group in Xinfeng (the "Xinfeng Production Plant") and the production plant of the Group in Zhongshan (the "Zhongshan Production Plant") have established the 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, have established independent management systems, including EHS Manual, 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 have considered from the perspective of risk management. These policies not only set out clear working guidelines for the daily operation of the production plants and 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 but 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 environmental management system of the Group. Besides, various departments of the Group initiated different energy conservation and consumption reduction activities and organised relevant knowledge and skills training to enhance employee 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 trainings and conferences organised by government departments to understand the changes in environmental policies at various operating locations and formulate response plans 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 initiate 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 energy structure of the Group, environmental protection facilities and air emissions management of each production plant. Each production plant has applied and obtained a valid pollutant discharge permit from the local environmental protection department in accordance with the local regulation. Besides, the Group also strictly abides by the Measures for the Supervision and Administration of Vehicle Waste Gas Pollution 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.

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.

## 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 industrial exhaust emissions of the Group are in compliance with the national standards by monitoring and co-ordinating 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 replacing the 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.

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 emissions 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, strengthen the repair and maintenance of the gas-collection hoods in the materials feeding process, turn 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.

The Group 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.

At the beginning of the Reporting Period, the Group set a target to reduce the emission of waste gas and greenhouse gas by 5% when compared with the previous year. The target has been achieved this year. Please refer to the sections headed "Conservation on Gasoline, Diesel and Refrigerant Consumption", "Conservation on Electricity Consumption" and "Summary of Environmental Data and Performance" below for the relevant data.

#### 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 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 codes 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 website of the Group and the discharge of the pollutant 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 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. An 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 tests and measurements 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 four times a year. During the Reporting Period, all the tests conducted by each production plant met the requirements of the emission limits and the Group has not received any notification of illegal treatment or discharge of wastewater. During the Reporting Period, the Group generated approximately 10,195.00 tonnes of non-hazardous wastewater, representing a decrease of approximately 355.94 tonnes or 3.37% when compared with last year. At the beginning of the Reporting Period, the Group estimated that the emission intensity of wastewater would decrease by 5% when compared with the previous year. However, due to the clean-up of the sludge in the sewage treatment pool and cleaning of the sewage treatment pool of the Zhongshan Production Plant during the Reporting Period, the production intensity of the Group's non-hazardous wastewater increased when compared with the previous year. Please refer to the below table and the section headed "Summary of Environmental Data and Performance" below for the relevant data.

## 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 | 2023 (Tonnes) | 2022 (Tonnes) |
|---|---|---|
| Total | 10,195.00 | 10,550.94 |
| Intensity[1] | 73.44 | 54.41 |

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 is mainly waste packaging materials, waste wood and metal scraps. Non-recyclable waste is mainly water-based paint sludge, waste paper, rags and domestic waste. Hazardous waste is mainly waste insulating oil, used activated charcoal, organic solvent waste, waste paint residue, waste paint barrels, waste batteries, waste lamps, waste chemicals containers, and other labour supplies and containers that are 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, developing emergency plans for environmental incidents and conducting 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. At the beginning of the Reporting Period, the Group estimated that the production intensity of hazardous and non-hazardous solid waste would decrease by 20% when compared with the previous year. Please refer to the below table and the section headed "Summary of Environmental Data and Performance" below for the relevant data.

## 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 about the importance of environmental protection and instill different environmental protection knowledge to employees;

➢ Formulate operating procedures for different equipment, provide trainings to employees 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 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 who are holding Hazardous Waste Operation Permit for dangerous wastes and must strictly follow the Measures for the Management of Hazardous Waste Transfer. Illegal disposal of hazardous waste is strictly 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. The Shajing Production Plant had ceased production since September 2022 and was required to clean up waste from the laboratories. The Shajing Production Plant did not generate hazardous solid waste during the Reporting Period. Therefore, the hazardous solid waste generated by the Group during the Reporting Period decreased by approximately 146.77 tonnes or 80.93% when compared with the previous year and a total of approximately 34.59 tonnes of hazardous solid waste was generated.

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

| HAZARDOUS SOLID WASTE | 2023 (Tonnes) | 2022 (Tonnes) |
|---|---|---|
| Total | 34.59 | 181.36 |
| Intensity[1] | 0.25 | 0.94 |

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 production department of the Group is responsible for categorising waste, such as utilisation 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 reuses papers in the 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. The Shajing Production Plant had ceased production since September 2022 and was required to clean up non-hazardous solid waste within the production plant. The Shajing Production Plant did not generate non-hazardous solid waste during the Reporting Period. Therefore, the non-hazardous solid waste generated by the Group during the Reporting Period decreased by approximately 124.74 tonnes or 48.97% when compared with the previous year and a total of approximately 129.98 tonnes of non-hazardous solid waste was generated.

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

| NON-HAZARDOUS SOLID WASTE | 2023 (Tonnes) | 2022 (Tonnes) |
|---|---|---|
| Total | 129.98 | 254.72 |
| Intensity[1] | 0.94 | 1.31 |

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 as set at 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 of "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 business vehicles of the Group 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 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 43.42 tonnes of gasoline, representing an increase of approximately 0.89 tonnes or 2.09% when compared with the previous year. The Group consumed approximately 12.43 tonnes of diesel, representing a decrease of approximately 3.85 tonnes or 23.65% when compared with the previous year. The decrease in the diesel consumption was mainly due to the increase in the use of electric forklift and the decrease in the use of diesel forklift.

## ENVIRONMENTAL PROTECTION (continued)

### Management of Use of Resources (continued)

### 1. *Energy Conservation* (continued)

*Conservation on Gasoline, Diesel and Refrigerant Consumption* (continued)

At the beginning of the Reporting Period, the Group set a target to reduce the consumption of gasoline, diesel and refrigerant by 5% when compared with the previous year. As the epidemic preventive measures are gradually cancelled, the number of business trips taken by employees increased, thereby increasing the use of gasoline. Except for this, the targets have been achieved this year. Please refer to the below table and the section headed "Summary of Environmental Data and Performance" below for the relevant data.

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:

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | Consumption | $CO_2$ Equivalent Emissions (Tonnes) | Consumption | $CO_2$ Equivalent Emissions (Tonnes) |
| Gasoline | 43.42 Tonnes | 158.21 | 42.53 Tonnes | 155.11 |
| Diesel | 12.43 Tonnes | 38.71 | 16.28 Tonnes | 50.71 |
| Refrigerant | 13.60 Kilograms | 24.62 | 28.30 Kilograms | 49.24 |
| Group's Total Emission | | 221.54 | | 255.06 |
| Group's Emission Intensity[1] | | 1.60 | | 1.32 |

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 environmental protection policy of the Group, 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 administration and human resources department of the Group 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 production department of the Group arranges the production time reasonably to strengthen the management of electricity consumption. The engineering department of the Group is responsible for setting annual electricity saving targets, recording and analysing electricity consumption data, preparing timely remediation plans 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.

Each department head is 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)

During the Reporting Period, the Group consumed a total of approximately 2,214.90 megawatt hours ("MWh") of electricity, representing a decrease of approximately 931.33 MWh or 29.60% when compared with the previous year. The main reason is that the Shajing Production Plant ceased production since September 2022 and the Hubei Production Plant ceased operation by the end of March 2023, resulting in the reduction of production level and the headcount of employees. In addition, the decrease in the production level and the headcount of employees of the Zhongshan Production Plant further reduced the electricity used in production and living.

At the beginning of the Reporting Period, the Group set a target to reduce the consumption intensity of electricity by 5% when compared with the previous year. Although the production level decreased, some production and environmental protection equipment needed to run continuously for 24 hours, thereby decreasing the consumption intensity of electricity slightly by 1.60%. Please refer to the below table and the section headed "Summary of Environmental Data and Performance" below for the relevant data.

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

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | Consumption (MWh) | $CO_2$ Equivalent Emissions (Tonnes) | Consumption (MWh) | $CO_2$ Equivalent Emissions (Tonnes) |
| Electricity | 2,214.90 | 1,354.91 | 3,146.23 | 1,924.77 |
| Group's Total Emission | | 1,354.91 | | 1,924.77 |
| Group's Emission Intensity[1] | | 9.76 | | 9.93 |

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 and provides trainings for production department staff. The production department sets water efficiency as a performance indicator for production department staff to encourage them to actively participate in water efficiency measures. 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 each production plant, using treated wastewater for plant irrigation. 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, the Group consumed a total of approximately 33,526.00 cubic meters of water, representing a decrease of approximately 31,271.00 cubic meters or 48.26% when compared with the previous year. The main reason is that the Shajing Production Plant ceased production since September 2022 and the Hubei Production Plant ceased operation by the end of March 2023, resulting in the reduction of production level and the headcount of employees. In addition, the decrease in the production level and the headcount of employees of the Zhongshan Production Plant further reduced the water used in production and living.

At the beginning of the Reporting Period, the Group set a target to reduce the consumption intensity of water by 5% when compared with the previous year. The target has been achieved this year. Please refer to the below table and the section headed "Summary of Environmental Data and Performance" below for the relevant data.

During the Reporting Period, the Group's use of water resources is as follows:

| WATER RESOURCES | 2023 (Cubic Meters) | 2022 (Cubic Meters) |
|---|---|---|
| Total | 33,526.00 | 64,797.00 |
| Intensity[1] | 241.51 | 334.13 |

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 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 product characteristics of the Group, safety and environmental requirements and the national standards. The production planning department of the Group prepares the 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 checks 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 1,145.60 tonnes of packaging materials, which has decreased by approximately 688.04 tonnes or 37.52% when compared with the previous year. This is mainly due to the decrease in the production level of the Group.

**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 been effectively reduced. In addition, as the production level decreased, the paper consumption had decreased by approximately 1.59 tonnes or 31.12% when compared with the previous year and the Group has consumed a total of approximately 3.52 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 has a team of dedicated and diligent employees. While setting up the sustainable development strategy, the active cooperation and feasible recommendations from employees accelerate the steps towards green management. 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)

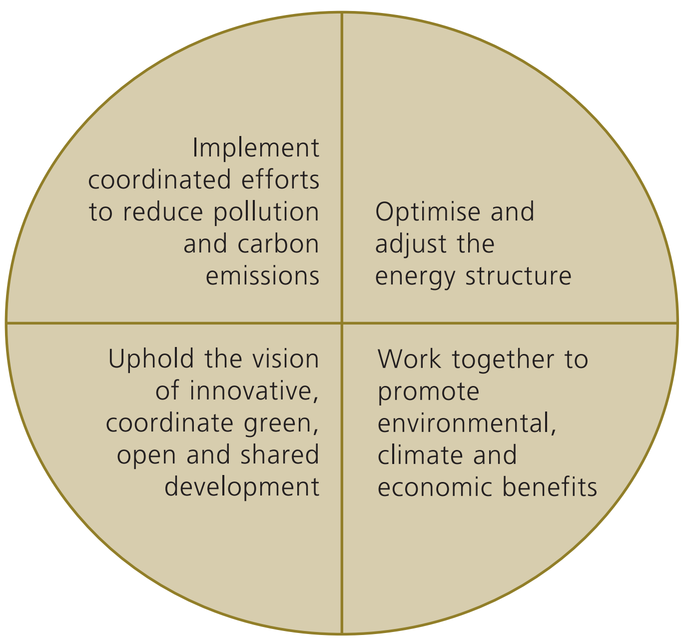
### The Environment and Natural Resources (continued)

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.

### Climate Change

Climate change is expected to worsen the frequency and severity of extreme weather events and cause catastrophic damage. Climate change is also changing seasonal and annual patterns of temperature, precipitation and other weather phenomena, increasing risk of heavy rains, rising tides and flooding that can cause serious damage to assets such as buildings, warehouses and inventories, resulting in economic losses. In the long term, climate change may lead to the rise of sea level and long-term changes in climate patterns of chronic heat waves (persistent higher temperature, etc.). Although the COVID-19 crisis is gradually slowing down and the economy is gradually recovering, the economic situation remains very difficult and the risks of climate change are still imminent. Understanding of these trends and the relationship with the businesses of the Group can help the Group to prepare, analyse possible risks and opportunities, seize the opportunities of potential benefits and establish the response capacity of the Group in the long run.

Climate change is a major concern of governments around the world. Governments may change the related policies, laws and regulations to deal with climate change. Therefore, the Group may also need to change internal policies and measures, increasing the risk of facing the relevant laws and regulations, which may increase operating costs and affect product demand. In response to climate change, the Group is committed to reducing carbon emissions and waste generated by each production plant and office. The Group reduces the consumption of electricity, water, paper and gasoline used by vehicles from the source and follows the principle of Use Less, Fully Exploit, Seek Alternatives, Fix and Reuse, Rethink, through daily management and strengthens education and publicity, and actively takes technically feasible and economically reasonable measures, so as to reduce operating costs, reduce carbon emissions and waste in operation, and actively explore new models of low carbon development. At the same time, the Group has formulated scientific reasonable and realistic goals, indicating that the Company has a directional and purposeful plan for reducing greenhouse gas emissions, and is prepared in advance to respond to national-level regulatory policies of climate change. Besides, the ESG targets of the Group provide benchmarks and future directions for the annual review of progress in greenhouse gas reduction and energy transition, and motivate more efficient actions to address climate change.



## EMPLOYMENT AND LABOUR PRACTICES

Employees are the most valuable assets of the Group. 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 is devoted 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 has strictly complied with the Labour Law of the People's Republic of China, the Labour Contract Law of the People's Republic of China, the Law of the People's Republic of China on Protection of Minors, the Provisions on the Special Protection on Minor Workers, the Provisions on the Prohibition of Using Child Labour, the Law of the People's Republic of China on the Protection of Women's Rights and Interests, the Social Insurance Law of the People's Republic of China, the Regulations on Work-Related Injury Insurances, the Trade Union Law of the People's Republic of China, the Employment Promotion Law of the People's Republic of China, the Labour Dispute Mediation and Arbitration Law of the People's Republic of China, the Law of the People's Republic of China on the Protection of Disabled Persons, the Individual Income Tax Law of the People's Republic of China, the Implementing Regulations of the Labour Contract Law of the People's Republic of China, the Prevention and Treatment of Occupational Diseases Law of the People's Republic of China, the Production Safety Law of the People's Republic of China in Mainland China, the Employment Ordinance, the Employment of Children Regulations, the Employment of Young Persons (Industry) Regulations, the anti-discrimination ordinances, the Minimum Wage Ordinance, the Employees' Compensation Ordinance, the Mandatory Provident Fund Schemes Ordinance, the Occupational Safety and Health Ordinance in Hong Kong and other applicable laws and regulations in Mainland China and Hong Kong. The relevant information will be described in detail in the sections headed "Employment", "Health and Safety" and "Labour Standards" below.

### Employment

The Group has established an internal management system which specifies the requirements for recruitment, promotion, dismissal, working hours, rest periods, compensation, welfare and other benefits.

1. ***Recruitment, Promotion, Dismissal, Equal Opportunity, Diversity and Anti-discrimination***

   The Group has adopted human resources measures and practices to promote anti-discrimination, equal opportunity and diversity. 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 descriptions 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. The Group handles the dismissal of employees and compensates them in accordance with the local laws and regulations. The Hubei Production Plant ceased operation by the end of March 2023, the Group has negotiated with the affected employees and has compensated the affected employees in accordance with local laws and regulations.

## EMPLOYMENT AND LABOUR PRACTICES (continued)

### Employment (continued)

1. ***Recruitment, Promotion, Dismissal, Equal Opportunity, Diversity and Anti-discrimination*** (continued)

As at 31 December 2023, the gender ratio in the workforce (including the senior management of the Group) of the Group comprised 59% male and 41% female. The workforce includes two executive Directors and the senior management is a male. The Group believes that the gender ratio of the workforce is within the reasonable range. The Group will review the effectiveness of the measures and practices against the actual circumstances of the Group and will adopt new policies when considered necessary. In particular, it will continue to monitor the gender ratio and will aim at achieving a greater gender diversity when hiring all positions across the Group.

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 plans for work and organises appropriate training programmes for employees to develop their potential.

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 improve their abilities and willing to move forward with the Group.

As at 31 December 2023, the numbers and distributions of the employees of the Group are as follows:

| | 2023 | 2022 |
|---|---|---|
| **Gender** | | |
| Male | 292 | 355 |
| Female | 206 | 230 |
| **Employment Type** | | |
| Full-time | 496 | 583 |
| Part-time | 2 | 2 |
| **Age Group** | | |
| 18-30 | 57 | 77 |
| 31-45 | 259 | 307 |
| 46-60 | 164 | 183 |
| Over 60 | 18 | 18 |
| **Geographical Region** | | |
| Mainland China | 468 | 555 |
| Hong Kong[1] | 30 | 30 |

Note:

1 Included 10 (2022: 12) Hong Kong employees who work in Mainland China.

## EMPLOYMENT AND LABOUR PRACTICES (continued)

**Employment** (continued)

### 1. *Recruitment, Promotion, Dismissal, Equal Opportunity, Diversity and Anti-discrimination* (continued)

During the Reporting Period, the average monthly employee turnover rates of the Group are as follows:

| | 2023 | 2022 |
|---|---|---|
| **Gender** | | |
| Male | 2.70% | 3.66% |
| Female | 1.94% | 2.56% |
| **Age Group** | | |
| 18-30 | 3.01% | 3.81% |
| 31-45 | 2.39% | 3.13% |
| 46-60 | 2.32% | 3.22% |
| Over 60 | 0.91% | 3.00% |
| **Geographical Region** | | |
| Mainland China | 2.42% | 3.18% |
| Hong Kong | 1.90% | 4.39% |

### 2. *Compensation, Welfare and Other Benefits*

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 educational 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, free annual body medical checkup, festival red packets, maternity subsidy, meal allowance, etc. Besides, 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 schemes (endowment insurance, medical insurance, unemployment insurance, work injury insurance and maternity insurance) and housing provident funds for the employees in Mainland China and contributes to the Mandatory Provident Fund Scheme for the employees in Hong Kong.

### 3. *Working Hours and Rest Periods*

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.

## EMPLOYMENT AND LABOUR PRACTICES (continued)

### Health and Safety

Employees are the Group's valuable human capital. According to the operation and production environment of each production plant, the Group has formulated occupational health and safety management rules and regulations and emergency contingency plans to provide effective safety management mechanism and incident handling guidelines, so as to prevent and avoid occupational hazards, protect employees' health and provide a safe working environment for employees.

1. ***Safety Training***

   New employees must join different practical trainings, 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 trainings to its employees to improve their awareness, knowledge and skills in workplace safety. The Group also carries out regular role-based technical trainings, safety assessments 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, RoHS, identification and evaluation of hazard sources, safety knowledge of hazardous chemical, training and drill for fire fighting, first aid safety knowledge and skills training, case analysis of fire accidents, safety use of equipment training, use of electric tools training, safety precautions of hot work, etc. Staff of special work types (e.g. welders, forklift drivers, etc.) must receive relevant professional safety training and possess a valid license issued by the government authority before they are put into work. The Group will continue to provide trainings to minimise occupational health and safety risks during the production process.

2. ***Management of Safety Risk***

   In order to follow the EHS management system and implement the production safety policy of "Safety and Prevention First, and Integrated Management", 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 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 Xinfeng Production Plant and the Zhongshan Production Plant held GB/T28001:2011/OHSAS 18001:2007 Occupational Health and Safety Management System Certification and/or GB/T 45001-2020/ISO 45001:2018 Occupational Health and Safety Management System Certification which show 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)

#### 3. *Safe Working Environment*

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 materials Class A warehouse, the safety inspector will immediately arrange personnel to clean up the floor and replace raw materials bucket so as to eliminate safety hazards. We post the occupational hazard notification cards in the production workshops to remind and warn the employees of various hazard sources and relevant preventive measures. 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.

#### 4. *Employee Occupational Health*

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 Zhongshan Production Plant and the Xinfeng 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. The inspection results meet the standards. Employees in Mainland China are required to conduct pre-employment medical checkup and annual medical checkup and to pass the medical assessment as a prerequisite for continuous employment, which indicates that the Group cares about employees' health and occupational safety.

During the Reporting Period, the number of lost days due to work injury is as follows:

| | 2023 | 2022 |
|---|---|---|
| Lost Days due to Work Injury | 48 days | 36 days |

The Group had no work-related fatality occurred in each of the past three years, including the Reporting Period.

## EMPLOYMENT AND LABOUR PRACTICES (continued)

### 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 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 them 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" above 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 risk management, information management, environmental management, quality management (please refer to the section headed "Product Responsibility" below for details), occupational health and production safety management (please refer to the section headed "Health and Safety" above for details), etc., covering risk and opportunities response control process training, information security training, implementation of environmental labelling product certification standards, identification and evaluation of environmental factors, basic knowledge of environmental protection, standardised management of solid waste training, etc.

During the Reporting Period, the percentages of the employees of the Group trained[1] are as follows:

| | 2023 | 2022 |
|---|---|---|
| **Gender** | | |
| Male | 60.00% | 64.04% |
| Female | 48.44% | 57.19% |
| **Employee Category** | | |
| Executive Directors and Senior Management | – | 60.00% |
| Middle Management | 37.14% | 37.98% |
| Ordinary Staff | 59.30% | 65.86% |

Notes:

1 The percentage of the Group's employees trained refers to the number of Group's employees trained within the Reporting Period divided by the sum of the total number of the employees of the Group at the end of the Reporting Period and the number of departing employees within the Reporting Period.

2 The Group encourages the employees to enhance their knowledge by reading training materials on their own, such training hours are not recorded by the Group and thus not reflected in the training data above.

## EMPLOYMENT AND LABOUR PRACTICES (continued)

### Development and Training (continued)

During the Reporting Period, the average training hours[1] completed per the employee of the Group are as follows:

| | 2023 | 2022 |
|---|---|---|
| **Gender** | | |
| Male | 10.25 | 10.66 |
| Female | 7.18 | 9.25 |
| **Employee Category** | | |
| Executive Directors and Senior Management | – | 0.60 |
| Middle Management | 4.92 | 6.24 |
| Ordinary Staff | 9.89 | 10.93 |

Notes:

1 The average training hours refer to the number of training hours provided by the Group to the employees during the Reporting Period divided by the total number of the employees of the Group at the end of the Reporting Period and the number of the departing employees during the Reporting Period.

2 The Group encourages the employees to enhance their knowledge by reading training materials on their own, such training hours are not recorded by the Group and thus not reflected in the training data above.

### Labour Standards

The Group cherishes human rights and protects labour rights. Child and forced labour are strictly prohibited in accordance with the applicable labour 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. In case any possible violations are found, the Group will immediately take countermeasures to rectify and eliminate such violations as soon as possible so as to ensure compliance operations.

### Compliance

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

## OPERATING PRACTICES

### Supply Chain Management

The Group conveys its 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 a 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 strictly implements the relevant practices to engage all main suppliers in accordance with the internal regulations. 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. When selecting suppliers, the Group conducted on-site inspections to understand suppliers' considerations on social responsibility issues, such as child labour and forced labour, occupational health and safety, discrimination, employees remuneration, working hours, etc. Besides, the Group also requires suppliers to provide self-investigation reports on environmental and occupational health and safety, including whether the suppliers have obtained approvals from the government, environmental management system certification, occupational health and safety management system certification, etc., whether pollutants are generated during the production process, whether toxic, prohibited substances or dangerous chemicals are used in products or production process, whether suppliers use environmentally friendly materials or processes, whether suppliers provide employees with appropriate labour protective supplies, whether suppliers provide employees with adequate training, etc.

During the Reporting Period, the number and geographical distribution of the approved suppliers and the main suppliers that have business with the Group are as follows:

| | 2023 | 2022 | 2023 | 2022 |
|---|---|---|---|---|
| | Approved Suppliers | | Main Suppliers that have Business with the Group | |
| Mainland China | 347 | 434 | 275 | 309 |

## OPERATING PRACTICES (continued)

### Product Responsibility

To achieve the philosophy of "quality, consumer and environmental protection first", the Group satisfies customers with high-quality products and services.

#### *Management of Product Quality*

1. *Product Quality Assurance*

   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 obtained GB/T 19001, ISO 9001 and IATF 16949 Certification in Quality Management and standardised the production and product quality assurance process. The Group has formulated comprehensive quality inspection procedures covering the whole production process from raw materials used in pre-production, during manufacturing process and finished goods produced. The inspections are performed by experienced and well-trained inspectors with the aid of meticulous devices.

2. *Quality Management Training*

   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, ISO 9001, internal auditor training, product certification standard training, product test procedures training, quality awareness training, quality policy and target training, substandard products control procedures, quality complaints and preventive measures training, 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.

#### *Management of Customers' Complaints*

The Group has established a comprehensive sales network in Mainland China and Hong Kong and established sales branches in various cities in Mainland China 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 customers' 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 a 24-hour service hotline and online service to deal with complaints promptly, analyse the root cause and take rectification and preventive measures.

During the Reporting Period, the number of products and service-related complaints received is as follows:

| | 2023 | 2022 |
|---|---|---|
| Complaints Received | 200 | 383 |

## OPERATING PRACTICES (continued)

### Product Responsibility (continued)

#### *Management of Labelling*

The production plants of the Group in Mainland China have obtained various international accreditation certificates, such as Labels for China Compulsory Certification. The Group strictly complies with the 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 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 an enquiry hotline or conduct the authentication themselves to prevent counterfeit products from entering to the market and defending 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).

#### *Customer Data Protection and Privacy Policies*

Confidentiality is one of the Group's core values. The Group handles customers' personal data in good faith and with care in accordance with applicable laws and regulations. Customers' personal data must be kept safely and in compliance with confidentiality requirements. The customer must have been informed of the purposes for which his/her personal data will be used and to whom the data will be transferred (e.g. a person associated with the company). The personal data collected can only be used for the purposes for which the data are collected. If the data need to be disclosed to other parties, prior consent must be obtained from the customer. The Group has strict data management policies and appropriate IT access controls and measures in place to prevent data leakage and hacking of its information systems, for example, physical access control, firewalls and anti-virus software.

#### *Maintenance and Protection Intellectual Property Rights*

The Group respects intellectual property rights and employees are not allowed to possess or use copyrighted material without permission from the copyright owners.

#### *Recall of Products*

During the Reporting Period, the Group has no recall on the products which have been sold or shipped due to safety and health reasons.

#### *Compliance*

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, loss of data and intellectual property rights.

## OPERATING PRACTICES (continued)

### Anti-corruption

Maintaining an ethical working environment is one of the Group's core values. The Group has adopted a zero-tolerance approach for all kinds of corruption, bribery and extortion situation. 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 provides on-the-job anti-corruption training for all personnel (including the Directors and employees) and requires them 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 departments 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

### 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 RMB20,000 of bursaries for a number of students of Xinfeng No. 1 Middle School in Mainland China, sponsored RMB20,000 to a village committee and continued to participate in "6.30 Guangdong Poverty Day" by donating RMB50,000, hoping to actively involve in practising social responsibilities; at the same time of business development, the Company also pays 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.

## HONOURS AND AWARDS

The Group obtained the following major honours and awards in 2023:

### 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) and Yongcheng Eco-friendly were 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 Yongcheng Eco-friendly were awarded "*GB/T 45001-2020/ISO 45001:2018 Occupational Health and Safety Management System Certificate*".

➢ China Paint (Shenzhen), China Paint (Xinfeng), Hubei Giraffe and Yongcheng Eco-friendly 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), China Paint (Xinfeng) and Yongcheng Eco-friendly were awarded "*IECQ QC 080000:2017 Hazardous Substance Process Management System Certificate*".

➢ China Paint (Shenzhen) was awarded "*ISO/IEC 17025:2017 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) and China Paint (Xinfeng) were awarded "*Certificate for China Compulsory Product Certification (中國國家強制性產品認證證書)*".

➢ Various interior wall primer coating, exterior wall primer coating, interior wall paint, exterior wall paint and wood paint products of China Paint (Shenzhen) were awarded "*Certificate for China Environmental Labelling Production Certification (中國環境標誌產品認證證書)*".

➢ Paint product of "*Flower (菊花牌)" of China Paint (Shenzhen) was awarded "Famous Brand in Shenzhen (深圳知名品牌)*".

➢ Paint product of "*Flower (菊花牌)" of China Paint (Shenzhen) was awarded "Influential Brand in Exterior Wall Paints Products (外牆塗料影響力品牌)*".

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

## HONOURS AND AWARDS (continued)

**Mainland China** (continued)

- Paint product of "*Giraffe (長頸鹿牌)*" *of China Paint (Shenzhen) was included in "Guangdong Provincial Key Trademark Protection List (廣東省重點商標保護名錄)*".

- Paint product 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)*".

- Polyurethane Wood Paint Coating Products of China Paint (Xinfeng) was awarded "*Guangdong Provincial Famous High Technology Product Certificate (廣東省名優高新技術產品證書)*".

- Polyurethane Wood Paint Coating Products and Nitrocellulose Paint of China Paint (Xinfeng) were awarded "*Shaoguan City High Technology Product Certificate (韶關市高新技術產品證書)*".

## SUMMARY OF ENVIRONMENTAL DATA AND PERFORMANCE

| | Unit | 2023 | 2022 |
|---|---|---|---|
| **GREENHOUSE GAS EMISSIONS** | | | |
| **Scope 1[1]:** | | | |
| Total | Tonnes | 221.54 | 255.06 |
| Intensity[3] | Tonnes | 1.60 | 1.32 |
| **Scope 2[2]:** | | | |
| Total | Tonnes | 1,354.91 | 1,924.77 |
| Intensity[3] | Tonnes | 9.76 | 9.93 |
| **AIR EMISSIONS** | | | |
| Nitrogen Oxides | Kilograms | 433.75 | 592.83 |
| Sulfur Oxide | Kilograms | 1.08 | 1.15 |
| Particulate Matters | Kilograms | 28.54 | 38.79 |
| **HAZARDOUS WASTES** | | | |
| **Solid Wastes Generated:** | | | |
| Total | Tonnes | 34.59 | 181.36 |
| Intensity[3] | Tonnes | 0.25 | 0.94 |
| **NON-HAZARDOUS WASTES** | | | |
| **Solid Wastes Generated:** | | | |
| Total | Tonnes | 129.98 | 254.72 |
| Intensity[3] | Tonnes | 0.94 | 1.31 |
| **Wastewater Discharged:** | | | |
| Total | Tonnes | 10,195.00 | 10,550.94 |
| Intensity[3] | Tonnes | 73.44 | 54.41 |
| **PACKAGING MATERIALS USED FOR FINISHED GOODS** | | | |
| Total | Tonnes | 1,145.60 | 1,833.64 |
| Intensity[3] | Tonnes | 8.25 | 9.46 |
| **ENERGY AND WATER RESOURCES CONSUMPTION** | | | |
| **Electricity:** | | | |
| Total | MWh | 2,214.90 | 3,146.23 |
| Intensity[3] | MWh | 15.96 | 16.22 |
| **Diesel:** | | | |
| Total | Tonnes | 12.43 | 16.28 |
| Intensity[3] | Tonnes | 0.09 | 0.08 |
| **Gasoline:** | | | |
| Total | Tonnes | 43.42 | 42.53 |
| Intensity[3] | Tonnes | 0.31 | 0.22 |
| **Water Resources:** | | | |
| Total | Cubic Meters | 33,526.00 | 64,797.00 |
| Intensity[3] | Cubic Meters | 241.51 | 334.13 |
| **Refrigerant:** | | | |
| Total | Kilograms | 13.60 | 28.30 |
| Intensity[3] | Kilograms | 0.10 | 0.15 |

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

| SUBJECT AREAS, ASPECTS, GENERAL DISCLOSURES AND KPIs | | PAGE |
|---|---|---|
| **A. ENVIRONMENTAL** | | |
| **ASPECT A1** | **EMISSIONS** | |
| General Disclosure | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer<br>relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. | 45-54 |
| KPI A1.1 | The types of emissions and respective emissions data. | 49, 50, 52-53, 73 |
| KPI A1.2 | Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | 55-56, 73 |
| KPI A1.3 | Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | 52, 73 |
| KPI A1.4 | Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | 53, 73 |
| KPI A1.5 | Description of emissions target(s) set and steps taken to achieve them. | 46-48 |
| KPI A1.6 | Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them. | 48-53 |
| **ASPECT A2** | **USE OF RESOURCES** | |
| General Disclosure | Policies on the efficient use of resources, including energy, water and other raw materials. | 54-58 |
| KPI A2.1 | Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility). | 55-56, 73 |
| KPI A2.2 | Water consumption in total and intensity (e.g. per unit of production volume, per facility). | 57, 73 |
| KPI A2.3 | Description of energy use efficiency target(s) set and steps taken to achieve them. | 54-56 |
| KPI A2.4 | Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them. | 57 |
| KPI A2.5 | Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced. | 58, 73 |
| **ASPECT A3** | **THE ENVIRONMENT AND NATURAL RESOURCES** | |
| General Disclosure | Policies on minimising the issuer's significant impacts on the environment and natural resources. | 58-59 |
| KPI A3.1 | Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them. | 58-59 |
| **ASPECT A4** | **CLIMATE CHANGE** | |
| General Disclosure | Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer. | 59 |
| KPI A4.1 | Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them. | 59 |

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

| SUBJECT AREAS, ASPECTS, GENERAL DISCLOSURES AND KPIs | | PAGE |
|---|---|---|
| B. SOCIAL | | |
| EMPLOYMENT AND LABOUR PRACTICES | | |
| ASPECT B1 | EMPLOYMENT | |
| General Disclosure | Information on:<br>(a) the policies; and<br>(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. | 60-62 |
| KPI B1.1 | Total workforce by gender, employment type (for example, full– or part-time), age group and geographical region. | 61 |
| KPI B1.2 | Employee turnover rate by gender, age group and geographical region. | 62 |
| ASPECT B2 | HEALTH AND SAFETY | |
| General Disclosure | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer<br>relating to providing a safe working environment and protecting employees from occupational hazards. | 63-64 |
| KPI B2.1 | Number and rate of work-related fatalities occurred in each of the past three years including the reporting year. | 64 |
| KPI B2.2 | Lost days due to work injury. | 64 |
| KPI B2.3 | Description of occupational health and safety measures adopted, and how they are implemented and monitored. | 63-64 |
| ASPECT B3 | DEVELOPMENT AND TRAINING | |
| General Disclosure | Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. | 65-66 |
| KPI B3.1 | The percentage of employees trained by gender and employee category (e.g. senior management, middle management). | 65 |
| KPI B3.2 | The average training hours completed per employee by gender and employee category. | 66 |
| ASPECT B4 | LABOUR STANDARDS | |
| General Disclosure | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer<br>relating to preventing child and forced labour. | 66 |
| KPI B4.1 | Description of measures to review employment practices to avoid child and forced labour. | 66 |
| KPI B4.2 | Description of steps taken to eliminate such practices when discovered. | 66 |

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

| SUBJECT AREAS, ASPECTS, GENERAL DISCLOSURES AND KPIs | | PAGE |
|---|---|---|
| **B. SOCIAL (continued)** | | |
| **OPERATING PRACTICES** | | |
| **ASPECT B5** | **SUPPLY CHAIN MANAGEMENT** | |
| General Disclosure | Policies on managing environmental and social risks of the supply chain. | 67 |
| KPI B5.1 | Number of suppliers by geographical region. | 67 |
| KPI B5.2 | Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored. | 67 |
| KPI B5.3 | Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored. | 67 |
| KPI B5.4 | Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored. | 67 |
| **ASPECT B6** | **PRODUCT RESPONSIBILITY** | |
| General Disclosure | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer<br>relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress. | 68-69 |
| KPI B6.1 | Percentage of total products sold or shipped subject to recalls for safety and health reasons. | 69 |
| KPI B6.2 | Number of products and service related complaints received and how they are dealt with. | 68 |
| KPI B6.3 | Description of practices relating to observing and protecting intellectual property rights. | 69 |
| KPI B6.4 | Description of quality assurance process and recall procedures. | 68 |
| KPI B6.5 | Description of consumer data protection and privacy policies, and how they are implemented and monitored. | 69 |
| **ASPECT B7** | **ANTI-CORRUPTION** | |
| General Disclosure | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer<br>relating to bribery, extortion, fraud and money laundering. | 70 |
| KPI B7.1 | Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases. | 70 |
| KPI B7.2 | Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored. | 70 |
| KPI B7.3 | Description of anti-corruption training provided to directors and staff. | 70 |

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

| SUBJECT AREAS, ASPECTS, GENERAL DISCLOSURES AND KPIs | | PAGE |
|---|---|---|
| B. SOCIAL (continued) | | |
| COMMUNITY | | |
| 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. | 70 |
| KPI B8.1 | Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport). | 70 |
| KPI B8.2 | Resources contributed (e.g. money or time) to the focus area. | 70 |

# Report of the Directors

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2023.

## 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 property investment (including the investments in properties for rental income). 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 23 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 2023 and the state of affairs of the Group at that date are set out in the financial statements on pages 92 to 169.

The Directors have resolved not to declare a final dividend for the year ended 31 December 2023.

## MAJOR SUPPLIERS AND CUSTOMERS

In the year under review, purchases from the Group's five largest suppliers accounted for approximately 23% of the total purchases for the year and purchases from the largest supplier included therein amounted to 6%. Sales to the Group's five largest customers accounted for less than 16% 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 tables summarise the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate. This summary does not form part of the audited financial statements.

**Results**

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2023** | 2022 | 2021 | 2020 | 2019 |
| | **HK$'000** | HK$'000 | HK$'000 (Restated) | HK$'000 | HK$'000 |
| Revenue | **469,091** | 643,049 | 842,519 | 712,886 | 713,328 |
| Loss before tax | **(69,459)** | (98,456) | (61,225) | (12,638) | (27,102) |
| Income tax credit/(expense) | **2,482** | (15) | 1,780 | 1,903 | (815) |
| Loss for the year | **(66,977)** | (98,471) | (59,445) | (10,735) | (27,917) |
| ATTRIBUTABLE TO: | | | | | |
| Owners of the parent | **(67,115)** | (98,084) | (59,533) | (10,801) | (28,036) |
| Non-controlling interest | **138** | (387) | 88 | 66 | 119 |
| | **(66,977)** | (98,471) | (59,445) | (10,735) | (27,917) |

## SUMMARY OF FINANCIAL INFORMATION (continued)

### Assets, Liabilities and Non-Controlling Interest

| | 31 December | | | | |
|---|---|---|---|---|---|
| | **2023** | 2022 | 2021 | 2020 | 2019 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Total assets | **972,859** | 1,152,832 | 1,203,480 | 1,145,383 | 989,774 |
| Total liabilities | **(524,219)** | (631,887) | (670,366) | (561,630) | (456,081) |
| Non-controlling interest | **(4,175)** | (2,879) | (3,538) | (3,358) | (3,078) |
| | **444,465** | 518,066 | 529,576 | 580,395 | 530,615 |

## 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 29 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 31 to the financial statements and in the consolidated statement of changes in equity respectively.

## DISTRIBUTABLE RESERVES

As at 31 December 2023, the Company's reserves available for distribution, calculated in accordance with the Companies Law of the Cayman Islands, amounted to approximately HK$143,247,000.

## CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$114,000.

## 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
Mak Chi Wah

### Non-executive Directors

Lam Ting Ball, Paul *(resigned on 1 April 2023)*
Chong Chi Kwan

### Independent Non-executive Directors

Chua Joo Bin
Xia Jun
Meng Jinxia

In accordance with the Articles, Mr. Li Guangzhong, Mr. Chong Chi Kwan and Mr. Chua Joo Bin 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 | 60 | Executive Director, Chairman and Managing Director | 39 | Qualified solicitor and more than 39 years' experience in the paint and coating industry |
| Li Guangzhong | 54 | Executive Director and Sales Director | 31 | More than 30 years' experience in the paint and coating industry |
| Mak Chi Wah | 46 | Executive Director and Finance Director | 8 | More than 24 years' experience in accounting, auditing, taxation and business operations management |
| **Non-executive Director** | | | | |
| Chong Chi Kwan | 56 | Non-executive Director | 18 | More than 32 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** | | | | |
| Chua Joo Bin | 71 | Independent Non-executive Director | 7 | More than 47 years' experience in finance and accounting |
| Xia Jun | 68 | Independent Non-executive Director | 7 | Qualified PRC lawyer with more than 34 years' experience in PRC legal practice |
| Meng Jinxia | 66 | Independent Non-executive Director | 1 | More than 39 years' experience in engineering and manufacturing |
| **Senior management** | | | | |
| Lin Shu | 70 | Senior Assistant to Chairman | 26 | More than 24 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. Mr. Tsui Ho Chuen, Philip is the nephew of Mr. Tsui Yam Tong, Terry, the chairman and an executive director of CNT Group Limited.

(2) 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

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

(1) Mr. Lam Ting Ball, Paul resigned as the Chairman and a non-executive Director due to his retirement and has been appointed as the honorary chairman of the Company with effect from 1 April 2023. He is neither a director nor an officer of the Company and he does not have any management role in the Company.

(2) Mr. Tsui Ho Chuen, Philip has been appointed as the Chairman with effect from 1 April 2023.

(3) Details of changes in the Directors' remuneration 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 36 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 2023 or subsisted as at 31 December 2023.

## 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 2023.

## 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 2023, the interests of the Directors in the Shares and underlying shares of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the SFO were as follows:

| | | Number of Shares | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Name** | **Capacity** | **Personal interests** | **Family interests** | **Corporate interests** | **Other interests** | **Number of underlying shares** (Note) | **Total** | **Percentage of the total number of Shares in issue** |
| Tsui Ho Chuen, Philip | Beneficial owner | – | – | – | – | 10,000,000 | 10,000,000 | 1.00% |
| Li Guangzhong | Beneficial owner | – | – | – | – | 10,000,000 | 10,000,000 | 1.00% |
| Chong Chi Kwan | Beneficial owner | – | – | – | – | 10,000,000 | 10,000,000 | 1.00% |

Note: This represented the aggregate number of share options granted to the Directors by the Company (being regarded as unlisted physically settled equity derivatives) under the Share Option Scheme. Further details of the share options are set out in the section headed "Share Options" below.

Save as disclosed above, as at 31 December 2023, 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.

## SHARE OPTIONS (continued)

(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 share option may be exercised will be determined by the Board in its absolute discretion, save that no share option may be exercised more than 10 years after it has been granted.

(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) An offer for the grant of the share options must be accepted by the relevant eligible participant not later than 21 days after the offer date or such longer or shorter period as the Board may specify from and inclusive of the offer date.

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

## SHARE OPTIONS (continued)

Details of the movements in the share options granted by the Company under the Share Option Scheme during the year are as follows:

| Name | Date of grant | Exercise period | Exercise price per Share HK$ | Number of share options: Outstanding as at 1 January 2023 | Granted during the year | Exercised during the year | Cancelled/ lapsed during the year | Outstanding as at 31 December 2023 |
|---|---|---|---|---|---|---|---|---|
| **Executive Director** | | | | | | | | |
| Tsui Ho Chuen, Philip | 15 June 2022 | 15 June 2022 to 14 June 2027 | 0.335 | 10,000,000 | – | – | – | 10,000,000 |
| **Executive Director** | | | | | | | | |
| Li Guangzhong | 15 June 2022 | 15 June 2022 to 14 June 2027 | 0.335 | 10,000,000 | – | – | – | 10,000,000 |
| **Non-executive Director** | | | | | | | | |
| Chong Chi Kwan | 15 June 2022 | 15 June 2022 to 14 June 2027 | 0.335 | 10,000,000 | – | – | – | 10,000,000 |
| **Employees** | 15 June 2022 | 15 June 2022 to 14 June 2027 | 0.335 | 50,000,000 | – | – | – | 50,000,000 |
| | | | | 80,000,000 | – | – | – | 80,000,000 |

Notes:

(1) The share options granted have the vesting period and are/would be exercisable as follows:

(a) 50% of the share options vested on and are exercisable from the date of grant of the share options, i.e. 15 June 2022;

(b) 20% of the share options vested on one day before the first anniversary of the date of grant of the share options, i.e. 14 June 2023 and are exercisable from 15 June 2023;

(c) 10% of the share options shall vest on one day before the second anniversary of the date of grant of the share options, i.e. 14 June 2024 and would be exercisable from 15 June 2024;

(d) 10% of the share options shall vest on one day before the third anniversary of the date of grant of the share options, i.e. 14 June 2025 and would be exercisable from 15 June 2025; and

(e) the remaining 10% of the share options shall vest on one day before the fourth anniversary of the date of grant of the share options, i.e. 14 June 2026 and would be exercisable from 15 June 2026.

(2) The closing price of the Shares on 14 June 2022, being the date immediately before the date on which the above share options were granted under the Share Option Scheme, was HK$0.335.

(3) The number of share options available for grant under the Share Option Scheme as at 1 January 2023 and 31 December 2023 were 20,000,000 share options respectively.

(4) There was no service provider sublimit set under the Share Option Scheme.

(5) There is no performance target attached with the share options.

## SHARE OPTIONS (continued)

Notes:

(6) During the year ended 31 December 2023, no share options were granted under the Share Option Scheme. The number of shares of the Company that may be issued in respect of share options granted under the Share Option Scheme during the year ended 31 December 2023 divided by the weight average number of shares of the Company in issue for the year ended 31 December 2023 was 8%.

(7) The Remuneration Committee considered that the share options granted on 15 June 2022 was to reward eligible participants who had contributed to the business development of the Group and to encourage eligible participants to work towards enhancing the value of the Company and for the benefit of the Company and its shareholder as a whole. The Remuneration Committee also considered that the Grantees were eligible participants under the Share Option Scheme who would contribute directly to the overall business performance and sustainable development of the Group, the granting of share options to the Grantees was a recognition for their past contributions to the Group and the share options were subject to the terms of the Share Option Scheme which provided for circumstances under which the share options may lapse.

(8) Details of the value of the share options granted under the Share Option Scheme are set out in note 30 to the financial statements.

(9) Other than the share options stated above, no share options had been granted by the Company to other participants pursuant to the Share Option Scheme. Save as disclosed above, no other share options were granted, exercised, cancelled or lapsed during the year ended 31 December 2023.

## INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 31 December 2023, 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 2023 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**

**Tsui Ho Chuen, Philip**
*Chairman and Managing Director*
Hong Kong, 27 March 2024

# Independent Auditor's Report

**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 92 to 169, which comprise the consolidated statement of financial position as at 31 December 2023, 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 material accounting policy information.

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 2023, 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 2023, the Group recorded trade receivables of HK$247.4 million before loss allowance of HK$91.9 million.<br><br>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.<br><br>Disclosures in relation to trade receivables are included in notes 4 and 20 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, probability of default and forward-looking information.<br><br>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. Our internal valuation experts were also involved to assist us in evaluating the assumptions used for the ECLs assessment and key parameter adopted by the valuer. 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, actions taken to eliminate threats or safeguards applied.

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 Wong Yat Kin.

**Ernst & Young**
*Certified Public Accountants*
27/F, One Taikoo Place
979 King's Road
Quarry Bay
Hong Kong

27 March 2024

# Consolidated Statement of Profit or Loss

Year ended 31 December 2023

| | Notes | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|---|
| REVENUE | 6 | **469,091** | 643,049 |
| Cost of sales | | **(311,548)** | (500,521) |
| Gross profit | | **157,543** | 142,528 |
| Other income and gains, net | 6 | **9,622** | 40,641 |
| Selling and distribution expenses | | **(62,286)** | (90,455) |
| Administrative expenses | | **(91,136)** | (123,955) |
| Other expenses, net | | **(69,960)** | (59,782) |
| Finance costs | 8 | **(13,242)** | (7,433) |
| LOSS BEFORE TAX | 7 | **(69,459)** | (98,456) |
| Income tax credit/(expense) | 11 | **2,482** | (15) |
| LOSS FOR THE YEAR | | **(66,977)** | (98,471) |
| ATTRIBUTABLE TO: | | | |
| Owners of the parent | | **(67,115)** | (98,084) |
| Non-controlling interest | | **138** | (387) |
| | | **(66,977)** | (98,471) |
| LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | | | |
| Basic and diluted | 13 | **HK(6.71) cents** | HK(9.81) cents |

# Consolidated Statement of Comprehensive Income

Year ended 31 December 2023

| | Notes | **2023 HK$'000** | 2022 HK$'000 |
|---|---|---|---|
| LOSS FOR THE YEAR | | **(66,977)** | (98,471) |
| OTHER COMPREHENSIVE INCOME/(LOSS) | | | |
| Other comprehensive loss that may be reclassified to profit or loss in subsequent periods: | | | |
| Exchange differences on translation of foreign operations | | **(23,182)** | (49,364) |
| Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods: | | | |
| Remeasurement of net pension scheme assets | | **–** | (1,438) |
| Gain on property revaluation | 14 | **21,273** | 154,698 |
| Income tax effect | 27 | **(5,101)** | (23,204) |
| | | **16,172** | 131,494 |
| Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods | | **16,172** | 130,056 |
| OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR | | **(7,010)** | 80,692 |
| TOTAL COMPREHENSIVE LOSS FOR THE YEAR | | **(73,987)** | (17,779) |
| ATTRIBUTABLE TO: | | | |
| Owners of the parent | | **(75,283)** | (17,120) |
| Non-controlling interest | | **1,296** | (659) |
| | | **(73,987)** | (17,779) |

# Consolidated Statement of Financial Position

31 December 2023

| | Notes | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 14 | **110,000** | 151,090 |
| Investment properties | 15 | **309,087** | 240,941 |
| Right-of-use assets | 16(a) | **34,593** | 81,270 |
| Equity investment designated at fair value through other comprehensive income | 17 | **300** | 300 |
| Deposits for purchases of property, plant and equipment | 18 | **4,185** | 4,308 |
| Deposits and prepayments | 21 | **764** | 500 |
| Deferred tax assets | 27 | **17,502** | 14,220 |
| Total non-current assets | | **476,431** | 492,629 |
| CURRENT ASSETS | | | |
| Inventories | 19 | **27,353** | 43,124 |
| Trade and bills receivables | 20 | **171,852** | 369,378 |
| Prepayments, deposits and other receivables | 21 | **53,286** | 57,978 |
| Pledged deposits | 22 | **98,994** | 42,202 |
| Cash and cash equivalents | 22 | **144,943** | 147,521 |
| Total current assets | | **496,428** | 660,203 |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | 23 | **195,523** | 260,778 |
| Other payables and accruals | 24 | **53,502** | 76,980 |
| Interest-bearing bank borrowings | 25 | **120,745** | 237,257 |
| Lease liabilities | 16(b) | **2,646** | 3,552 |
| Tax payable | | **9,054** | 9,387 |
| Total current liabilities | | **381,470** | 587,954 |
| NET CURRENT ASSETS | | **114,958** | 72,249 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **591,389** | 564,878 |

# Consolidated Statement of Financial Position

31 December 2023

| | Notes | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|---|
| NON-CURRENT LIABILITIES | | | |
| Loans from the Parent Group | 26 | **95,970** | – |
| Lease liabilities | 16(b) | **3,630** | 5,196 |
| Deferred tax liabilities | 27 | **39,661** | 35,621 |
| Deferred income | 28 | **334** | 634 |
| Deposit received | 24 | **3,154** | 2,482 |
| Total non-current liabilities | | **142,749** | 43,933 |
| Net assets | | **448,640** | 520,945 |
| EQUITY | | | |
| Equity attributable to owners of the parent | | | |
| Issued capital | 29 | **100,000** | 100,000 |
| Reserves | 31 | **344,465** | 418,066 |
| | | **444,465** | 518,066 |
| Non-controlling interest | | **4,175** | 2,879 |
| Total equity | | **448,640** | 520,945 |

**Tsui Ho Chuen, Philip**
*Director*

**Mak Chi Wah**
*Director*

# Consolidated Statement of Changes in Equity

Year ended 31 December 2023

| | Attributable to owners of the parent | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Issued Capital HK$'000 (note 29) | Share premium account HK$'000 | Merger Reserve HK$'000 | Capital contribution^ HK$'000 | Contributed Surplus HK$'000 | Share option reserve HK$'000 (note 30) | 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 2022 | 100,000 | 94,614 | (15,017) | 2,630 | (28,616) | – | (500) | 32,759 | 10,485 | 32,778 | 29,819 | 270,624 | 529,576 | 3,538 | 533,114 |
| Loss for the year | – | – | – | – | – | – | – | – | – | – | – | (98,084) | (98,084) | (387) | (98,471) |
| Other comprehensive income/(loss) for the year: | | | | | | | | | | | | | | | |
| Gain on property revaluation, net of tax | – | – | – | – | – | – | – | 131,494 | – | – | – | – | 131,494 | – | 131,494 |
| Remeasurement of net pension scheme assets | – | – | – | – | – | – | – | – | – | – | – | (1,438) | (1,438) | – | (1,438) |
| Exchange differences on translation of foreign operations | – | – | – | – | – | – | – | – | – | (49,092) | – | – | (49,092) | (272) | (49,364) |
| Total comprehensive income/(loss) for the year | – | – | – | – | – | – | – | 131,494 | – | (49,092) | – | (99,522) | (17,120) | (659) | (17,779) |
| Equity-settled share option arrangements | – | – | – | – | – | 5,610 | – | – | – | – | – | – | 5,610 | – | 5,610 |
| At 31 December 2022 | 100,000 | 94,614# | (15,017)# | 2,630# | (28,616)# | 5,610# | (500)# | 164,253# | 10,485# | (16,314)# | 29,819# | 171,102# | 518,066 | 2,879 | 520,945 |

# Consolidated Statement of Changes in Equity

Year ended 31 December 2023

| | Attributable to owners of the parent | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Issued capital HK$'000 (note 29) | Share premium account HK$'000 | Merger Reserve HK$'000 | Capital contribution^ HK$'000 | Contributed Surplus HK$'000 | Share option reserve HK$'000 (note 30) | 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 2023 | 100,000 | 94,614 | (15,017) | 2,630 | (28,616) | 5,610 | (500) | 164,253 | 10,485 | (16,314) | 29,819 | 171,102 | 518,066 | 2,879 | 520,945 |
| Profit/(loss) for the year | - | - | - | - | - | - | - | - | - | - | - | (67,115) | (67,115) | 138 | (66,977) |
| Other comprehensive income/(loss) for the year: | | | | | | | | | | | | | | | |
| Gain on property revaluation, net of tax | - | - | - | - | - | - | - | 14,947 | - | - | - | - | 14,947 | 1,225 | 16,172 |
| Exchange differences on translation of foreign operations | - | - | - | - | - | - | - | - | - | (23,115) | - | - | (23,115) | (67) | (23,182) |
| Total comprehensive income/(loss) for the year | - | - | - | - | - | - | - | 14,947 | - | (23,115) | - | (67,115) | (75,283) | 1,296 | (73,987) |
| Equity-settled share option arrangements | - | - | - | - | - | 1,682 | - | - | - | - | - | - | 1,682 | - | 1,682 |
| At 31 December 2023 | 100,000 | 94,614# | (15,017)# | 2,630# | (28,616)# | 7,292# | (500)# | 179,200# | 10,485# | (39,429)# | 29,819# | 103,987# | 444,465 | 4,175 | 448,640 |

** 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$344,465,000 (2022: HK$418,066,000) in the consolidated statement of financial position.

^ The capital contribution reserve represents equity-settled share option expenses 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 2023

| | Notes | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Loss before tax | | **(69,459)** | (98,456) |
| Adjustments for: | | | |
| Finance costs | 8 | **13,242** | 7,433 |
| Bank interest income | 6 | **(1,933)** | (1,771) |
| Depreciation of property, plant and equipment | 7 | **17,881** | 25,706 |
| Depreciation of right-of-use assets | 7 | **5,341** | 7,170 |
| Recognition of deferred income | 6 | **(284)** | (299) |
| Gain on disposal of items of property, plant and equipment, net | 6 | **(553)** | (537) |
| Loss on termination of lease | 16 | **9** | – |
| Write-off of items of property, plant and equipment | 7 | **54** | 1,354 |
| Reversal of provision of inventories to net realisable value, net | 7 | **(36)** | (135) |
| Fair value loss/(gain) on investment properties, net | 7 | **11,482** | (593) |
| Provision for impairment of trade and bills receivables, net | 7 | **50,128** | 16,308 |
| Loss on revaluation of property, plant and equipment | 7 | **26** | – |
| Loss on revaluation of right-of-use assets | 7 | **1,778** | – |
| Trade receivables written-off as uncollectible | 7 | **–** | 522 |
| Provision for/(reversal of provision for) impairment of property, plant and equipment | 7 | **(927)** | 1,855 |
| Provision for/(reversal of provision for) impairment of right-of-use assets | 7 | **(3,710)** | 6,145 |
| Equity-settled share option expenses | 30 | **1,682** | 5,610 |
| Net pension benefit expenses | 7 | **–** | 1 |
| | | **24,721** | (29,687) |
| Decrease in inventories | | **14,988** | 32,999 |
| Decrease in trade and bills receivables | | **138,685** | 21,614 |
| Decrease in prepayments, deposits and other receivables | | **2,843** | 45 |
| Decrease in trade and bills payables | | **(58,870)** | (66,429) |
| Increase/(decrease) in other payables and accruals | | **(21,146)** | 10,508 |
| Exchange realignment | | **(2,661)** | 710 |
| Cash generated from/(used in) operations | | **98,560** | (30,240) |
| Interest paid | | **(13,146)** | (6,602) |
| Interest element of lease payments | | **(404)** | (324) |
| Overseas taxes refunded/(paid) | | **(1,373)** | 33 |
| Net cash flows from/(used in) operating activities | | **83,637** | (37,133) |

# Consolidated Statement of Cash Flows

Year ended 31 December 2023

| | Notes | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|---|
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchases of items of property, plant and equipment | | **(3,989)** | (5,294) |
| Purchases of right-of-use assets | | **–** | (10,977) |
| Proceeds from disposal of items of property, plant and equipment | | **1,417** | 647 |
| Interest received | | **1,933** | 1,771 |
| Disposal of pension scheme assets | | **–** | 4,109 |
| Deposits paid for purchases of property, plant and equipment and right-of-use assets | 18 | **–** | (5,465) |
| Increase in pledged time deposits | | **(57,997)** | (3,294) |
| Increase in non-pledged time deposit with original maturity of more than three months when acquired | | **(1,151)** | – |
| Net cash flows used in investing activities | | **(59,787)** | (18,503) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| New bank loans | | **319,916** | 420,490 |
| Repayment of bank loans | | **(436,720)** | (398,665) |
| Receipts of loans from Parent Group | | **95,680** | – |
| Principal portion of lease payments | | **(3,539)** | (3,771) |
| Net cash flows from/(used in) financing activities | | **(24,663)** | 18,054 |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | | **(813)** | (37,582) |
| Cash and cash equivalents at beginning of year | | **147,521** | 196,094 |
| Effect of foreign exchange rate changes, net | | **(2,916)** | (10,991) |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | **143,792** | 147,521 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | 22 | **143,792** | 147,521 |
| Non-pledged time deposits with original maturity of more than three months when acquired | | **1,151** | – |
| Cash and cash equivalents as stated in the consolidated statement of financial position | | **144,943** | 147,521 |
| Non-pledged time deposits with original maturity of more than three months when acquired | | **(1,151)** | – |
| Cash and cash equivalents as stated in the consolidated statement of cash flows | | **143,792** | 147,521 |

## 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 involved in the following principal activities:

- manufacture and sale of paint and coating products; and
- property investment (including the investments in properties for rental income)

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

CNT Group Limited and its subsidiaries, but excluding the Group, are collectively referred to as the "Parent 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 Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| 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$2 | – | 100 | Manufacture and sale of paint and coating products and investment holding |
| CP Industries (BVI) Limited | British Virgin Islands ("BVI") | United States dollars ("US$") US$1,635,512 | 100 | – | Investment holding |
| CP New Material Technology Holdings Limited | Hong Kong | HK$1,000,000 | – | 100 | Investment holding |
| Majority Faith Corporation | BVI | US$1 | – | 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 |
|---|---|---|---|---|---|
| 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<br>The China Paint Manufacturing (Shenzhen) Co., Ltd.#^ | PRC/Mainland China | HK$107,667,000 (2022: HK$70,000,000) | – | 100 | Manufacture and sale of paint and coating products and property investment |
| 中華製漆(新豐)有限公司<br>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<br>Giraffe Paint Mfg. Co., (Shanghai) Ltd.#^ | PRC/Mainland China | US$4,000,000 | – | 100 | Sale of paint and coating products and property investment |
| 長頸鹿製漆(徐州)有限公司<br>Giraffe Paint Mfg. Co., (Xuzhou) Ltd.#^ | PRC/Mainland China | US$2,000,000 | – | 100 | Manufacture and sale of paint and coating products and property investment |
| 湖北長頸鹿製漆有限公司<br>Hubei Giraffe Paint Mfg. Co., Ltd.##^ | PRC/Mainland China | Renminbi ("RMB") 40,000,000 | – | 90.5 | Manufacture and sale of paint and coating products and property investment |
| 永成環保材料 (廣東) 有限公司<br>Zhongshan Yongcheng Chemical Co., Ltd.#^ | PRC/Mainland China | RMB90,000,000 | – | 100 | Manufacture and sale of paint and coating products and property investment |

\# 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. ACCOUNTING POLICIES

## 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"), and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and an equity investment, 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 2023. 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).

Generally, there is a presumption that a majority of voting rights results in control. When the Company has, 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 the related assets (including goodwill), liabilities, any non-controlling interest and the exchange fluctuation reserve; and recognises the fair value of any investment retained and 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. ACCOUNTING POLICIES (continued)

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

| | |
|---|---|
| HKFRS 17 | *Insurance Contracts* |
| Amendments to HKAS 1 and HKFRS Practice Statement 2 | *Disclosure of Accounting Policies* |
| Amendments to HKAS 8 | *Definition of Accounting Estimates* |
| Amendments to HKAS 12 | *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* |
| Amendments to HKAS 12 | *International Tax Reform – Pillar Two Model Rules* |

The nature and the impact of the new and revised HKFRSs that are applicable to the Group are described below:

(a) Amendments to HKAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 *Making Materiality Judgements* provide non-mandatory guidance on how to apply the concept of materiality to accounting policy discloses. The amendments did not have any impact on the measurement, recognition or presentation of any items in the financial position and performance of the Group.

(b) Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. Since the Group's approach and policy align with the amendments, the amendments did not have any impact on the financial position and performance of the Group.

(c) Amendments to HKAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* narrow the scope of the initial recognition exception in HKAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions.

Upon the application of the amendments, the Group has determined the temporary differences arising from right-of-use assets and lease liabilities separately. However, they did not have any material impact on the overall deferred tax balances presented in the consolidated statement of financial position as the related deferred tax balances qualified for offsetting under HKAS 12.

## 2. ACCOUNTING POLICIES (continued)

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(d) Amendments to HKAS 12 *International Tax Reform – Pillar Two Model Rules* introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two Income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. The Group has applied the amendments retrospectively. Since the Group did not fall within the scope of the Pillar Two model rules, the amendments did not have any impact to the Group.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

| | |
|---|---|
| Amendments to HKFRS 10 and HKAS 28 | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3] |
| Amendments to HKFRS 16 | *Lease Liability in a Sale and Leaseback*[1] |
| Amendments to HKAS 1 | *Classification of Liabilities as Current or Non-current (the "2020 Amendments")*[1,4] |
| Amendments to HKAS 1 | *Non-current Liabilities with Covenants (the "2022 Amendments")*[1,4] |
| Amendments to HKAS 7 and HKFRS 7 | *Supplier Finance Arrangement*[1] |
| Amendments to HKAS 21 | *Lack of Exchangeability*[2] |

1 Effective for annual periods beginning on or after 1 January 2024
2 Effective for annual periods beginning on or after 1 January 2025
3 No mandatory effective date yet determined but available for adoption
4 As a consequence of the 2020 Amendments and 2022 Amendments, 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 to align the corresponding wording with no change in conclusion

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

Amendments to HKFRS 10 and HKAS 28 address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 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 resulting from a downstream transaction when the sale or contribution of assets 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 was removed by the HKICPA. However, the amendments are available for adoption now.

## 2. ACCOUNTING POLICIES (continued)

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

Amendments to HKFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively to sale and leaseback transactions entered into after the date of initial application of HKFRS 16 (i.e., 1 January 2019). Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

The 2020 Amendments clarify the requirements for classifying liabilities as current or non-current, including what is meant by a right to defer settlement and that a right to defer must exist at the end of the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement. The amendments also clarify that a liability can be settled in it own equity instruments, and that only if a conversion option in a convertible liability is itself accounted for as an equity instrument would the terms of a liability not impact its classification. The 2022 Amendments further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. Additional disclosures are required for non-current liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period. The amendments shall be applied retrospectively with early application permitted. An entity that applies the 2020 Amendments early is required to apply simultaneously the 2022 Amendments, and vice versa. The Group is currently assessing the impact of the amendments and whether existing loan agreements may require revision. Based on a preliminary assessment, the amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 7 and HKFRS 7 clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of finance statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk. Earlier application of the amendments is permitted. The amendments provide certain transition reliefs regarding comparative information, quantitative information as at the beginning of the annual reporting period and interim disclosures. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 21 specify how an entity shall assess whether a currency is exchangeable into another currency and how it shall estimate a spot exchange rate at a measurement date when exchangeability is lacking. The amendments require disclosure of information that enable users of financial statements to understand the impact of a currency not being exchangeable. Earlier application is permitted. When applying the amendments, an entity cannot restate comparative information. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening balance of retained profits or to the cumulative amount of translation differences accumulated in a separate component of entity, where appropriate, at the date of initial application. The amendments are not expected to have any significant impact on the Group's financial statements.

## 3. MATERIAL ACCOUNTING POLICIES

### Fair value measurement

The Group measures its investment properties and equity investment 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, 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.

In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

## 3. MATERIAL 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. MATERIAL 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.

### 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.

## 3. MATERIAL ACCOUNTING POLICIES (continued)

### Investment properties (continued)

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.

### 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.

## 3. MATERIAL ACCOUNTING POLICIES (continued)

**Leases** (continued)

***Group as a lessee*** (continued)

*(b) Lease liabilities (continued)*

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

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

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

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

***Group as a lessor***

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

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

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

**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.

## 3. MATERIAL ACCOUNTING POLICIES (continued)

### Investments and other financial assets

#### *Initial recognition and measurement*

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

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

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

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

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

#### *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 assts 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.

## 3. MATERIAL ACCOUNTING POLICIES (continued)

### Investments and other financial assets (continued)

#### *Subsequent measurement* (continued)

*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.

*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.

## 3. MATERIAL ACCOUNTING POLICIES (continued)

### 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.

### 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 that there has been a significant increase in credit risk when contractual payments are more than two years past due.

## 3. MATERIAL ACCOUNTING POLICIES (continued)

### Impairment of financial assets (continued)

***General approach*** (continued)

The Group considers a financial asset in default when contractual payments are over three years past due. The Group has rebutted the 90 days past due presumption of default based on reasonable and supportable information, including the Group's credit risk control practices and the historical recovery rate of financial assets over 90 days past due. However, 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

***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 and bills 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:

## 3. MATERIAL ACCOUNTING POLICIES (continued)

**Financial liabilities** (continued)

***Subsequent measurement*** (continued)

*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.

*Financial liabilities at amortised cost (trade and other payables, and borrowings)*

After initial recognition, trade and other payables, and 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.

## 3. MATERIAL ACCOUNTING POLICIES (continued)

### 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.

### 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.

## 3. MATERIAL ACCOUNTING POLICIES (continued)

### 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.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward 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 carry forward 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.

## 3. MATERIAL ACCOUNTING POLICIES (continued)

### Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, 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.

### 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. MATERIAL ACCOUNTING POLICIES (continued)

### Employee benefits

#### *Pension schemes and other retirement benefits*

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. 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 MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiary which operates 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.

#### *Share-based payments*

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

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 30 to the financial statements.

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

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

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

## 3. MATERIAL ACCOUNTING POLICIES (continued)

### Employee benefits (continued)

#### *Share-based payments* (continued)

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

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

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

### 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).

## 3. MATERIAL ACCOUNTING POLICIES (continued)

***Foreign currencies*** (continued)

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 exchange rates that approximate to those prevailing at the dates of the transactions.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve, except to the extent that the differences are attributable to non-controlling interests. On disposal of a foreign operation, the cumulative amount in the reserve 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.

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

**Judgements** (continued)

***Classification between investment properties and owner-occupied properties***

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

**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 and bills 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 Group also performs impairment analysis on certain trade and bills receivables at each reporting date by considering the probability of default of counterparty. The Group takes into account the forward-looking information to reflect the debtors' probability of default under the current conditions and forecasts of future economic conditions, as appropriate.

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 and bills receivables is disclosed in note 20 to the financial statements.

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

### Estimation uncertainty (continued)

***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).

***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 2023 was HK$309,087,000 (2022: HK$240,941,000. 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 is 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 is organised into business units based on their products and services and has two reportable operating segments as follows:

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

(b) the property investment segment invests in industrial properties for their rental income potential.

## 5. OPERATING SEGMENT INFORMATION (continued)

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

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

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

Intersegment sales and transfers are transacted on mutually agreed terms.

| **Year ended 31 December 2023** | **Paint products HK$'000** | **Property investment HK$'000** | **Total HK$'000** |
|---|---|---|---|
| **Segment revenue** | | | |
| Sales to external customers | **448,475** | **20,616** | **469,091** |
| Other revenue and gains, net | **7,689** | **–** | **7,689** |
| | **456,164** | **20,616** | **476,780** |
| *Reconciliation:* | | | |
| Elimination of intersegment sales | | | **–** |
| Total | | | **476,780** |
| **Segment results** | **(58,152)** | **6,355** | **(51,797)** |
| *Reconciliation:* | | | |
| Elimination of intersegment results | | | **–** |
| Interest income | | | **1,933** |
| Finance costs | | | **(13,242)** |
| Corporate and other unallocated expenses | | | **(6,353)** |
| Loss before tax | | | **(69,459)** |
| **Segment assets** | **639,424** | **320,731** | **960,155** |
| *Reconciliation:* | | | |
| Elimination of intersegment receivables | | | **–** |
| Corporate and other unallocated assets | | | **12,704** |
| Total assets | | | **972,859** |
| **Segment liabilities** | **482,024** | **40,322** | **522,346** |
| *Reconciliation:* | | | |
| Elimination of intersegment payables | | | **–** |
| Corporate and other unallocated liabilities | | | **1,873** |
| Total liabilities | | | **524,219** |

## 5. OPERATING SEGMENT INFORMATION (continued)

| Year ended 31 December 2023 | Paint products HK$'000 | Property investment HK$'000 | Total HK$'000 |
|---|---|---|---|
| **Other segment information** | | | |
| Depreciation on property, plant and equipment | **17,881** | – | **17,881** |
| Depreciation on right-of-use assets | **5,341** | – | **5,341** |
| Capital expenditure* | **3,989** | – | **3,989*** |
| Fair value loss on investment properties, net | – | **11,482** | **11,482** |
| Loss on revaluation of right-of-use assets | **1,778** | – | **1,778** |
| Loss on revaluation of property, plant and equipment | **26** | – | **26** |
| Provision for impairment of trade and bills receivables, net | **50,128** | – | **50,128** |
| Reversal of provision for impairment of property, plant and equipment | **(927)** | – | **(927)** |
| Reversal of provision for impairment of right-of-use assets | **(3,710)** | – | **(3,710)** |
| Reversal of provision of inventories to net realisable value, net | **(36)** | – | **(36)** |

* Capital expenditure consists of additions to property, plant and equipment.

## 5. OPERATING SEGMENT INFORMATION (continued)

| Year ended 31 December 2022 | Paint products HK$'000 | Property investment HK$'000 | Total HK$'000 |
|---|---|---|---|
| **Segment revenue** | | | |
| Sales to external customers | 639,134 | 3,915 | 643,049 |
| Other revenue and gains, net | 36,403 | 2,467 | 38,870 |
| | 675,537 | 6,382 | 681,919 |
| *Reconciliation:* | | | |
| Elimination of intersegment sales | | | – |
| Total | | | 681,919 |
| **Segment results** | (86,366) | 4,269 | (82,097) |
| *Reconciliation:* | | | |
| Elimination of intersegment results | | | – |
| Interest income | | | 1,771 |
| Finance costs | | | (7,433) |
| Corporate and other unallocated expenses | | | (10,697) |
| Loss before tax | | | (98,456) |
| **Segment assets** | 894,058 | 246,151 | 1,140,209 |
| *Reconciliation:* | | | |
| Elimination of intersegment receivables | | | – |
| Corporate and other unallocated assets | | | 12,623 |
| Total assets | | | 1,152,832 |
| **Segment liabilities** | 594,580 | 35,354 | 629,934 |
| *Reconciliation:* | | | |
| Elimination of intersegment payables | | | – |
| Corporate and other unallocated liabilities | | | 1,953 |
| Total liabilities | | | 631,887 |

## 5. OPERATING SEGMENT INFORMATION (continued)

| Year ended 31 December 2022 | Paint products HK$'000 | Property investment HK$'000 | Total HK$'000 |
|---|---|---|---|
| **Other segment information** | | | |
| Depreciation on property, plant and equipment | 25,706 | – | 25,706 |
| Depreciation on right-of-use assets | 7,170 | – | 7,170 |
| Capital expenditure* | 21,736 | – | 21,736* |
| Fair value gain on investment properties, net | – | (593) | (593) |
| Provision for impairment of trade and bills receivables, net | 16,308 | – | 16,308 |
| Trade receivables written off as uncollectible | 522 | – | 522 |
| Provision for impairment of property, plant and equipment | 1,855 | – | 1,855 |
| Provision for impairment of right-of-use assets | 6,145 | – | 6,145 |
| Reversal of provision of inventories to net realisable value, net | (135) | – | (135) |

* Capital expenditure consists of additions to property, plant and equipment, right-of-use assets (land portion only) and deposits for purchases of property, plant and equipment.

## 5. OPERATING SEGMENT INFORMATION (continued)

### Geographical information

(a) Revenue from external customers

| | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|
| Hong Kong | **59,073** | 68,493 |
| Mainland China | **410,018** | 574,556 |
| | **469,091** | 643,049 |

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

(b) Non-current assets

| | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|
| Hong Kong | **1,587** | 989 |
| Mainland China | **457,042** | 476,620 |
| | **458,629** | 477,609 |

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

### Information about a major customer

During the years ended 31 December 2023 and 2022, 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 is as follows:

| | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|
| *Revenue from contracts with customers* | | |
| Sale of paint products | **448,475** | 639,134 |
| *Revenue from other sources* | | |
| Gross rental income from investment properties | **20,616** | 3,915 |
| | **469,091** | 643,049 |

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

### Revenue from contracts with customers

### (i) Disaggregated revenue information

| | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|
| **Type of paint and coating products sold** | | |
| Industrial paint and coating products | **172,863** | 227,764 |
| Architectural paint and coating products | **178,225** | 273,717 |
| General paint and coating and ancillary products | **97,387** | 137,653 |
| | **448,475** | 639,134 |
| **Geographical markets** | | |
| Hong Kong | **59,073** | 68,493 |
| Mainland China | **389,402** | 570,641 |
| | **448,475** | 639,134 |
| **Timing of revenue recognition** | | |
| Goods transferred at a point in time | **448,475** | 639,134 |

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

| | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|
| Revenue recognised that was included in contract liabilities at the beginning of the reporting period: | | |
| Sale of paint and coating products | **943** | 2,162 |

### (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)

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

| | Notes | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|---|
| **Other income and gains, net** | | | |
| Bank interest income | | **1,933** | 1,771 |
| Fair value gain of investment properties, net | 15 | **–** | 593 |
| Foreign exchange differences, net | | **215** | 542 |
| Government grants* | | **836** | 1,939 |
| Government subsidies# | | **4,077** | 32,384 |
| Gain on disposal of items of property, plant and equipment, net | | **553** | 537 |
| Recognition of deferred income | 28 | **284** | 299 |
| Others | | **1,724** | 2,576 |
| Total other income and gains, net | | **9,622** | 40,641 |

* 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.

\# During the year ended 31 December 2023, the amount was primarily attributed from that the PRC government granted subsidies of HK$2,399,000 for the removal of solvent production lines and solvent storage tanks in the production plants in Hubei (the "Hubei Production Plant") located in Mainland China. In addition, the tax authority granted to the Group an Advanced Manufacturing Tax Credit Initiative amounting to HK$1,662,000 under the Announcement No. 43 [2023] of the Ministry of Finance and the State Taxation Administration. There are no unfulfilled conditions or contingencies relating to these government subsidies.

During the year ended 31 December 2022, the PRC government granted subsidies for the removal of solvent production lines and solvent storage tanks in both the production plants in Shajing (the "Shajing Production Plant") and the Hubei Production Plant located in Mainland China. The subsidies amounted to HK$27,057,000 and HK$2,373,000, respectively. Furthermore, a subsidy of HK$1,874,000 was granted for relocating the main factory entrances within the complex situated in Shanghai, Mainland China (the "Shanghai Complex"). In addition, subsidies of HK$1,080,000 were granted from the 2022 Employment Support Scheme under the Anti-epidemic Fund of the Hong Kong government. There were no unfulfilled conditions or contingencies relating to these government subsidies.

## 7. LOSS BEFORE TAX

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

| | Notes | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|---|
| Cost of inventories sold | | **311,548** | 500,521 |
| Depreciation of property, plant and equipment | 14 | **17,881** | 25,706 |
| Depreciation of right-of-use assets | 16(a) | **5,341** | 7,170 |
| Lease payments not included in the measurement of lease liabilities | 16(c) | **3,433** | 5,218 |
| Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties | | **1,977** | 766 |
| Auditor's remuneration: | | | |
| Audit related services | | **2,620** | 2,730 |
| Other services | | **310** | 343 |
| | | **2,930** | 3,073 |
| Employee benefit expense (including Directors' remuneration (note 9)): | | | |
| Wages, salaries, bonuses, allowances and welfare | | **94,123** | 119,339 |
| Equity-settled share option expenses | 30 | **1,682** | 5,610 |
| Pension scheme contributions (defined contribution schemes)# | | **11,100** | 15,522 |
| Net pension benefit expenses recognised (defined contribution schemes)# | | **–** | 1 |
| | | **106,905** | 140,472 |
| Fair value loss/(gain) on investment properties, net* | 15 | **11,482** | (593) |
| Foreign exchange differences, net* | | **(215)** | (542) |
| Gain on disposal of items of property, plant and equipment, net* | | **(553)** | (537) |
| Loss on revaluation of property, plant and equipment* | | **26** | – |
| Loss on revaluation of right-of-use assets* | | **1,778** | – |
| Product improvement and development | | **11,966** | 17,271 |
| Provision for impairment of trade and bills receivables, net* | 20 | **50,128** | 16,308 |
| Provision for/(reversal of provision for) impairment of property, plant and equipment* | 14 | **(927)** | 1,855 |
| Provision for/(reversal of provision for) impairment of right-of-use assets* | 16(a) | **(3,710)** | 6,145 |
| Reversal of provision of inventories to net realisable value, net@ | | **(36)** | (135) |
| Staff termination cost* | | **1,226** | 21,581 |
| Trade receivables written-off as uncollectible* | | **–** | 522 |
| Write-off of items of property, plant and equipment* | 14 | **54** | 1,354 |

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

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

\# At 31 December 2023 and 2022, the Group had no material forfeited contributions available to reduce its contributions to the retirement benefit schemes in future years.

## 8. FINANCE COSTS

An analysis of finance costs is as follows:

| | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|
| Interest on bank loans and other borrowings | **12,838** | 7,109 |
| Interest expense on lease liabilities | **404** | 324 |
| | **13,242** | 7,433 |

## 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:

| | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|
| Fees | **1,450** | 1,600 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **7,647** | 8,605 |
| Discretionary bonuses | **870** | 1,332 |
| Equity-settled share option expenses | **630** | 2,103 |
| Pension scheme contributions | **494** | 496 |
| | **9,641** | 12,536 |
| | **11,091** | 14,136 |

Certain Directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 30 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting periods, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above Directors' remuneration disclosures.

### (a) Independent non-executive Directors

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

| | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|
| Chiu Kam Hing, Kathy *(resigned on 1 December 2022)* | **–** | 183 |
| Chua Joo Bin | **200** | 200 |
| Meng Jinxia *(appointed on 1 December 2022)* | **200** | 17 |
| Xia Jun | **200** | 200 |
| | **600** | 600 |

There were no other emoluments payable to the independent non-executive Directors during the year (2022: Nil).

## 9. DIRECTORS' REMUNERATION (continued)

### (b) Executive Directors and non-executive Directors

| 2023 | Fees HK$'000 | Salaries, allowance and benefits in kind HK$'000 | Equity-settled share option expenses HK$'000 | Discretionary bonuses HK$'000 | Pension scheme contributions HK$'000 | Total remuneration HK$'000 |
|---|---|---|---|---|---|---|
| **Executive Directors:** | | | | | | |
| Tsui Ho Chuen, Philip | 200 | 5,644 | 210 | 730 | 350 | 7,134 |
| Li Guangzhong | 200 | 1,043 | 210 | – | 126 | 1,579 |
| Mak Chi Wah | 200 | 960 | – | 140 | 18 | 1,318 |
| | 600 | 7,647 | 420 | 870 | 494 | 10,031 |
| **Non-executive Directors:** | | | | | | |
| Lam Ting Ball, Paul *(resigned on 1 April 2023)* | 50 | – | – | – | – | 50 |
| Chong Chi Kwan | 200 | – | 210 | – | – | 410 |
| | 250 | – | 210 | – | – | 460 |
| | 850 | 7,647 | 630 | 870 | 494 | 10,491 |

| 2022 | Fees HK$'000 | Salaries, allowance and benefits in kind HK$'000 | Equity-settled share option expenses HK$'000 | Discretionary bonuses HK$'000 | Pension scheme contributions HK$'000 | Total remuneration HK$'000 |
|---|---|---|---|---|---|---|
| **Executive Directors:** | | | | | | |
| Tsui Ho Chuen, Philip | 200 | 5,644 | 701 | 1,095 | 350 | 7,990 |
| Wong Anders *(resigned on 1 August 2022)* | 100 | 854 | – | 117 | 10 | 1,081 |
| Li Guangzhong | 200 | 1,707 | 701 | – | 128 | 2,736 |
| Mak Chi Wah *(appointed on 1 August 2022)* | 100 | 400 | – | 120 | 8 | 628 |
| | 600 | 8,605 | 1,402 | 1,332 | 496 | 12,435 |
| **Non-executive Directors:** | | | | | | |
| Lam Ting Ball, Paul | 200 | – | – | – | – | 200 |
| Chong Chi Kwan | 200 | – | 701 | – | – | 901 |
| | 400 | – | 701 | – | – | 1,101 |
| | 1,000 | 8,605 | 2,103 | 1,332 | 496 | 13,536 |

There was no arrangement under which a Director waived or agreed to waive any remuneration during the year (2022: Nil).

## 10. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid employees during the year, included one Director (2022: two), details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining four (2022: three) highest paid employees who are non-Directors for the year are as follows:

| | **2023** | 2022 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Salaries, allowances and benefits in kind | **9,476** | 7,674 |
| Discretionary bonuses | **1,216** | 1,852 |
| Pension scheme contributions | **139** | 36 |
| | **10,831** | 9,562 |

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

| | **Number of employees** | |
|---|---|---|
| | **2023** | 2022 |
| HK$1,500,001 to HK$2,000,000 | **1** | – |
| HK$2,000,001 to HK$2,500,000 | **–** | – |
| HK$2,500,001 to HK$3,000,000 | **2** | 1 |
| HK$3,000,001 to HK$3,500,000 | **1** | 1 |
| HK$3,500,001 to HK$4,000,000 | **–** | 1 |
| | **4** | 3 |

During the years ended 31 December 2023 and 2022, 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. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

All subsidiaries of the Group established in Mainland China were subject to the PRC corporate income tax at a standard rate of 25% (2022: 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% (2022: 15%) had been applied during the year.

| | | **2023** | 2022 |
|---|---|---|---|
| | Note | **HK$'000** | HK$'000 |
| Current – Elsewhere | | | |
| Charge for the year | | **–** | 194 |
| Under/(over) provision in prior years | | **1,304** | (284) |
| Deferred | 27 | **(3,786)** | 105 |
| Total tax expense/(credit) for the year | | **(2,482)** | 15 |

## 11. INCOME TAX (continued)

A reconciliation of the tax expense/(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:

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| Loss before tax | (69,459) | (98,456) |
| Tax at the statutory tax rate | (11,461) | (16,245) |
| Different tax rates for subsidiaries in the PRC, net | (747) | (2,109) |
| Adjustments in respect of current tax of previous period | 1,304 | (284) |
| Income not subject to tax | (290) | (281) |
| Expenses not deductible for tax | 5,379 | 4,922 |
| Tax losses utilised from previous periods | – | (179) |
| Tax losses brought forward from previous periods now recognised | (4,405) | – |
| Tax losses not recognised | 8,340 | 11,659 |
| Effect of withholding tax on the distributable profits of the Group's subsidiaries | 810 | (1,732) |
| Others | (1,412) | 4,264 |
| Tax expense/(credit) at the Group's effective tax rate | (2,482) | 15 |

## 12. DIVIDEND

The Directors have resolved not to declare a final dividend for the year ended 31 December 2023 (2022: Nil).

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

The calculation of basic and diluted loss per share amount is based on the loss for the year attributable to ordinary equity holders of the parent of HK$67,115,000 (2022: HK$98,084,000) and the weighted average number of ordinary shares of 1,000,000,000 (2022: 1,000,000,000) in issue during the year.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding and assumed conversion of all dilutive potential ordinary shares as adjusted to reflect the dilution effect of the share options issued by the Company. For the years ended 31 December 2023 and 2022, no adjustment has been made to the basic loss per share amounts presented in respect of a dilution as the impact of the outstanding share options had an anti-dilutive effect on the basic loss per share amounts presented.

## 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 2023** | | | | | | | |
| At 1 January 2023: | | | | | | | |
| Cost or valuation | 193,813 | 317 | 44,914 | 89,092 | 30,001 | 13,823 | 371,960 |
| Accumulated depreciation and impairment | (83,053) | – | (25,362) | (76,538) | (23,883) | (12,034) | (220,870) |
| Net carrying amount | 110,760 | 317 | 19,552 | 12,554 | 6,118 | 1,789 | 151,090 |
| At 1 January 2023, net of accumulated depreciation and impairment | 110,760 | 317 | 19,552 | 12,554 | 6,118 | 1,789 | 151,090 |
| Additions | – | 1,947 | 509 | 414 | 758 | 361 | 3,989 |
| Disposals | – | – | – | (788) | (59) | (17) | (864) |
| Write-off (note 7) | – | – | – | (22) | (32) | – | (54) |
| Surplus on revaluation, net | 21,273 | – | – | – | – | – | 21,273 |
| Loss on revaluation (note 7) | (26) | – | – | – | – | – | (26) |
| Depreciation provided during the year (note 7) | (7,979) | – | (2,465) | (5,120) | (1,805) | (512) | (17,881) |
| Transfer to investment properties (note 15) | (35,422) | – | (9,625) | – | – | – | (45,047) |
| Transfer | – | (789) | 188 | 397 | 204 | – | – |
| Reversal of impairment (note 7) | – | – | 927 | – | – | – | 927 |
| Exchange realignment | (2,639) | (61) | (120) | (388) | (152) | (47) | (3,407) |
| At 31 December 2023, net of accumulated depreciation and impairment | 85,967 | 1,414 | 8,966 | 7,047 | 5,032 | 1,574 | 110,000 |
| At 31 December 2023 | | | | | | | |
| Cost or valuation | 148,693 | 1,414 | 24,514 | 86,960 | 27,883 | 12,481 | 301,945 |
| Accumulated depreciation and impairment | (62,726) | – | (15,548) | (79,913) | (22,851) | (10,907) | (191,945) |
| Net carrying amount | 85,967 | 1,414 | 8,966 | 7,047 | 5,032 | 1,574 | 110,000 |

## 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 2022 | | | | | | | |
| At 1 January 2022: | | | | | | | |
| Cost or valuation | 281,732 | 1,111 | 54,807 | 156,657 | 34,182 | 16,650 | 545,139 |
| Accumulated depreciation and impairment | (149,073) | – | (27,086) | (137,193) | (26,695) | (13,974) | (354,021) |
| Net carrying amount | 132,659 | 1,111 | 27,721 | 19,464 | 7,487 | 2,676 | 191,118 |
| At 1 January 2022, net of accumulated depreciation and impairment | 132,659 | 1,111 | 27,721 | 19,464 | 7,487 | 2,676 | 191,118 |
| Additions | – | 316 | 2.772 | 564 | 1,639 | 3 | 5,294 |
| Disposals | – | – | – | (86) | – | (24) | (110) |
| Write-off (note 7) | (32) | – | (404) | (808) | (110) | – | (1,354) |
| Transfer from deposits for purchases of property, plant and equipment (note 18) | 4,618 | – | – | 68 | 173 | – | 4,859 |
| Surplus on revaluation | 154,698 | – | – | – | – | – | 154,698 |
| Depreciation provided during the year (note 7) | (9,638) | – | (7,519) | (5,658) | (2,197) | (694) | (25,706) |
| Transfer to investment properties (note 15) | (160,710) | – | – | – | – | – | (160,710) |
| Transfer | – | (1,115) | 479 | 636 | – | – | – |
| Impairment (note 7) | – | – | (1,664) | – | (191) | – | (1,855) |
| Exchange realignment | (10,835) | 5 | (1,833) | (1,624) | (685) | (172) | (15,144) |
| At 31 December 2022, net of accumulated depreciation and impairment | 110,760 | 317 | 19,552 | 12,554 | 6,118 | 1,789 | 151,090 |
| At 31 December 2022 | | | | | | | |
| Cost or valuation | 193,813 | 317 | 44,914 | 89,092 | 30,001 | 13,823 | 371,960 |
| Accumulated depreciation and impairment | (83,053) | – | (25,362) | (76,538) | (23,883) | (12,034) | (220,870) |
| Net carrying amount | 110,760 | 317 | 19,552 | 12,554 | 6,118 | 1,789 | 151,090 |

During the year ended 31 December 2023, reversal of impairment loss of HK$927,000 was made for certain property, plant and equipment (note 7) that have been reclassified as investment properties. The fair value of these assets was determined by the independent professional valuer (note 15).

During the year ended 31 December 2022, impairment loss of HK$1,855,000 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.

## 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.

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 2023 and 2022 would have been nil.

As at 31 December 2023, certain of the above ownership interests in properties held for own use with an aggregate net carrying amount of HK$72,106,000 (2022: Nil) were pledged to secure general banking facilities granted to the Group (note 25).

## 15. INVESTMENT PROPERTIES

| | Notes | **2023**<br>**HK$'000** | 2022<br>HK$'000 |
|---|---|---|---|
| Carrying amount at 1 January | | **240,941** | 81,703 |
| Fair value gain/(loss), net | 7 | **(11,482)** | 593 |
| Transfer from owner-occupied properties | 14 | **45,047** | 160,710 |
| Transfer from right-of-use assets | 16(a) | **43,540** | – |
| Exchange realignment | | **(8,959)** | (2,065) |
| Carrying amount at 31 December | | **309,087** | 240,941 |

The investment properties of the Group are industrial properties located in Shajing, Hubei, Zhongshan, Xuzhou and Shanghai, the PRC (2022: Shajing, Xuzhou and Shanghai, the PRC) and a commercial property in Shenzhen, the PRC (2022: Nil). The Directors have determined that the investment properties consist of two (2022: one) class of asset, i.e., industrial and commercial in the PRC (2022: industrial in the PRC), based on the nature, characteristics and risks of the properties. The investment properties of the Group were revalued on 31 December 2023 based on the valuations performed by BMI Appraisals Limited and 中山市安平房地產評估有限公司, both are the independent professional qualified valuers, at HK$309,087,000 (31 December 2022: HK$240,941,000). The Group's finance department which reports directly to the senior management selects external valuers to be responsible for the external valuation of the Group's properties based on market knowledge, reputation and independence of the external valuers, and whether professional standards are maintained by the external valuers. Fair value of the Group's investment properties is generally derived by using the income capitalisation method, the market comparison approach and the depreciated replacement cost approach. The Group's finance department has discussions with the external valuers on the valuation assumptions and valuation results when the valuation is performed for interim and annual financial reporting.

## 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 have been assessed with reference to recent lettings, within the subject properties and other comparable properties. Capitalisation rates are estimated by the valuers based on the risk profile of the properties being valued.

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

The depreciated replacement cost approach is based on an estimate of the new replacement cost of the buildings and structures less allowance for physical deterioration and all relevant forms of obsolescent and optimisation.

### 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 2023 | Range as at 31 December 2022 |
|---|---|---|---|---|---|
| Industrial properties in Mainland China | Level 3 | Income capitalisation method | Prevailing markets rents (per sq.m. and per month) | **RMB8 to RMB58** | RMB21 to RMB47 |
| | | | Capitalisation rates | **4.5% to 6.0%** | 5.5% to 6.0% |
| Industrial property in Mainland China | Level 3 | Market comparison approach and depreciated replacement cost approach | Market price (per sq.m.) | **RMB741 to RMB3,026** | Nil |
| | | | Estimated replacement cost (per sq.m.) | **RMB926 to RMB2,476** | Nil |
| Commercial property in Mainland China | Level 3 | Income capitalisation method | Prevailing markets rents (per sq.m. and per month) | **RMB78 to RMB85** | Nil |
| | | | Capitalisation rates | **3.0% to 3.5%** | Nil |

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 (2022: Nil).

Under the income capitalisation method, 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.

## 15. INVESTMENT PROPERTIES (continued)

### Fair value hierarchy (continued)

Under the market comparison approach, fair value is estimated by the direct comparison method on the assumption of the sales of the property interest and by referring to comparable sales transactions as available in the market. The key input was the market price per square metre. A significant increase/(decrease) in the market price in isolation would result in a significant increase/(decrease) in the fair value of the investment property.

Under the depreciated replacement cost approach, fair value is estimated based on estimated replacement cost. A significant increase/(decrease) in the building price and depreciation rate in isolation would result in a significant increase/(decrease) in the fair value of the investment property.

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

| | **Industrial properties in Mainland China** | **Commercial property in Mainland China** | **Total** |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| Carrying amount at 1 January 2022 | 81,703 | – | 81,703 |
| Fair value gain, net | 593 | – | 593 |
| Transfer from an owner-occupied property | 160,710 | – | 160,710 |
| Exchange realignment | (2,065) | – | (2,065) |
| Carrying amount at 31 December 2022 and 1 January 2023 | **240,941** | **–** | **240,941** |
| Fair value gain/(loss), net | **(11,493)** | **11** | **(11,482)** |
| Transfer from owner-occupied properties | **43,156** | **1,891** | **45,047** |
| Transfer from right-of-use assets | **40,165** | **3,375** | **43,540** |
| Exchange realignment | **(9,095)** | **136** | **(8,959)** |
| Carrying amount at 31 December 2023 | **303,674** | **5,413** | **309,087** |

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.

As at 31 December 2023, certain investment properties of the Group, with a total carrying value of HK$161,959,000 (2022: 165,026,000) were pledged to secure general banking facilities granted to the Group (note 25).

Further particulars of the Group's investment properties are included on page 170.

## 16. LEASE

### The Group as a lessee

The Group has lease contracts for various items of land, properties 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 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 | Other equipment HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| As at 1 January 2022 | 3,428 | 76,999 | 15 | 80,442 |
| Additions | 9,450 | 10,977 | – | 20,427 |
| Depreciation charge | (4,164) | (3,001) | (5) | (7,170) |
| Impairment (note 7) | – | (6,145) | – | (6,145) |
| Exchange realignment | (389) | (5,895) | – | (6,284) |
| As at 31 December 2022 and 1 January 2023 | **8,325** | **72,935** | **10** | **81,270** |
| Additions | **1,241** | **–** | **32** | **1,273** |
| Write-off | **–** | **–** | **(9)** | **(9)** |
| Loss on revaluation (note 7) | **–** | **(1,778)** | **–** | **(1,778)** |
| Transfer to investment properties (note 15) | **–** | **(43,540)** | **–** | **(43,540)** |
| Depreciation charge | **(3,616)** | **(1,720)** | **(5)** | **(5,341)** |
| Reversal of impairment (note 7) | **–** | **3,710** | **–** | **3,710** |
| Exchange realignment | **(194)** | **(798)** | **–** | **(992)** |
| As at 31 December 2023 | **5,756** | **28,809** | **28** | **34,593** |

During the year ended 31 December 2023, reversal of impairment loss of HK$3,710,000 was made for leasehold land (note 7) that have been reclassified as investment properties. The fair value of these assets was determined by the independent professional valuer (note 15).

During the year ended 31 December 2022, impairment loss of HK$6,145,000 was made for leasehold land (note 7) by management based on their recoverable amounts which were determined by value-in-use calculations.

## 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:

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| Carrying amount at 1 January | **8,748** | 3,472 |
| New leases | **1,273** | 9,450 |
| Accretion of interest recognised during the year | **404** | 324 |
| Payments | **(3,943)** | (4,095) |
| Exchange realignment | **(206)** | (403) |
| Carrying amount at 31 December | **6,276** | 8,748 |
| Analysed into: | | |
| Current portion | **2,646** | 3,552 |
| Non-current portion | **3,630** | 5,196 |

The maturity analysis of lease liabilities is disclosed in note 39 to the financial statements.

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

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| Interest on lease liabilities | **404** | 324 |
| Depreciation charge of right-of-use assets | **5,341** | 7,170 |
| Expense relating to short-term leases (included in cost of sales, selling and distribution expenses and administrative expenses) | **3,433** | 5,218 |
| Total amount recognised in profit or loss | **9,178** | 12,712 |

(d) The total cash outflow for leases is disclosed in note 32(c) to the financial statements.

## 16. LEASE (continued)

### The Group as a lessor

The Group leases its investment properties (note 15) consisting of six (2022: three) industrial properties in Mainland China, one (2022: nil) commercial property in Mainland China and one (2022: one) insignificant portion of buildings in Mainland China (note 14) 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$20,616,000 and HK$483,000 (2022: HK$3,915,000 and HK$572,000), respectively, details of which are included in note 6 to the financial statements.

At 31 December 2023, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with third parties are as follows:

| | **2023** | 2022 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within one year | **20,045** | 13,012 |
| After one year but within two years | **20,647** | 17,255 |
| After two years but within three years | **24,049** | 17,255 |
| After three years but within four years | **24,654** | 18,377 |
| After four years but within five years | **11,987** | 18,980 |
| Over five years | **16,562** | 6,582 |
| | **117,944** | 91,461 |

## 17. EQUITY INVESTMENT DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | **2023** | 2022 |
|---|---|---|
| | **HK$'000** | HK$'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.

## 18. DEPOSITS FOR PURCHASES OF PROPERTY, PLANT AND EQUIPMENT

| | Note | **2023** | 2022 |
|---|---|---|---|
| | | **HK$'000** | HK$'000 |
| Carrying amount at 1 January | | **4,308** | 4,850 |
| Additions | | **–** | 5,465 |
| Transfer to property, plant and equipment | 14 | **–** | (4,859) |
| Exchange realignment | | **(123)** | (1,148) |
| Carrying amount at 31 December | | **4,185** | 4,308 |

## 19. INVENTORIES

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| Raw materials | **16,745** | 24,251 |
| Work in progress | **2,894** | 3,666 |
| Finished goods | **7,714** | 15,207 |
| | **27,353** | 43,124 |

## 20. TRADE AND BILLS RECEIVABLES

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| Trade receivables | **247,374** | 365,466 |
| Bills receivable | **46,042** | 78,509 |
| | **293,416** | 443,975 |
| Impairment | **(121,564)** | (74,597) |
| | **171,852** | 369,378 |

The trade receivables of the Group represent receivables arising from the leasing of investment properties and the sale of paint products. The Group normally requires its customers to make payment of monthly rentals in advance in relation to the leasing of investment properties. Tenants are usually required to pay security deposits which are held by the Group. 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 receivables balances. Trade and bills receivables are non-interest-bearing.

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

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| Within three months | **63,946** | 147,698 |
| Over three months and within six months | **21,061** | 72,445 |
| Over six months | **86,845** | 149,235 |
| | **171,852** | 369,378 |

## 20. TRADE AND BILLS RECEIVABLES (continued)

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

| | Note | **Trade receivables HK$'000** | **Bills receivable HK$'000** | **Total HK$'000** |
|---|---|---|---|---|
| **2023** | | | | |
| At beginning of year | | **60,124** | **14,473** | **74,597** |
| Provision for impairment of trade and bills receivables, net | 7 | **34,847** | **15,281** | **50,128** |
| Amount written off as uncollectible | | **(2,059)** | **–** | **(2,059)** |
| Exchange realignment | | **(967)** | **(135)** | **(1,102)** |
| At end of year | | **91,945** | **29,619** | **121,564** |

| | Note | Trade receivables HK$'000 | Bills receivable HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| 2022 | | | | |
| At beginning of year | | 62,239 | 3,355 | 65,594 |
| Provision for impairment of trade and bills receivables, net | 7 | 5,340 | 10,968 | 16,308 |
| Amount written off as uncollectible | | (2,695) | – | (2,695) |
| Exchange realignment | | (4,760) | 150 | (4,610) |
| At end of year | | 60,124 | 14,473 | 74,597 |

### Trade receivables

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.

As at 31 December 2023, an additional impairment analysis is performed for higher default risk trade receivables, the loss allowance was measured at an amount equal to 12 month and lifetime expected credit losses under general approach by considering the probability of default of comparable companies with published credit ratings.

## 20. TRADE AND BILLS RECEIVABLES (continued)

### Trade receivables (continued)

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

**As at 31 December 2023**

| | 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%** | **14.7%** | **30.2%** | **42.0%** | **45.9%** | **37.2%** |
| **Gross carrying amount (HK$'000)** | **19,504** | **85,842** | **28,029** | **25,957** | **88,042** | **247,374** |
| **Expected credit losses (HK$'000)** | **19,504** | **12,655** | **8,462** | **10,903** | **40,421** | **91,945** |

As at 31 December 2022

| | 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% | 4.3% | 4.7% | 11.5% | 22.7% | 16.5% |
| Gross carrying amount (HK$'000) | 23,495 | 131,499 | 69,692 | 37,907 | 102,873 | 365,466 |
| Expected credit losses (HK$'000) | 23,495 | 5,709 | 3,251 | 4,359 | 23,310 | 60,124 |

### Bills receivable

An impairment analysis is performed at each reporting date by considering the probability of default of counterparties. 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. As at 31 December 2023, the probability of default applied ranged from 0.1% to 100.0% (2022: 0.1% to 32.6%) and the loss given default was estimated to be 61.5% to 100.0% (2022: 59.1% to 64.9%).

## 21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | **2023 HK$'000** | 2022 HK$'000 |
|---|---|---|
| Prepayments | **3,013** | 3,067 |
| Deposits and other receivables | **51,037** | 55,411 |
| | **54,050** | 58,478 |
| Analysed into: | | |
| Current portion | **53,286** | 57,978 |
| Non-current portion | **764** | 500 |

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 2023 and 2022, the loss allowance was assessed to be minimal.

## 22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

| | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|
| Cash and bank balances | **143,792** | 147,521 |
| Time deposits: | | |
| – with original maturity of more than three months when acquired | **100,145** | 42,202 |
| Less: Pledged time deposits | | |
| – with original maturity of more than three months when acquired | **(98,994)** | (42,202) |
| | **144,943** | 147,521 |

At the end of the reporting period, the cash and bank balances and time deposits of the Group denominated in RMB amounted to HK$205,103,000 (2022: HK$141,161,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, and 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 varying 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.

As at 31 December 2023, time deposits amounted to HK$98,117,000 (2022: HK$40,397,000) were pledged for securing the Group's bills payable and HK$877,000 (2022: HK$1,805,000) were pledged for securing the performance bonds issued by the bank to customers on certain sales project on behalf of the Group as guarantees (note 33).

## 23. TRADE AND BILLS PAYABLES

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

| | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|
| Within three months | **71,790** | 122,567 |
| Over three months and within six months | **62,130** | 76,699 |
| Over six months | **61,603** | 61,512 |
| | **195,523** | 260,778 |

The trade and bills payables are unsecured, non-interest-bearing and are normally settled within two months. As at 31 December 2023, bills payable with an aggregate carrying amount of HK$115,694,000 (2022: HK$134,656,000) were secured by time deposits of HK$98,117,000 (2022: HK$40,397,000).

## 24. OTHER PAYABLES AND ACCRUALS

| | Notes | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|---|
| Deferred income | 28 | **292** | 300 |
| Contract liabilities | (a) | **1,519** | 1,319 |
| Other payables | (b) | **31,764** | 42,606 |
| Accruals | | **23,081** | 35,237 |
| | | **56,656** | 79,462 |
| Portion classified as current liabilities | | **(53,502)** | (76,980) |
| | | **3,154** | 2,482 |

Notes:

(a) Details of contract liabilities are as follows:

| | 31 December 2023 HK$'000 | 31 December 2022 HK$'000 | 1 January 2022 HK$'000 |
|---|---|---|---|
| **Short-term advances received from customers** | | | |
| Sale of paint and coating products | **1,519** | 1,319 | 2,692 |

Contract liabilities include advances received to deliver paint and coating products. The changes in contract liabilities in 2023 and 2022 were mainly due to the increase and decrease in the 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 customers.

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

## 25. INTEREST-BEARING BANK BORROWINGS

| | 31 December 2023 | | | 31 December 2022 | | |
|---|---|---|---|---|---|---|
| | Effective interest rate per annum (%) | Maturity | HK$'000 | Effective interest rate per annum (%) | Maturity | HK$'000 |
| **Current** | | | | | | |
| Bank loans – secured | 3.7-7.1 | 2024 | 80,308 | 5.4-6.6 | 2023 | 155,579 |
| Bank loans – unsecured | 5.0-6.9 | 2024-2026 | 40,437 | 3.6-6.4 | 2023-2026 | 81,420 |
| Import loans – secured | Nil | Nil | – | 5.5 | 2023 | 258 |
| | | | 120,745 | | | 237,257 |

| | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|
| Analysed into: | | |
| Bank loans repayable: | | |
| Within one year or on demand | 120,745 | 237,257 |

Notes:

(a) The above bank loans of HK$120,745,000 (2022: HK$237,257,000) containing a repayment on demand clause were already included in total current liabilities as at 31 December 2023. 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 2023 and 2022 are repayable:

| | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|
| Analysed into: | | |
| Bank loans repayable: | | |
| Within one year | 99,745 | 213,257 |
| In the second year | 3,000 | 3,000 |
| In the third to fifth years, inclusive | 18,000 | 21,000 |
| | 120,745 | 237,257 |

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

(i) the Group's ownership interests in properties held for own use with an aggregate net book value of HK$72,106,000 (note 14) as at 31 December 2023 (2022: Nil);

(ii) the Group's investment property with an aggregate carrying value of HK$161,959,000 (note 15) as at 31 December 2023 (2022: HK$165,026,000);

(iii) investment properties and certain portion of a building and carparks held by the Parent Group as at 31 December 2023 and 2022; and

(iv) charges over shares of an indirect subsidiary of the Company as at 31 December 2022.

(c) Except for the 5.0% (2022: 5.5%) unsecured bank loan with an aggregate carrying value of HK$16,437,000 (2022: HK$16,920,000) and the 3.7% secured bank loan with an aggregate carrying value of HK$33,508,000 (2022: Nil) which are denominated in RMB, the Group's other bank borrowings are all denominated in HK$.

## 26. LOANS FROM THE PARENT GROUP

| | 31 December 2023 | | | 31 December 2022 | | |
|---|---|---|---|---|---|---|
| | **Effective interest rate per annum (%)** | **Maturity** | **HK$'000** | Effective interest rate per annum (%) | Maturity | HK$'000 |
| **Current** | | | | | | |
| Loans – unsecured | **5.5 – 7.3** | **2026** | **95,970** | Nil | Nil | – |
| | | | **95,970** | | | – |

| | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|
| Analysed into: | | |
| Loans from the Parent Group repayable: | | |
| Within one year or on demand | **–** | – |
| More than one year | **95,970** | – |
| | **95,970** | – |

Notes:

(a) The above loans from Parent Group of HK$95,970,000 (2022: Nil) do not contain repayment on demand clause.

(b) Except for the 5.5% unsecured loans from Parent Group with an aggregate carrying value of HK$33,970,000 which are denominated in RMB, the other loans from Parent Group are all denominated in HK$.

## 27. 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 | | Other | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 | **2023** | 2022 | **2023** | 2022 | **2023** | 2022 | **2023** | 2022 |
| | **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: | **1,140** | 151 | **32,773** | 9,509 | **1,270** | 3,326 | **1,390** | 983 | **188** | – | **36,761** | 13,969 |
| Deferred tax charged/ (credited) to the statement of profit or loss during the year* | **(399)** | 944 | **(3,042)** | 149 | **810** | (1,732) | **1,192** | 500 | **981** | 180 | **(458)** | 41 |
| Deferred tax charged to the statement of comprehensive income during the year | **–** | – | **5,101** | 23,204 | **–** | – | **–** | – | **–** | – | **5,101** | 23,204 |
| Exchange realignment | **(28)** | 45 | **(885)** | (89) | **(32)** | (324) | **(47)** | (93) | **(38)** | 8 | **(1,030)** | (453) |
| At end of the year | **713** | 1,140 | **33,947** | 32,773 | **2,048** | 1,270 | **2,535** | 1,390 | **1,131** | 188 | **40,374** | 36,761 |

### Deferred tax assets

| | Lease liabilities | | Impairment of trade and bills receivables | | Losses available for offsetting against future taxable profits | | Depreciation in excess of related depreciation allowance | | Accruals | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 | **2023** | 2022 | **2023** | 2022 | **2023** | 2022 | **2023** | 2022 |
| | **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: | **1,202** | 154 | **3,487** | 4,162 | **8,837** | 9,678 | **1,535** | 2,371 | **299** | 323 | **15,360** | 16,688 |
| Deferred tax charged/ (credited) to the statement of profit or loss during the year* | **(385)** | 1,005 | **(526)** | (339) | **4,405** | (92) | **(69)** | (638) | **(97)** | – | **3,328** | (64) |
| Exchange realignment | **(32)** | 43 | **(98)** | (336) | **(292)** | (749) | **(44)** | (198) | **(7)** | (24) | **(473)** | (1,264) |
| At end of the year | **785** | 1,202 | **2,863** | 3,487 | **12,950** | 8,837 | **1,422** | 1,535 | **195** | 299 | **18,215** | 15,360 |

* Net deferred tax credited to the consolidated statement of profit or loss for the year ended 31 December 2023 amounted to HK$3,786,000 (2022: Net deferred tax charged to the consolidated statement of profit or loss amounted to HK$105,000) (note 11).

## 27. DEFERRED TAX (continued)

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:

| | **2023** **HK$'000** | 2022 HK$'000 |
|---|---|---|
| Net deferred tax assets recognised in the consolidated statement of financial position | **17,502** | 14,220 |
| Net deferred tax liabilities recognised in the consolidated statement of financial position | **39,661** | 35,621 |

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$456.4 million (2022: HK$434.7 million), subject to the agreement by the Hong Kong Inland Revenue Department, that are available indefinitely and in Mainland China of HK$216.9 million (2022: HK$155.3 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.

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 2023, 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 Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$135.8 million (2022: HK$139.2 million) at 31 December 2023.

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

## 28. DEFERRED INCOME

| | Notes | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|---|
| Carrying amount at 1 January | | **934** | 1,328 |
| Recognised during the year | 6 | **(284)** | (299) |
| Exchange realignment | | **(24)** | (95) |
| Carrying amount at 31 December | | **626** | 934 |
| Portion classified as current liabilities | 24 | **(292)** | (300) |
| Non-current portion | | **334** | 634 |

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.

## 29. SHARE CAPITAL

### Shares

| | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|
| Authorised: | | |
| 8,000,000,000 (2022: 8,000,000,000) ordinary shares of HK$0.10 each | **800,000** | 800,000 |
| Issued and fully paid: | | |
| 1,000,000,000 (2022: 1,000,000,000) ordinary shares of HK$0.10 each | **100,000** | 100,000 |

## 30. SHARE OPTION SCHEME

On 15 June 2022, 80,000,000 share options to subscribe for a total of 80,000,000 new shares of the Company of HK$0.10 each were granted to three Directors and five employees of the Group under the share option scheme (the "Scheme") adopted by the Company on 4 June 2020 (the "Adoption Date"). The Scheme was adopted by the Company for the purpose of providing incentives to attract and retain employees of the Group, as well as other eligible participants (including, but not limited to, executive Directors, non-executive Directors and independent non-executive Directors, any supplier of goods or services to any member of the Group and any customer of the Group), who made contributions to the Group. Unless terminated by resolution in general meeting or by the Board, the Scheme shall be valid and effective for a period of 10 years commencing on Adoption Date, after which period no further share options will be issued but in all other respects 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 equity-settled share options granted on 15 June 2022 vest over a period of 4 years from the date of grant, of which 50% of the share options vested immediately on the date of grant, 20% of the share options vested on 14 June 2023, 10% of the share options shall vest on 14 June 2024, 10% of the share options shall vest on 14 June 2025 and 10% of the share options shall vest on 14 June 2026. These share options are exercisable at HK$0.335 per share and must be exercised within 5 years from the date of grant and if not so exercised, the share options shall be lapsed.

The maximum number of shares which may be issued upon exercise of all share options to be granted under the Scheme and any other share option schemes of the Company must not in aggregate exceeds 10% of the total issued shares of the Company as at the Adoption Date. The maximum number of shares issued and which may fall to be issued upon exercise of the share option granted under the Scheme and any other share option schemes of the Company (including both exercised and outstanding share 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.

Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their respective associates under the Scheme and any other share option schemes of the Company or any of its subsidiaries are subject to approval by the independent non-executive Directors (excluding independent non-executive Director who is the grantee of the share options). In addition, any share options granted to a substantial shareholder of the Company or an independent non-executive Director, or to any of their respective associates, representing in aggregate over 0.1% of the shares of the Company in issue on the date of offer and having an aggregate value (based on the closing price of the Company's shares on the date of offer) in excess of HK$5 million, in the 12-month period up to and including the date of offer, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options must be accepted not later than 21 days from the date of offer and the amount payable by the grantees to the Company on acceptance of the offer for the grant of share option is HK$1.00. The period during which the share option may be exercised will be determined by the Board in its absolute discretion.

The exercise price of share options is determinable by the Board, but shall not be less than the higher of (i) the closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange on the date of offer in respect of such share option; (ii) the average closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange for the five business days immediately preceding the date of offer in respect of such share option; and (iii) the nominal value of the Company's share.

## 30. SHARE OPTION SCHEME (continued)

Share options do not confer rights on the holders to dividends or to vote in any general meetings of the Company.

The summary below sets forth the details of movement of options granted as of 31 December 2023 pursuant to the Scheme:

| | | | | Number of share options | | | | |
|---|---|---|---|---|---|---|---|---|
| | Date of grant | Exercise period (Note) | Exercise price per share HK$ | Outstanding as at 1 January 2023 | Granted during the year | Exercised during the year | Cancelled/ lapsed during the year | Outstanding as at 31 December 2023 |
| **Executive Directors** | | | | | | | | |
| Tsui Ho Chuen, Philip | 15 June 2022 | 15 June 2022 to 14 June 2027 | 0.335 | 10,000,000 | – | – | – | 10,000,000 |
| Li Guangzhong | 15 June 2022 | 15 June 2022 to 14 June 2027 | 0.335 | 10,000,000 | – | – | – | 10,000,000 |
| **Non-Executive Director** | | | | | | | | |
| Chong Chi Kwan | 15 June 2022 | 15 June 2022 to 14 June 2027 | 0.335 | 10,000,000 | – | – | – | 10,000,000 |
| **Employees** | 15 June 2022 | 15 June 2022 to 14 June 2027 | 0.335 | 50,000,000 | – | – | – | 50,000,000 |
| **Total** | | | | 80,000,000 | – | – | – | 80,000,000 |

Note:

The share options granted to each of the grantees have the vesting periods and are/would be exercisable as follows:

(a) 50% of the share options vested on the date of grant of the share options, i.e. 15 June 2022 and are exercisable from 15 June 2022 to 14 June 2027;

(b) 20% of the share options vested on one day before the first anniversary of the date of grant of the share options, i.e. 14 June 2023 and are exercisable from 15 June 2023 to 14 June 2027;

(c) 10% of the share options shall vest on one day before the second anniversary of the date of grant of the share options, i.e. 14 June 2024 and would be exercisable from 15 June 2024 to 14 June 2027;

(d) 10% of the share options shall vest on one day before the third anniversary of the date of grant of the share options, i.e. 14 June 2025 and would be exercisable from 15 June 2025 to 14 June 2027; and

(e) 10% of the share options shall vest on one day before the fourth anniversary of the date of grant of the share options, i.e. 14 June 2026 and would be exercisable from 15 June 2026 to 14 June 2027.

None of the share options granted under the Scheme were exercised, cancelled or lapsed during the years ended 31 December 2023 and 2022.

No share options were granted under the Scheme during the year ended 31 December 2023 (The fair value of the share options granted during the year ended 31 December 2022 was HK$8,417,000). The share option expenses of approximately HK$1,682,000 was recognised during the year ended 31 December 2023 (31 December 2022: HK$5,610,000).

## 30. SHARE OPTION SCHEME (continued)

The fair value of equity-settled share options granted during the year ended 31 December 2022 was estimated as at the date of grant using a Binomial Option Pricing Model (the "Model"), taking into account the terms and conditions upon which the options were granted. The Model is one of the commonly used models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option. The following table lists the inputs to the Model used:

| | |
|---|---|
| Dividend yield (%) | 1.483 |
| Expected volatility (%) | 35.732 |
| Risk-free interest rate (%) | 3.172 |
| Contractual life of options (year) | 5 |
| Early exercise behaviour (%) | 220 and 280 of the exercise price |
| Exercised price (HK$ per share) | 0.335 |

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 80,000,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 80,000,000 additional ordinary shares of the Company and additional share capital of HK$26,800,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 80,000,000 share options outstanding under the Scheme, which represented 8% of the Company's shares in issue as at that date.

## 31. 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 96 and 97 of this Annual Report.

## 32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### (a) Major non-cash transactions

i. During the year ended 31 December 2022, the Group completed the acquisition of certain items of property, plant and equipment and right-of-use assets (land portion only), the consideration of which was partially settled by deposits previously paid with an aggregate carrying amount of HK$179,000.

ii. During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of HK$1,273,000 (2022: HK$9,450,000) and HK$1,273,000 (2022: HK$9,450,000), respectively in respect of lease arrangements for properties and other equipment (2022: lease arrangement for prorperties).

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

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

| | 2023 | | |
|---|---|---|---|
| | **Loans from the Parent Group HK$'000** | **Interest-bearing bank borrowings HK$'000** | **Lease liabilities HK$'000** |
| At 1 January 2023 | **–** | **237,257** | **8,748** |
| Changes from financing cash flows | **95,680** | **(116,804)** | **(3,539)** |
| New leases | **–** | **–** | **1,273** |
| Interest expenses | **–** | **–** | **404** |
| Interest paid classified as operating cash flows | **–** | **–** | **(404)** |
| Foreign exchange movement | **290** | **292** | **(206)** |
| At 31 December 2023 | **95,970** | **120,745** | **6,276** |

| | 2022 | | |
|---|---|---|---|
| | Loans from the Parent Group HK$'000 | Interest-bearing bank borrowings HK$'000 | Lease liabilities HK$'000 |
| At 1 January 2022 | – | 216,077 | 3,472 |
| Changes from financing cash flows | – | 21,825 | (3,771) |
| New leases | – | – | 9,450 |
| Interest expenses | – | – | 324 |
| Interest paid classified as operating cash flows | – | – | (324) |
| Foreign exchange movement | – | (645) | (403) |
| At 31 December 2022 | – | 237,257 | 8,748 |

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

### (c) Total cash outflow for leases

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

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| Within operating activities | **3,837** | 5,542 |
| Within financing activities | **3,539** | 3,771 |
| | **7,376** | 9,313 |

## 33. CONTINGENT LIABILITIES

At the end of the current and prior years, contingent liabilities not provided for in the financial statements were as follows:

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| Guarantees given to the bank for: | | |
| Performance bonds | **877** | 1,805 |

The performance bonds were secured by the pledged deposits of HK$877,000 as at 31 December 2023 (2022: HK$1,805,000).

## 34. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's performance bonds, bills payable and bank borrowings are included in note 22, 23 and 25, respectively, to the financial statements.

## 35. CAPITAL COMMITMENTS

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

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| Contracted, but not provided for: | | |
| Construction and purchases of items of property, plant and equipment | **2,737** | 1,592 |

## 36. 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 | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|---|
| Lease payments paid to the Parent Group | (i) | **2,770** | 2,811 |
| Pledge fees paid to the Parent Group | (ii) | **1,534** | 1,474 |
| Interest expenses paid to the Parent Group | (iii) | **2,405** | 520 |

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

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

(iii) Loans were granted by the Parent Group on normal commercial terms, which were not secured by the assets of the Group. The loan agreements were executed on mutually agreed terms. Further details of loans from the Parent Group are included in note 26 to the financial statements.

(b) During the years ended 31 December 2023 and 2022, the transactions in respect of item (a)(i), (a)(ii) and (a)(iii), 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.

(c) Compensation of key management personnel of the Group

| | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|
| Short term employment benefits | **9,926** | 11,467 |
| Post-employment benefits | **494** | 496 |
| Equity-settled share option expenses | **420** | 1,402 |
| Total compensation paid to key management personnel | **10,840** | 13,365 |

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

## 37. 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 2023**

**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 | 171,852 | – | 171,852 |
| Financial assets included in prepayments, deposits and other receivables | 3,309 | – | 3,309 |
| Pledged deposits | 98,994 | – | 98,994 |
| Cash and cash equivalents | 144,943 | – | 144,943 |
| | 419,098 | 300 | 419,398 |

**Financial liabilities**

| | Financial liabilities at amortised Cost HK$'000 |
|---|---|
| Trade and bills payables | 195,523 |
| Financial liabilities included in other payables and accruals | 26,803 |
| Lease liabilities | 6,276 |
| Interest-bearing bank and other borrowings | 216,715 |
| | 445,317 |

## 37. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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

31 December 2022

**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 | 369,378 | – | 369,378 |
| Financial assets included in prepayments, deposits and other receivables | 6,291 | – | 6,291 |
| Pledged deposits | 42,202 | – | 42,202 |
| Cash and cash equivalents | 147,521 | – | 147,521 |
| | 565,392 | 300 | 565,692 |

**Financial liabilities**

| | Financial liabilities at amortised cost HK$'000 |
|---|---|
| Trade and bills payables | 260,778 |
| Financial liabilities included in other payables and accruals | 43,838 |
| Lease liabilities | 8,748 |
| Interest-bearing bank borrowings | 237,257 |
| | 550,621 |

## 38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits, and other receivables, financial liabilities included in other payables and accruals, interest-bearing bank borrowings and loans from the Parent Group 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 non-current portion of financial assets included in prepayments, deposits and other receivables has been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

The fair value of the equity investment designated at fair value through other comprehensive income is based on quoted market prices.

### 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 2023** | | | | |
| Equity investment designated at fair value through other comprehensive income | **–** | **300** | **–** | **300** |
| At 31 December 2022 | | | | |
| Equity investment designated at fair value through other comprehensive income | – | 300 | – | 300 |

Liabilities measured at fair value:
The Group did not have any financial liabilities at fair value as at 31 December 2023 and 2022.

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.

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings and loans from the Parent Group, 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, pledged deposits, trade and bills 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 and loans from the Parent Group 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 tables demonstrate 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$'000** |
|---|---|---|
| **2023** | | |
| HK$ | **50** | **577** |
| RMB | **50** | **(604)** |
| HK$ | **(50)** | **(577)** |
| RMB | **(50)** | **604** |

| | **Increase/ (decrease) in basis points** | **Increase/ (decrease) in loss before tax HK$'000** |
|---|---|---|
| 2022 | | |
| HK$ | 50 | 1,090 |
| RMB | 50 | (620) |
| HK$ | (50) | (1,090) |
| RMB | (50) | 620 |

## 39. 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 and bills receivables and trade and bills 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 tables demonstrate 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$'000** |
|---|---|---|
| **2023** | | |
| If HK$ weakens against RMB | **5** | **(579)** |
| If HK$ strengthens against RMB | **(5)** | **579** |

| | Increase/ (decrease) in RMB rate % | Increase/ (decrease) in loss before tax HK$'000 |
|---|---|---|
| 2022 | | |
| If HK$ weakens against RMB | 5 | (1,153) |
| If HK$ strengthens against RMB | (5) | 1,153 |

### 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.

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Maximum exposure and year-end staging

The tables below show 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 2023**

| | **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* | **99,819** | **25,771** | **–** | **121,784** | **247,374** |
| Bills receivable* | **46,042** | **–** | **–** | **–** | **46,042** |
| Financial assets included in prepayments, deposits and other receivables | | | | | |
| – Normal** | **3,309** | **–** | **–** | **–** | **3,309** |
| Pledged deposits | | | | | |
| – Not yet past due | **98,994** | **–** | **–** | **–** | **98,994** |
| Cash and cash equivalents | | | | | |
| – Not yet past due | **144,943** | **–** | **–** | **–** | **144,943** |
| | **393,107** | **25,771** | **–** | **121,784** | **540,662** |

As at 31 December 2022

| | 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* | – | – | – | 365,466 | 365,466 |
| Bills receivable* | 78,509 | – | – | – | 78,509 |
| Financial assets included in prepayments, deposits and other receivables | | | | | |
| – Normal** | 6,291 | – | – | – | 6,291 |
| Pledged deposits – Not yet past due | 42,202 | – | – | – | 42,202 |
| Cash and cash equivalents | | | | | |
| – Not yet past due | 147,521 | – | – | – | 147,521 |
| | 274,523 | – | – | 365,466 | 639,989 |

* For trade receivables and bills receivable, impairment analysis is disclosed in note 20 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".

## 39. 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 and other 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 |
|---|---|---|---|
| **2023** | | | |
| Trade and bills payables | **195,523** | **–** | **195,523** |
| Financial liabilities included in other payables and accruals | **26,803** | **–** | **26,803** |
| Interest-bearing bank and other borrowings* | **120,745** | **95,970** | **216,715** |
| Lease liabilities | **2,926** | **3,881** | **6,807** |
| | **345,997** | **99,851** | **445,848** |

| | On demand or within one year HK$'000 | In the second to fifth years HK$'000 | Total HK$'000 |
|---|---|---|---|
| 2022 | | | |
| Trade and bills payables | 260,778 | – | 260,778 |
| Financial liabilities included in other payables and accruals | 43,838 | – | 43,838 |
| Interest-bearing bank borrowings* | 237,257 | – | 237,257 |
| Lease liabilities | 3,639 | 5,665 | 9,304 |
| | 545,512 | 5,665 | 551,177 |

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Liquidity risk (continued)

* Included in the above interest-bearing bank and other borrowings of the Group are certain bank loans and loans from the Parent Group with an aggregate carrying amount as at 31 December 2023 of HK$216,715,000 (2022: HK$237,257,000), 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 2023** | **109,237** | **122,726** | **231,963** |
| 31 December 2022 | 216,214 | 24,642 | 240,856 |

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 2023 and 2022.

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

| | **2023 HK$'000** | 2022 HK$'000 |
|---|---|---|
| Bank and other borrowings | **216,715** | 237,257 |
| Equity attributable to owners of the parent | **444,465** | 518,066 |
| Gearing ratio | **48.8%** | 45.8% |

## 40. 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:

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| NON-CURRENT ASSET | | |
| Investment in a subsidiary | **27,094** | 27,094 |
| CURRENT ASSETS | | |
| Prepayments | **255** | 629 |
| Loan to a subsidiary | **147,925** | 138,627 |
| Due from subsidiaries | **58,978** | 58,627 |
| Cash and cash equivalents | **11,642** | 10,940 |
| Total current assets | **218,800** | 208,823 |
| CURRENT LIABILITIES | | |
| Other payables and accruals | **1,845** | 1,893 |
| Due to fellow subsidiaries | **802** | 826 |
| Total current liabilities | **2,647** | 2,719 |
| NET CURRENT ASSETS | **216,153** | 206,104 |
| Net assets | **243,247** | 233,198 |
| EQUITY | | |
| Issued capital | **100,000** | 100,000 |
| Reserves (note) | **143,247** | 133,198 |
| Total equity | **243,247** | 233,198 |

## 40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

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

| | Share premium account HK$'000 | Contributed surplus HK$'000 | Share option reserve HK$'000 | Retained profit HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 January 2022 | 94,614 | 17,094 | – | 13,214 | 124,922 |
| Total comprehensive income for the year | – | – | – | 2,666 | 2,666 |
| Equity-settled share option arrangements | – | – | 5,610 | – | 5,610 |
| At 31 December 2022 and 1 January 2023 | **94,614** | **17,094** | **5,610** | **15,880** | **133,198** |
| Total comprehensive income for the year | **–** | **–** | **–** | **8,367** | **8,367** |
| Equity-settled share option arrangements | **–** | **–** | **1,682** | **–** | **1,682** |
| At 31 December 2023 | **94,614** | **17,094** | **7,292** | **24,247** | **143,247** |

## 41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of Directors on 27 March 2024.

# Schedule of Principal Properties

## 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 |
| Yabian Industrial Zone Shajing Town Bao'an District Shenzhen City the PRC | 100 | Medium term | Industrial |
| The intersection of Road No.4 and Road No.3 in South of Gedian Development Zone Ezhou City Hubei Province the PRC | 100 | Medium term | Industrial |
| Jiemin Village Sanjiao Town Zhongshan City Guangdong Province the PRC | 100 | Medium term | Industrial |
| Road No.4 Industrial Park No.2 Gedian Development Zone Ezhou City Hubei Province the PRC | 90.5 | Medium term | Industrial |
| Room 703, 7/F., Building 13 of Keenstar Bao'an District Shenzhen City the PRC | 100 | Medium term | Commercial |

# Glossary

| | |
|---|---|
| AC Chairman | The chairman of the Audit Committee |
| AC or Audit Committee | The audit committee of the Board |
| AGM | Annual general meeting of the Company |
| Articles | The articles of association of the Company |
| Board | The board of Directors |
| CG Code | The provision under Corporate Governance Code contained in Appendix 14 (which has been reorganised as Appendix C1 with effect from 31 December 2023) 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 |
| 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 (which has been reorganised as Appendix C3 with effect from 31 December 2023) to the Listing Rules |
| NC Chairman | The chairman of the Nomination Committee |

# Glossary

| | |
|---|---|
| NC or Nomination Committee | The nomination committee of the Board |
| PRC | The People's Republic of China |
| RC Chairman | The chairman of the Remuneration Committee |
| RC or Remuneration Committee | The remuneration committee of the Board |
| SFO | Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| Share(s) | Ordinary share(s) of HK$0.10 each in the capital of the Company |
| 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 |
| Yongcheng Eco-friendly | 永成環保材料(廣東)有限公司 (Yongcheng Eco-friendly Materials (Guangdong) Co., Ltd.*) (Formerly known as 中山市永成化工有限公司 (Zhongshan Yongcheng Chemical Co., Ltd.*)), a wholly-owned subsidiary of the Company |

* *For identification purpose only*

中漆集團有限公司
CPM GROUP LIMITED