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## Post Hearing Information Pack of



(Incorporated in the Cayman Islands with limited liability)

(the “Company”)

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## IMPORTANT

If you are in any doubt about any of the contents of this [REDACTED], you should seek independent professional advice.



### [REDACTED]

Number of [REDACTED] : [REDACTED] Shares  
(subject to the [REDACTED])  
Number of [REDACTED] : [REDACTED] Shares (subject to re-allocation)  
Number of [REDACTED] : [REDACTED] Shares (subject to re-allocation and the [REDACTED])  
[REDACTED] : Not more than HK\$[REDACTED] for each [REDACTED], plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on [REDACTED] in Hong Kong dollars and subject to refund)  
Nominal value : HK\$0.10 per Share  
[REDACTED] : [REDACTED]

Sponsor



[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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A copy of this [REDACTED], together with the documents specified in the paragraphs under “Documents delivered to the Registrar of Companies in Hong Kong” in Appendix V to this [REDACTED], has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this [REDACTED] or any other documents referred to above.

The [REDACTED] have not been and will not be registered under the U.S. Securities Act or any state securities law of the United States and may not be [REDACTED] or sold, pledged or transferred within the United States except that the [REDACTED] may be [REDACTED], sold or delivered outside the United States in reliance on Regulation S.

Prior to making an investment decision, prospective investors should consider carefully all the information set forth in this [REDACTED], including but not limited to the risk factors set forth in the section headed “Risk Factors” in this [REDACTED].

The [REDACTED] is expected to be fixed by agreement between the [REDACTED] (for themselves and on behalf of the other [REDACTED]) and us on the [REDACTED], which is expected to be on or around [REDACTED] or such later date as may be agreed between the parties, but in any event no later than [REDACTED]. The [REDACTED] will not be more than HK\$[REDACTED] for each [REDACTED] and is expected to be not less than HK\$[REDACTED] for each [REDACTED]. Investors applying for the [REDACTED] must pay the maximum [REDACTED] of HK\$[REDACTED] for each [REDACTED], together with brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, subject to refund if the [REDACTED] shall be lower than HK\$[REDACTED] for each [REDACTED].

The [REDACTED] (for themselves and on behalf of the other [REDACTED]) may, with our consent, reduce the number of [REDACTED] and/or the indicative [REDACTED] stated above in this [REDACTED] at any time prior to the morning of the last day for lodging [REDACTED] under the [REDACTED]. In such case, notices of the reduction of the number of [REDACTED] and/or the indicative [REDACTED] will be published on the websites of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company at [www.cpmgroup.com.hk](http://www.cpmgroup.com.hk) as soon as practicable following the decision to make such a reduction, and in any event not later than the morning of the day which is the last day for lodging [REDACTED] under the [REDACTED]. If [REDACTED] for the [REDACTED] have been submitted prior to the day which is the last day for lodging [REDACTED] under the [REDACTED], such [REDACTED] can be subsequently withdrawn if the number of [REDACTED] and/or the indicative [REDACTED] is so reduced. If, for whatever reason, the [REDACTED] and us are unable to agree on the [REDACTED] by [REDACTED], the [REDACTED] will not proceed and will lapse.

Prospective investors of the [REDACTED] should note that the [REDACTED] are entitled to terminate their obligations under the [REDACTED] by notice in writing to us given by the [REDACTED] (for themselves and on behalf of the other [REDACTED]), upon the occurrence of any of the events set forth in the section headed “[REDACTED]” in this [REDACTED] at any time prior to 8:00 a.m. (Hong Kong time) on the day [REDACTED] in our Shares commences on the Stock Exchange.

[REDACTED]

## **EXPECTED TIMETABLE**

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**[REDACTED]**

## **EXPECTED TIMETABLE**

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**[REDACTED]**

## **EXPECTED TIMETABLE**

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**[REDACTED]**

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### IMPORTANT NOTICE TO INVESTORS

*This [REDACTED] is issued by our Company solely in connection with the [REDACTED] and the [REDACTED] and does not constitute an [REDACTED] to sell or a solicitation of an [REDACTED] to buy any securities other than the [REDACTED] by this [REDACTED] pursuant to the [REDACTED] and the [REDACTED]. This [REDACTED] may not be used for the purpose of, and does not constitute, an [REDACTED] or invitation in any other jurisdictions or in any other circumstances. No action has been taken to permit a [REDACTED] of the [REDACTED] in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this [REDACTED] in any jurisdiction other than Hong Kong (save for the [REDACTED] made to the [REDACTED]). The distribution of this [REDACTED] for purpose of a [REDACTED] and the [REDACTED] and sale of the [REDACTED] in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.*

*You should rely only on the information contained in this [REDACTED] and the [REDACTED] to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this [REDACTED]. Any information or representation not contained nor made in this [REDACTED] and the [REDACTED] must not be relied on by you as having been authorised by us, the [REDACTED], the [REDACTED], the [REDACTED], the [REDACTED], any of our or their respective directors, officers, employees, agents or representatives or any other parties involved in the [REDACTED].*

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## SUMMARY AND HIGHLIGHTS

*This section aims to give you an overview of the information contained in this [REDACTED]. As this is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by and should be read in conjunction with, the full text of this [REDACTED]. You should read this [REDACTED] in its entirety before you decide to invest in the [REDACTED].*

*There are risks associated with any investment. Some of the particular risks in investing in the [REDACTED] are set forth in the section headed “Risk Factors” in this [REDACTED]. You should read that section carefully before you decide to invest in the [REDACTED].*

*Various expressions used in this section are defined or explained in the section headed “Definitions” in this [REDACTED].*

### OVERVIEW

We are a manufacturer of industrial and architectural paint and coating products under our established brands of, among others, “*Flower (菊花牌)*”, “*Giraffe (長頸鹿牌)*” and “*Toy Brand (玩具牌)*”. Our business was established in Hong Kong in 1932, and we are one of the well-recognised paint and coating manufacturers in Hong Kong and the PRC. Wood painting products, including lacquers, polyurethane coatings and baking enamels, are our principal paint and coating products. According to *Frost & Sullivan*, we ranked the sixth and the fifteenth in the retailing wood coating market and the wood coating market in the PRC in terms of revenue in 2016, respectively, with a market share of 5.9% and 1.6%<sup>(1)</sup>.

Our brands of “*Flower (菊花牌)*”, “*Giraffe (長頸鹿牌)*” and “*Toy Brand (玩具牌)*” are renowned brands of paint and coating products in Hong Kong and the PRC. “*Flower (菊花牌)*” was awarded as Top Brand in China Architectural Coatings Industry Award 2015 (二零一五年中國建築塗料名牌獎) and Shenzhen Famous Brand (深圳知名品牌) in 2015. “*Flower (菊花牌)*” is also recognised as the Hong Kong Top Brand (香港名牌) for twelve consecutive years from 2006 to 2017. “*Giraffe (長頸鹿牌)*” was recognised as the Top Brand in China Wood Coatings Industry Award 2015 (二零一五年中國木器塗料名牌獎). With our operating history of more than 80 years, renowned brands and high product quality, we have established our market position in selected segments of the paint and coating market in Hong Kong and the PRC and have the competitive strengths amongst other domestic and international branded paint and coating products in our target markets.

According to *Frost & Sullivan*, the paint and coating market in the PRC is fragmented. The 10 largest manufacturers had a market share of less than 15.0% and the largest manufacturer had a market share of 3.4% in terms of revenue in 2016. The wood coating market in the PRC, which represented 5.4% of the paint and coating market in the PRC in terms of revenue in 2016, is more concentrated, and the 10 largest manufacturers had a total market share of 59.7% and the largest manufacturer had a market share of 7.7% in terms of revenue in 2016. In 2016, sales of paint and coating products to customers in retailing wood coating market accounted for 27.5% of the revenue generated from the sales of wood coating products. The prices of retailing wood coating products are generally higher than those for industrial use.

Our paint and coating products may be used for different applications and can be solvent-based or water-based. During the Track Record Period, our revenue generated from the sales of solvent-based paint and coating products represented 56.4%, 55.6% and 56.8% of our revenue generated from the sales of industrial and architectural paint and coating products, respectively. The production of solvent-based paint and coating products in the PRC is subject to tightening regulatory requirements. A summary of these requirements is set forth in the section headed “Applicable Laws and Regulations” from page 70 to page 96 of this [REDACTED]. The following sets forth a brief description of the three principal categories of our paint and coating products:

- *Industrial paint and coating products* – These paint and coating products are generally used in a wide range of applications, such as furniture painting, manufacturing and surface finishing for different kinds of materials, and are being used by manufacturers, renovation contractors for property and infrastructure projects and household users.

(1) According to *Frost & Sullivan*, the wood coating market in the PRC can be divided into retailing wood coating market and manufacturing wood coating market. Retailing wood coating products are sold to household users for on-site decoration and maintenance and manufacturing wood coating products are sold to wooden furniture factories.



## SUMMARY AND HIGHLIGHTS

- *Architectural paint and coating products* – These paint and coating products are generally used in property development and infrastructure projects.
- *General paint and coating and ancillary products* – These products include thinner, enamels and anti-mold agents and solvent agents.

We also supply customised industrial and architectural paint and coating products upon the request by our customers.

17 We have established business relationships with our customers which include distributors, manufacturers, renovation contractors for property and infrastructure projects and household users in Hong Kong and the PRC. During the Track Record Period, the distributors were amongst our five largest customers and they are engaged in wholesale and retail business in Hong Kong and the PRC. In addition to our sales to distributors, we also sell our paint and coating products directly to renovation contractors for property and infrastructure projects and household users, and these sales are conducted by China Paint (1932), CNT Resene and CNT Resene (Distribution) in Hong Kong and China Paint Shenzhen and its showroom and branch companies established at different locations in the PRC.

Our administrative headquarters are in Hong Kong. During the Track Record Period, we had four production plants, namely Shajing Production Plant, Ezhou Production Plant, Xuzhou Production Plant and Xinfeng Production Plant. During the year ended 31 December 2016, our total designed annual production capacity of industrial paint and coating products, architectural paint and coating products and general paint and coating and ancillary products was 26,801.7 tonnes, 12,872.6 tonnes and 16,857.2 tonnes, respectively.

According to *Frost & Sullivan*, the demand for paint and coating products in the downstream markets in the PRC, such as construction and renovation business, will continue to increase. The sales value of paint and coating products in the PRC and Hong Kong is expected to increase at a CAGR of 5.7% and 0.4%, respectively, during the five-year period from 2017 to 2021. The forecasted growth in the PRC is attributable to steady growth of downstream industries including building and construction, furniture and automotive industry, increasing application of protective and environmental-friendly coatings and continuous expansion of manufacturing industries in the PRC. However, the sales value of retailing wood coating market decreased at a CAGR of 6.8% from 2010 to 2016 primarily because of the slowdown in the real estate market in the PRC and the changing consumers’ preference in using factory-made furniture. The sales value of retailing wood coating market is expected to continue to decrease at a CAGR of 0.8% during the five-year period from 2017 to 2021.

### SPIN-OFF

Prior to the Spin-Off and the [REDACTED], the CNT Group had four business segments, namely the Paint Business, the Investment Property Business, the Trading Business and the Other Business. The Paint Business is one of the distinctive business segments of the CNT Group and has the longest operating history. The Remaining Businesses are independent from the Paint Business and have different business development directions as compared with the Paint Business.

In accordance with the requirements of Practice Note 15 of the Listing Rules, CNT will give due regard to the interests of its shareholders by providing CNT Qualifying Shareholders with an [REDACTED] to our Shares by way of the [REDACTED]. Further information on the [REDACTED] is set forth in the section headed “Structure and Conditions of the [REDACTED]” in this [REDACTED].

The principal purpose of the Spin-Off and the [REDACTED] is to create separate [REDACTED] platforms on the Main Board for the Paint Business and the Remaining Businesses so that these business activities may raise equity and debt financing independently according to their respective business needs. The market positions and the valuation of the Paint Business and the Remaining Businesses are distinctively different. Further information on the Spin-Off and the [REDACTED] is set forth in the section headed “Spin-Off and [REDACTED]” from page 120 to page 122 in this [REDACTED].

## SUMMARY AND HIGHLIGHTS

### OUR COMPETITIVE STRENGTHS

Our Directors believe that we draw on a number of competitive strengths to support our business growth. These strengths include (a) we are an established paint and coating manufacturer offering a full range of paint and coating products; (b) we have established business relationship with distributors and customers which operate a distribution network in Hong Kong and the PRC; (c) we have strong product development capability; (d) our production facilities are strategically situated at different locations in the PRC; (e) we operate in an improving industry trends and the increasing demand for environmental-friendly paint and coating products; and (f) we have an experienced management team with proven track record. Further information is set forth in the section headed “Business – Our competitive strengths” from page 124 to page 127 in this [REDACTED].

### OUR BUSINESS STRATEGIES

We aim to further strengthen our position as a well-recognised paint and coating manufacturer in Hong Kong and the PRC by pursuing the strategies of (a) strengthening our market position in the PRC; (b) expanding our paint and coating product portfolio for selected market segments in selected geographical markets in the PRC; and (c) expanding our production capacity for water-based paint and coating products. Further information is set forth in the section headed “Business – Our business strategies” from page 127 to page 129 in this [REDACTED].

### FINANCIAL AND OPERATIONAL INFORMATION

The following sets forth our combined audited statements of profit or loss during the Track Record Period:

	Year ended 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
REVENUE . . . . .	1,131,305	867,997	937,450
Cost of sales . . . . .	(737,417)	(543,573)	(590,088)
Gross profit . . . . .	393,888	324,424	347,362
Other income and gains, net . . . . .	16,551	18,318	12,827
Selling and distribution expenses . . . . .	(170,204)	(156,063)	(148,647)
Administrative expenses . . . . .	(98,192)	(103,900)	(112,227)
Other expenses, net . . . . .	(11,626)	(18,050)	(23,998)
Finance costs . . . . .	(3,076)	(3,098)	(2,050)
PROFIT BEFORE TAX . . . . .	127,341	61,631	73,267
Income tax expenses . . . . .	(30,192)	(19,701)	(17,801)
PROFIT FOR THE YEAR . . . . .	97,149	41,930	55,466
<b>Other comprehensive income</b>			
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations . . . . .	(18,465)	(38,266)	(53,672)
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:			
Remeasurement of net pension scheme assets . . . . .	(281)	(489)	339
<b>Other comprehensive loss for the year . . . . .</b>	<b>(18,746)</b>	<b>(38,755)</b>	<b>(53,333)</b>
<b>Total comprehensive income for the year . . . . .</b>	<b>78,403</b>	<b>3,175</b>	<b>2,133</b>

## SUMMARY AND HIGHLIGHTS

The amount of the exchange differences represents the differences in the exchange rates between our reporting currency and the foreign currencies at the beginning and the end of the reporting year. These exchange differences are not charged to our combined statements of profit or loss because they are relating to the translation of foreign operations as of the respective reporting dates and arising in the preparation of our combined audited financial statements. The depreciation of RMB would have negative impact on the net assets value of the Group’s PRC subsidiaries which are measured at RMB when doing the translation to present in HK\$ in the combined financial statements. For the year ended 31 December 2014 and 2015, RMB depreciated against HK\$ by 2.5% and 4.5%, respectively. This resulted in a significant exchange losses on translation of foreign operations of HK\$18.5 million and HK\$38.3 million in the year ended 31 December 2014 and 2015, respectively. Due to the significant depreciation of Renminbi in 2016 of 6.4%, the translation of Renminbi assets into HK\$ resulted in a significant exchange loss on translation of foreign operations. Therefore, the amount of total comprehensive income was significantly lower than the net profit during the Track Record Period. Further information on the accounting treatment of exchange differences is set forth in the Accountants’ Report, the text of which is set forth in Appendix I to this [REDACTED].

We operate a funded defined scheme for our employees in Hong Kong. Under the scheme, the employees will be entitled to retirement benefits on attainment of the retirement age. The scheme is administrated by an independent trustee with the assets held separately from other assets. Hence, any change in the fair value of the scheme asset would not be charged to our combined audited statements of profit or loss.

During the Track Record Period, our revenue amounted to HK\$1,131.3 million, HK\$868.0 million and HK\$937.5 million, respectively. Our revenue was decreased during the Track Record Period primarily due to certain pricing policies implemented by us in respect of our products. This resulted in the decreases in the sales of the distributors to their own customers and hence, our revenue was decreased. Our revenue was increased modestly in 2016 due to the business initiatives launched by us in response to significant decrease in our revenue in 2015. Such business initiatives include adjustment in our pricing policy, appointment of new management team in selected regions in the PRC, appointment of new distributors, increase in the direct sales to manufacturers and launch of new water-based paint and coating products. Further information is set forth in the section headed “Financial Information – Sustainability of our business in light of the deteriorating performance during the year ended 31 December 2015” from page 257 to page 266 in this [REDACTED].

The following sets forth our condensed combined audited statements of financial position as of 31 December 2014, 2015 and 2016:

	<b>As of 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets . . . . .	236,250	234,561	225,234
Less: Non-current liabilities . . . . .	(34,324)	(34,538)	(33,077)
	<u>201,926</u>	<u>200,023</u>	<u>192,157</u>
Current assets . . . . .	1,060,226	975,873	975,931
Less: Current liabilities . . . . .	(607,527)	(507,574)	(489,717)
	<u>452,699</u>	<u>468,299</u>	<u>486,214</u>
Net current assets . . . . .	<u>452,699</u>	<u>468,299</u>	<u>486,214</u>
Net assets . . . . .	<u><u>654,625</u></u>	<u><u>668,322</u></u>	<u><u>678,371</u></u>

## SUMMARY AND HIGHLIGHTS

### OUR PRODUCTS

Our products can be broadly divided into (a) industrial paint and coating products, (b) architectural paint and coating products and (c) general paint and coating and ancillary products. Further information is set forth in the section headed “Business – Our products” from page 129 to page 136 in this [REDACTED].

#### Industrial paint and coating products

We produce and sell both solvent-based and water-based industrial paint and coating products under the brand names of “*Flower* (菊花牌)”, “*Giraffe* (長頸鹿牌)”, “*Toy Brand* (玩具牌)”, “*Sea Rover* (海諾威)” and “*Blue Rocket* (藍箭牌)” for our customers for different applications in different industries. Our industrial paint and coating products include wood coating, coating for machines and equipment, and anti-corrosive paints for ships and equipment, port facilities and infrastructure facilities. We offer a wide range of industrial paint and coating products comprising polyurethane coatings, baking enamels, ultraviolet curing paints, lacquers, furniture paints, automotive coatings, paints for plastic, polyester auto-body putty, light industrial paint and coating products and anti-corrosive paints. Industrial paint and coating can be applied onto different kinds of surface materials, including wood, metal and plastic, for different applications.

#### Architectural paint and coating products

We produce and sell both solvent-based and water-based architectural paint and coating products which are marketed under the brand names of “*Flower* (菊花牌)”, “*Golden Flower* (金菊花)”, “*Giraffe* (長頸鹿牌)”, “*Resene*” and “*ZICERA*”. Our architectural paint and coating products include coatings for wall, floor, interior and exterior parts of buildings comprising emulsion paints, fluorocarbon coatings, epoxy paints and exterior top coatings. Our architectural paint and coating products primarily focus on the commercial and residential construction and maintenance markets.

#### General paint and coating and ancillary products

We produce and sell general paint and coating and ancillary products under the brand names of “*Flower* (菊花牌)”, “*Toy Brand* (玩具牌)”, “*Sea Rover* (海諾威)”, “*丹尼斯*”, “*Resene*”, “*Giraffe* (長頸鹿牌)”, “*Blue Rocket* (藍箭牌)” and “*ZICERA*”, and some of which can be used for both architectural and industrial purposes, such as thinner, enamels, anti-mold agents and solvent agents.

### OUR PRODUCTION FACILITIES

Our administrative headquarters are in Hong Kong. During the Track Record Period, we had four production plants, namely Shajing Production Plant, Ezhou Production Plant, Xuzhou Production Plant and Xinfeng Production Plant. During the year ended 31 December 2016, our total designed annual production capacity of industrial paint and coating products, architectural paint and coating products and general paint and coating and ancillary products was 26,801.7 tonnes, 12,872.6 tonnes and 16,857.2 tonnes, respectively. Further information on our production facilities is set forth in the section headed “Business – Production facilities” from page 140 to page 152 in this [REDACTED].

The following sets forth further information on our production facilities as of the Latest Practicable Date:

Date:

Location of our production facilities	Aggregate gross		Overall utilisation rates during the Track Record Period			Principal products produced
	Site area	floor area	Year ended 31 December			
			2014	2015	2016	
	(sq. m.)	(sq. m.)	%	%	%	
Shajing Production Plant. . .	58,786.0	36,276.1	107.6	69.3	78.4	Water-based paint and coating products, wood coatings, anti-corrosive paint and coating products, nitrocellulose paint and coating products, thinner, industrial paint and coating products and solvent agents.
Ezhou Production Plant. . . .	29,325.6	19,092.3	113.9	70.1	93.6	Water-based paint and coating products, wood paint and coating products, nitrocellulose paint and coating products, thinner, anti-corrosive paint and coating products, industrial paint and coating products and polyester autobody putty.
Xuzhou Production Plant <sup>(1)</sup> .	36,729.8	3,661.4	114.0	50.8	10.2	Polyester autobody putty and thinner.
Xinfeng Production Plant . .	260,572.1	16,974.2	N/A	67.5	110.1	Wood paint and coating products, nitrocellulose paint and coating products and solvent agents.
<b>Total</b>	385,413.5	76,004.0				

## SUMMARY AND HIGHLIGHTS

Note:

- (1) The production activities of our Xuzhou Production Plant have been suspended since the end of May 2016 as part of our business strategy to reallocate our production capacity and pending the grant of the work safety licences for the production of solvent-based paint and coating products. We expect that the environmental assessment report would be completed during the first half of 2017. If our Xuzhou Production Plant were in commercial operation, it would have produced and sold solvent-based paint and coating products for Eastern and Central China markets.

The Shanghai Complex has not been used by us for our production requirement. The fluctuations in the utilisation rates of each of our production plants throughout the Track Record Period were due to a number of factors, further information on which is set forth in the section headed “Business – Production facilities – Production facilities and utilisation rates” on page 140 to page 145 in this [REDACTED].

## OUR REVENUE AND SALES-RELATED INFORMATION

### Revenue

Our business is subject to seasonality with our sales of paint and coating products increase generally during the second and the fourth quarters in each calendar year. The following sets forth an analysis of our revenue by the three principal types of paint and coating products during the Track Record Period:

	Year ended 31 December					
	2014		2015		2016	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Industrial paint and coating products						
Solvent-based . . . . .	623,607	55.1	467,239	53.8	520,966	55.6
Water-based . . . . .	2,681	0.2	5,461	0.7	6,388	0.7
<b>Sub-total</b>	<b>626,288</b>	<b>55.3</b>	<b>472,700</b>	<b>54.5</b>	<b>527,354</b>	<b>56.3</b>
Architectural paint and coating products						
Solvent-based . . . . .	14,353	1.3	15,652	1.8	10,893	1.2
Water-based . . . . .	231,710	20.5	156,506	18.0	184,144	19.6
<b>Sub-total</b>	<b>246,063</b>	<b>21.8</b>	<b>172,158</b>	<b>19.8</b>	<b>195,037</b>	<b>20.8</b>
General paint and coating and ancillary products <sup>(1)</sup> . . . . .	258,954	22.9	223,139	25.7	215,059	22.9
<b>Total</b>	<b>1,131,305</b>	<b>100</b>	<b>867,997</b>	<b>100</b>	<b>937,450</b>	<b>100</b>

Note:

- (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.

During the Track Record Period, most of our revenue was derived from the sales of solvent-based paint and coating products which may be subject to increasing regulatory requirements and expected decline in market size of the retailing wood coating market.

The following sets forth the sales of industrial paint and coating products to customers in the retailing wood coating market, manufacturing wood coating market and the non-wood paint and coating market during the Track Record Period:

	Year ended 31 December					
	2014		2015		2016	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Retailing wood coating market . . . . .	501,598	80.1	405,432	85.8	417,929	79.3
Manufacturing wood coating market . . . . .	3,356	0.5	9,548	2.0	17,315	3.3
Non-wood paint and coating market . . . . .	121,334	19.4	57,720	12.2	92,110	17.4
<b>Total</b>	<b>626,288</b>	<b>100</b>	<b>472,700</b>	<b>100</b>	<b>527,354</b>	<b>100</b>

## SUMMARY AND HIGHLIGHTS

During the Track Record Period, our paint and coating products sold to customers in the retailing wood coating market amounted to HK\$501.6 million and HK\$405.4 million and HK\$417.9 million, respectively, representing 44.3%, 46.7% and 44.6% of our revenue.

### Sales volume and average selling prices

The following sets forth the sales volume and the average selling prices of our principal products during the Track Record Period:

	Year ended 31 December					
	2014		2015		2016	
	Sales volume tonne	Average selling prices HK\$'000/ tonne	Sales volume tonne	Average selling prices HK\$'000/ tonne	Sales volume tonne	Average selling prices HK\$'000/ tonne
Industrial paint and coating products						
solvent-based . . . . .	18,365.7	34.0	13,459.6	34.7	18,165.9	28.7
water-based . . . . .	87.3	30.7	173.9	31.4	192.8	33.1
	<u>18,453.0</u>	<u>33.9</u>	<u>13,633.5</u>	<u>34.7</u>	<u>18,358.7</u>	<u>28.7</u>
Architectural paint and coating products						
solvent-based . . . . .	828.3	17.3	899.9	17.4	559.6	19.5
water-based . . . . .	14,780.3	15.7	9,946.3	15.7	11,351.3	16.2
	<u>15,608.6</u>	<u>15.8</u>	<u>10,846.2</u>	<u>15.9</u>	<u>11,910.9</u>	<u>16.4</u>
General paint and coating and ancillary products <sup>(1)</sup> . . . . .	<u>16,518.5</u>	14.8	<u>14,630.2</u>	15.1	<u>14,849.5</u>	14.4
<b>Total</b>	<u><u>50,580.1</u></u>		<u><u>39,109.9</u></u>		<u><u>45,119.1</u></u>	

*Note:*

- (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.

### Gross profit and gross profit margin

The following sets forth the amount of our gross profit and the gross profit margin for each of our principal products during the Track Record Period:

	Year ended 31 December					
	2014		2015		2016	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Industrial paint and coating products						
Solvent-based . . . . .	227,224	36.4	184,342	39.5	200,889	38.6
Water-based . . . . .	1,289	48.0	2,862	52.4	3,450	54.0
Sub-total/Average	<u>228,513</u>	<u>36.5</u>	<u>187,204</u>	<u>39.6</u>	<u>204,339</u>	<u>38.7</u>
Architectural paint and coating products						
Solvent-based . . . . .	4,286	29.9	5,406	34.5	4,170	38.3
Water-based . . . . .	75,573	32.6	48,829	31.2	66,932	36.3
Sub-total/Average	<u>79,859</u>	<u>32.5</u>	<u>54,235</u>	<u>31.5</u>	<u>71,102</u>	<u>36.5</u>
General paint and coating and ancillary products . . . . .	<u>85,516</u>	<u>33.0</u>	<u>82,985</u>	<u>37.2</u>	<u>71,921</u>	<u>33.4</u>
<b>Total/overall gross profit/ gross profit margin . . . . .</b>	<u><u>393,888</u></u>	<u><u>34.8</u></u>	<u><u>324,424</u></u>	<u><u>37.4</u></u>	<u><u>347,362</u></u>	<u><u>37.1</u></u>

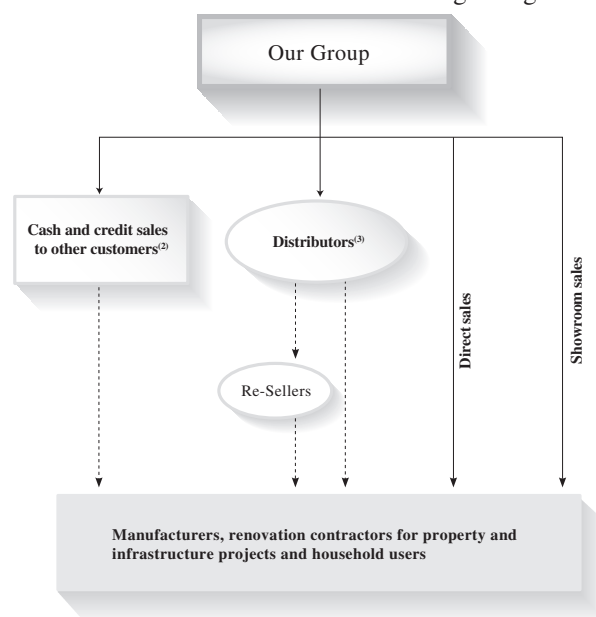


## SUMMARY AND HIGHLIGHTS

The gross profit of our principal paint and coating products sold to customers in the retailing wood coating market during the Track Record Period amount to HK\$187.6 million, HK\$163.2 million and HK\$160.9 million, respectively, and the gross profit margin was 37.4%, 40.3% and 38.5%, respectively. The gross profit of our principal paint and coating products sold to customers in the manufacturing wood coating market during the Track Record Period was HK\$0.7 million, HK\$2.8 million and HK\$4.9 million respectively, the gross profit margin was 20.8%, 29.1% and 28.6%, respectively.

### SALES CHANNELS

The following diagram illustrates our sales channels in Hong Kong and the PRC:



#### Notes:

- (1) The solid lines represent the sales conducted by us and the transactions recognised by us as sales. The dotted lines represent the on-sales transactions conducted by the distributors and their re-sellers.
- (2) These customers will re-sell our paint and coating products to their own customers. We do not consider them as distributors primarily because of the sales to them are not conducted on a regular basis, and they have not entered into annual distribution agreements with us. As of the Latest Practicable Date, we had 260 customers with whom we had ongoing business with them during the last 12 months.
- (3) As of 31 December 2016, we had appointed 465 distributors in Hong Kong and the PRC.

The following sets forth an analysis of our revenue generated through different sales channels for the Track Record Period:

	Year ended 31 December					
	2014		2015		2016	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
<b>Distributors</b>						
Distributors – PRC .....	685,956	60.6	578,766	66.7	618,807	66.0
Distributors – Hong Kong .....	81,208	7.2	50,202	5.8	65,691	7.0
	767,164	67.8	628,968	72.5	684,498	73.0
<b>Direct sales</b> .....	223,973	19.8	169,903	19.6	206,911	22.1
<b>Cash and credit sales to other customers</b> .....	139,052	12.3	68,616	7.9	45,373	4.8
<b>Showroom sales</b> .....	1,116	0.1	510	*	668	0.1
<b>Total</b>	<u>1,131,305</u>	<u>100</u>	<u>867,997</u>	<u>100</u>	<u>937,450</u>	<u>100</u>

\* Value insignificant

## **SUMMARY AND HIGHLIGHTS**

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### **OUR CUSTOMERS**

Our customers include distributors, manufacturers and renovation contractors for property and infrastructure projects. Customers of our industrial paint and coating products include renovation contractors, manufacturers of various products ranging from customer electronics, machinery and mechanical equipment, toys, electrical appliances, furniture to marine and automotive parts and components and household users. Customers of our architectural paint and coating products principally include renovation contractors for property and infrastructure projects.

Our paint and coating products are primarily sold to customers in Hong Kong and the PRC. As of 31 December 2016, we had 1,304 customers, including 465 distributors engaged in wholesale and retail businesses, 713 manufacturers and 126 renovation contractors for property and infrastructure projects. As of 31 December 2016, our five largest customers have been conducting business with us for a period up to 20.2 years. All our customers, including distributors, are Independent Third Parties. Further information on our customer is set forth in the section headed “Business – Our customers” from page 159 to page 164 in the [REDACTED].

The distributors consist of wholesale distributors and retail distributors in Hong Kong and the PRC. As of the Latest Practicable Date, we had 431 distributors in the PRC and Hong Kong. Further information on the distributors is set forth in the paragraphs under “Business – Distributors” from page 164 to page 170 in this [REDACTED].

During the Track Record Period, sales to our five largest customers accounted for 10.6%, 13.7% and 15.4% of our revenue, respectively, and sales to our largest customer accounted for 2.3%, 4.3% and 4.1% of our revenue, respectively. All of the above five largest customers are Independent Third Parties and none of our Directors, their respective associates or any Shareholders who own more than five per cent. of our issued share capital, to the knowledge of our Directors, had any interest in any of the above five largest customers during the Track Record Period. Except for one of our five largest customers in 2014 who was not distributor, all our five largest customers during the Track Record Period were distributors. The amount of impairment of our trade and bills receivables during the Track Record Period amounted to HK\$13.5 million, HK\$18.3 million and HK\$28.3 million, respectively.

We believe that cooperating with distributors is a cost-effective means to distribute our paint and coating products in Hong Kong and the PRC and can also help us in expanding new geographic markets. During the Track Record Period, sales to distributors accounted for 67.8%, 72.5% and 73.0%, respectively, of our revenue, with our five largest distributors accounting for 10.2%, 13.7% and 15.4%, respectively, of our revenue. Our largest distributor during each of the Track Record Period accounted for 2.3%, 4.3% and 4.1%, respectively, of our revenue. Further information on the distributors is set forth in the section headed “Business – Distributors” from page 164 to page 170 in this [REDACTED].

### **PROCUREMENT OF RAW MATERIALS AND OUR SUPPLIERS**

The raw materials used by us in the production process include resin, solvent, pigment and filler, additives and packaging materials. We procure raw materials from a number of suppliers in various countries and places including the PRC, U.S., Japan, New Zealand, Australia, Germany, Norway, Taiwan, Malaysia and Hong Kong.

We typically purchase raw materials based on the historical levels of sales, actual sales orders on hand and the anticipated production requirements taking into consideration any expected fluctuation in raw material prices and delivery delay. We do not have long-term purchase commitment or guarantee purchase quantities with our suppliers. The terms and conditions on warranties for product quality and return policy are set forth in the purchase orders. Pricing and production volumes are negotiated for each purchase order. The purchase price of our raw materials generally follows market prices. During the Track Record Period, we have not experienced any quality issue with our raw materials or shortages of raw materials during the course of our operations or experience any difficulty in sourcing alternative suppliers for such raw materials that materially affected our operations.



## SUMMARY AND HIGHLIGHTS

The cost of raw materials constituted the largest component of our cost of sales and, as such, fluctuations in the prices of our raw materials have a direct impact on our cost of sales. The raw materials used by us amounted to HK\$665.5 million, HK\$470.6 million and HK\$505.6 million during the Track Record Period, respectively, representing 90.2%, 86.6% and 85.7% of the cost of sales.

Purchases from our five largest suppliers, which are Independent Third Parties, during the Track Record Period accounted for 23.9%, 26.4% and 26.4% of our total cost of raw materials, respectively. During the same period, purchase from our largest supplier accounted for 8.3%, 6.9% and 8.3% of our total cost of raw materials, respectively. We maintain a number of suppliers for each type of raw material for comparison and reducing the exposure to the reliance on any major supplier. During the Track Record Period, we have not experienced any significant difficulty in the procurement of raw materials. Further information on the procurement of raw materials and our suppliers is set forth in the section headed “Business – Procurement and raw materials” and “Business – Our suppliers” from page 171 to page 177 in this [REDACTED].

### KEY FINANCIAL RATIOS

	Year ended 31 December		
	2014	2015	2016
Revenue growth (%) . . . . .	2.8	(23.3)	8.0
Gross profit margin (%) . . . . .	34.8	37.4	37.1
Net profit growth (%) . . . . .	(12.6)	(56.8)	32.3
Net profit margin (%) . . . . .	8.6	4.8	5.9
Return on equity (%) . . . . .	14.9	6.3	8.2
Return on total assets (%) . . . . .	7.5	3.5	4.6

	As of 31 December		
	2014	2015	2016
Gearing ratio (%) . . . . .	22.6	25.1	17.2
Current ratio (times) . . . . .	1.7	1.9	2.0
Quick ratio (times) . . . . .	1.6	1.8	1.9

The gearing ratio is based on our bank borrowing and other borrowings divided by equity attributable to owners of our Company. Further information on the above financial ratios is set forth in the section headed “Financial Information – Key financial ratios” from page 293 to page 294 in this [REDACTED].

### PRINCIPAL RISK FACTORS

There are risks associated with any investment, which may be broadly categorised into (a) risks relating to our business, (b) risks relating to the industry in which we operate, (c) risks relating to the PRC and (d) risks relating to the [REDACTED]. We believe that our major risks include:

- We rely on distributors to distribute and sell our paint and coating products.
- We are dependent on our brands, and any adverse event affecting in our brands could have a material adverse effect on our business and financial condition and operating results.
- We face competition from both domestic and international brands of paint and coating products, which could affect our market share and our operating results.
- Any failure by our customers to make payments to us, or any disputes over, or significant delays in receiving such payments could materially and adversely affect our cashflows and profitability.
- We are subject to environmental laws and regulations, which could require us to incur environmental liabilities, increase our manufacturing costs and related compliance costs or otherwise materially and adversely affect our business, net assets, financial condition and operating results.

Further information on the risk factors is set forth in the section headed “Risk Factors” from page 24 to page 47 in this [REDACTED].

## SUMMARY AND HIGHLIGHTS

### NON-COMPLIANCE INCIDENTS

Further information on our non-compliance incidents is set forth in the section headed “Business – Non-compliance incidents” from page 202 to page 208 in this [REDACTED]. These incidents included our failure to make full payment of social insurance and housing fund contributions and obtain the required licences in conducting our re-invoicing business in the PRC through branches of China Paint Shenzhen. Our Directors do not consider that these incidents have any adverse impact on our business.

### CONTROLLING SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the [REDACTED] and the Capitalisation Issue (assuming that all CNT Qualifying Shareholders take up their respective [REDACTED] in full and without taking into account any Shares which may be taken up under the [REDACTED] and may be issued upon the exercise of the [REDACTED]), we have the following controlling shareholders:

Name of Shareholders	Capacity/Nature of interest	Immediately after the [REDACTED] and the Capitalisation Issue	
		Number of Shares held	Percentage of Shareholding
CNT	Corporate interest	[REDACTED]	[REDACTED]%
CNT Enterprises	Corporate interest	[REDACTED]	[REDACTED]%

Further information on our Controlling Shareholders is set forth in the section headed “Controlling Shareholders and Substantial Shareholders” from page 313 to page 314 in this [REDACTED].

### DIVIDENDS

We did not declare and pay any dividend during the Track Record Period and hence, there was no dividend pay-out ratio. Prior to the Spin-Off and the [REDACTED], we declared and paid a special interim dividend of HK\$180 million. After completion of the [REDACTED] and the Capitalisation Issue, our Shareholders will be entitled to receive dividends declared by our Company.

Any amount of dividends to be declared and paid by our Company will be at the discretion of our Directors taking into consideration our future operations and earnings, our business development, capital requirements and surplus, general financial conditions, contractual restrictions and such other factors as our Directors consider appropriate. We will not have any dividend policy or fixed dividend pay-out ratio following the [REDACTED]. Any declaration and payment as well as the amount of dividends will be subject to the Articles and Cayman Companies Law. Any declaration of final dividends will also require the approval of our Shareholders in general meeting. No dividend shall be declared or paid except out of our distributable profit and lawfully available for distribution under the Cayman Companies Law.

### [REDACTED] STATISTICS

[REDACTED] size. ....	Initially [REDACTED] Shares, representing [REDACTED]% of the enlarged number of Shares in issue (subject to the [REDACTED])	
[REDACTED] structure. ....	[REDACTED]% [REDACTED] (including [REDACTED]% for the [REDACTED]) and [REDACTED]% [REDACTED] (subject to re-allocation and the [REDACTED])	
[REDACTED] .....	Up to [REDACTED]% of the initial number of our [REDACTED]	
[REDACTED] .....	HK\$[REDACTED] to HK\$[REDACTED] for each Share	
	Based on the low end of the indicative range of the [REDACTED] of HK\$[REDACTED]	Based on the high end of the indicative range of the [REDACTED] of HK\$[REDACTED]
Market capitalisation of our Shares <sup>(1)</sup> .....	HK\$[REDACTED]	HK\$[REDACTED]
Pro forma adjusted combined net tangible asset value for each Share <sup>(2)</sup> .....	HK\$[REDACTED]	HK\$[REDACTED]

#### Notes:

- (1) All statistics in this table are based on the assumption that the [REDACTED] is not exercised. The calculation of the market capitalisation is based on [REDACTED] Shares which are expected to be issued and outstanding following completion of the [REDACTED] and the Capitalisation Issue.

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## SUMMARY AND HIGHLIGHTS

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- (2) The unaudited pro forma adjusted combined net tangible assets for each Share is calculated based on [REDACTED] Shares, being the number of Shares expected to be in issue immediately following completion of shares of the [REDACTED] without taking into account of any Shares which may be allotted and issued pursuant to the exercise of the [REDACTED].

The unaudited pro forma adjusted combined net tangible assets attributable to owners of our Company does not take into account a special interim dividend of HK\$180 million declared and paid by our Company prior to completion of the Spin-Off and the [REDACTED]. Had the special interim dividend been taken into account, the unaudited pro forma adjusted combined net tangible assets for each Share would be HK\$[REDACTED] (based on the high-end of the indicative range of the [REDACTED] of HK\$[REDACTED]) and HK\$[REDACTED] (based on the low-end of the indicative range of the [REDACTED] of HK\$[REDACTED]).

### USE OF NET PROCEEDS FROM THE [REDACTED]

Our Directors estimate that we will receive net proceeds from the [REDACTED] of HK\$[REDACTED] million, after deducting the [REDACTED] fees and estimated expenses for the [REDACTED] paid and payable by us, assuming that the [REDACTED] is HK\$[REDACTED], being the mid-point of the indicative range of the [REDACTED] stated in this [REDACTED]. We intend to use the net proceeds from the [REDACTED] for the following purposes:

- HK\$[REDACTED] million or [REDACTED]%, will be used for the construction of our Xinfeng Production Plant, including the construction of the infrastructure, office buildings, staff accommodation and related electricity and environmental protection facilities and the purchase of the required plant and machinery for the production of water-based paint and coating products; establishment of a paint and coating product research and development centre; and the construction of three dangerous goods warehouses for the solvent-based paint and coating products produced.
- HK\$[REDACTED] million or [REDACTED]%, will be used for the repayment of our bank loans.
- HK\$[REDACTED] million or [REDACTED]%, will be budgeted for pursuing acquisitions of businesses or production assets.
- HK\$[REDACTED] million or [REDACTED]%, will be used for our sales and marketing campaigns.

Further information is set forth in the section headed “Future Plans and Use of Net Proceeds from the [REDACTED]” from page 211 to page 213 in this [REDACTED].

### [REDACTED] EXPENSES

[REDACTED] expenses directly attributable to issuing [REDACTED] are recognised in equity, while other [REDACTED] expenses are recognised as administrative expenses.

Assuming that the [REDACTED] is not exercised, the total amount of expenses incurred for the [REDACTED] is estimated to be HK\$[REDACTED] million (based on the mid-point of the indicative range of the [REDACTED] of HK\$[REDACTED]). We incurred and charged to our combined statements of profit or loss a total of HK\$[REDACTED] for the [REDACTED] during the year ended 31 December 2016. We expect that a total amount of HK\$[REDACTED] million will be charged to our combined statements of profit or loss for the year ending 31 December 2017. The remaining balance of HK\$[REDACTED] million accounted for as a deduction from equity after the [REDACTED] for the year ending 31 December 2017.

### RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE

Subsequent to the Track Record Period and up to the Latest Practicable Date, our operating results were affected by the industry slack season, change in our product mix and the amount of expenses incurred by us for the [REDACTED]. During this period, we focused on increasing our production volume and sales volume and the utilisation rates of our production facilities increased as a result. The average selling prices of our paint and coating products decreased because of reduction in our selling prices for promotion of our products and changes in the product mix as well as fluctuations in the cost of raw materials. We also incurred expenses for the [REDACTED] which also affected our operating results during the period. Based on the information currently available, our operating results during the four months ended 30 April 2017 is lower than the corresponding period in 2016. We will comply with the relevant disclosure requirements following the [REDACTED] if there is any material change to our business operations.

Save for the aforesaid, our Directors have confirmed that since 31 December 2016, being the date to which the latest audited financial statements of our Company were prepared, and up to the date of this [REDACTED], including the four months ended 30 April 2017, there was no material adverse change in our financial, operational and trading positions or prospect or in the general regulatory, economic and market conditions in China and Hong Kong or the industry in which we operate that materially and adversely affected our business, results of operations or financial condition.

## DEFINITIONS

*In this [REDACTED], unless the context otherwise requires, the following terms shall have the meanings set forth below.*

[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
“Arran Investment”	Arran Investment Company, Limited 雅蘭置業有限公司, a company incorporated in Hong Kong on 5 May 1962, in which we held 50% of the number of shares in issue prior to completion of the Reorganisation with the remaining 50% held by Independent Third Parties, which are not members of our Group
“Articles of Association” or “Articles”	the amended and restated articles of association of our Company, conditionally adopted on [REDACTED], which will become effective upon [REDACTED] and as amended, supplemented or modified from time to time, a summary of which is set forth in Appendix III to this [REDACTED]
“associate(s)”	has the meaning ascribed to it under the Listing Rules
[REDACTED]	[REDACTED]
“Board”	the board of Directors
“business day”	a day on which banks in Hong Kong are generally open for normal banking business to members of the public and which is not a Saturday, Sunday or public holidays in Hong Kong
“Buy-back Mandate”	the general unconditional mandate granted to our Directors by our Shareholders in relation to the buy-back of our Shares, further information of which is set forth in the section headed “Share Capital – General mandate to buy-back Shares” in this [REDACTED]
“BVI”	British Virgin Islands
“Capitalisation Issue”	the issue of [REDACTED] Shares to be made on the capitalisation of certain sums standing to the credit of the share premium account of our Company referred to in the paragraphs under “A. Further information about our Company” in Appendix IV to this [REDACTED]

## **DEFINITIONS**

“Cayman Companies Law” or “Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended, supplemented and modified from time to time
<b>[REDACTED]</b>	<b>[REDACTED]</b>
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Broker Participant”	a person admitted to participate in CCASS as a broker participant
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Broker Participant, CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“Central China”	Henan Province, Hubei Province and Hunan Province of the PRC
<b>[REDACTED]</b>	<b>[REDACTED]</b>
“China Paint (1932)”	The China Paint Manufacturing Company (1932) Limited 中華製漆(一九三二)有限公司 (formerly known as The China Paint Manufacturing Company (1946) Limited and The China Paint Manufacturing Company (1946) Limited 中華製漆(一九四六)有限公司), a company incorporated in Hong Kong on 3 June 1946 and a wholly-owned subsidiary of our Company following completion of the Reorganisation
“China Paint Factory”	China Paint Factory Limited, a company incorporated in the BVI on 24 September 1991 and a wholly-owned subsidiary of our Company following completion of the Reorganisation
“China Paint Manufacturing Company”	The China Paint Manufacturing Company, Limited, a company incorporated in Hong Kong with limited liability established by the late Mr. LAM Kwan on 27 June 1932 and dissolved on 28 November 1946, the business of which was taken over by China Paint (1932) in 1946

## DEFINITIONS

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“China Paint Shenzhen”	中華製漆(深圳)有限公司 (The China Paint Manufacturing (Shenzhen) Co., Ltd.*) (formerly known as 中華製漆(深圳)有限公司 (The China Paint Co. (Shenzhen) Ltd.*) and 中華製漆(深圳)有限公司 (The China Print Manufacturing (Shenzhen) Co., Ltd.*)), a wholly foreign-owned enterprise established in the PRC on 21 October 1991 and a wholly-owned subsidiary of our Company following the completion of the Reorganisation
“China Paint Singapore”	The China Paint (Singapore) Pte. Ltd., a company incorporated in Singapore on 28 May 2009 and a wholly-owned subsidiary of our Company following completion of the Reorganisation
“China Paint Xinfeng”	中華製漆(新豐)有限公司 (The China Paint Mfg. Co., (Xinfeng) Ltd.*), a wholly foreign-owned enterprise established in the PRC on 14 September 2007 and a wholly-owned subsidiary of our Company following completion of the Reorganisation
“close associate(s)”	has the meaning ascribed to it under the Listing Rules
“CNT”	CNT Group Limited 北海集團有限公司 (formerly known as China Paint Holdings Limited and CNT Group Limited), a company incorporated in Bermuda with limited liability on 25 March 1991, with all of its shares listed on the Main Board (stock code: 00701), and one of our Controlling Shareholders before and following completion of the Spin-Off and the [REDACTED]
“CNT Enterprises”	CNT Enterprises Limited, a company incorporated in the BVI with limited liability on 14 September 2016, a wholly-owned subsidiary of CNT and one of our Controlling Shareholders
“CNT Group”	CNT and its subsidiaries, including members of our Group, prior to completion of the Spin-Off and the [REDACTED]
“CNT Non-Qualifying Shareholder(s)”	CNT Shareholder(s) whose name(s) appeared in the register of members of CNT at 4:30 p.m. on the [REDACTED] [REDACTED] and: (a) whose address(es) as shown in such register is/are in any of the Excluded Territories; or (b) who is/are otherwise known by CNT to be resident in any of the Excluded Territories on the [REDACTED]; or (c) who is/are our Directors and/or their respective close associates

## **DEFINITIONS**

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<b>[REDACTED]</b>	<b>[REDACTED]</b>
<b>[REDACTED]</b>	<b>[REDACTED]</b>
“CNT Qualifying Shareholder(s)”	CNT Shareholder(s) whose name(s) appeared on the register of members of CNT at 4:30 p.m. on the <b>[REDACTED]</b> <b>[REDACTED]</b> , excluding the CNT Non-Qualifying Shareholder(s)
<b>[REDACTED]</b>	<b>[REDACTED]</b>
“CNT Resene”	CNT Resene Limited (formerly known as New Hong Kong Petro Chemicals Company Limited 新香港石化有限公司, Jinghua Paint Manufacturing Company (Hong Kong) Limited 精華制漆 (香港) 有限公司 and China Chemicals Group Limited 中華化工集團有限公司), a company incorporated in Hong Kong on 23 June 2003 and a wholly-owned subsidiary of our Company following completion of the Reorganisation
“CNT Resene (Distribution)”	CNT Resene (Distribution) Limited, a company incorporated in Hong Kong on 6 February 2015 and a wholly-owned subsidiary of our Company following completion of the Reorganisation
<b>[REDACTED]</b>	<b>[REDACTED]</b>
“CNT Share(s)”	ordinary share(s) of par value of HK\$0.10 each in the share capital of CNT



## DEFINITIONS

“CNT Shareholder(s)”	holder(s) of CNT Share(s)
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company” or “our Company”	CPM Group Limited 中漆集團有限公司, a company incorporated in the Cayman Islands on 19 September 2016 as an exempted company with limited liability, all of our Shares are proposed to be listed on the [REDACTED]
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“connected transaction”	has the meaning ascribed to it under the Listing Rules
“core connected person”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholders”	has the meaning ascribed to it under the Listing Rules and, in the context of our Company for the purpose of this [REDACTED] and the [REDACTED], means CNT and CNT Enterprises
“CP Industries”	CP Industries (BVI) Limited (formerly known as Lamell Limited and CNT Industries (BVI) Limited), a company incorporated in the BVI on 7 December 1993 and a wholly-owned subsidiary of our Company following completion of the Reorganisation
“Deed of Indemnity”	the conditional deed of indemnity dated [REDACTED] entered into by CNT in favour of our Group, further information on which is set forth in the paragraphs under “D. Other Information – 1. Tax and other indemnities” in Appendix IV to this [REDACTED]
“Director(s)”	the director(s) of our Company
“Eastern China”	Shanghai City, Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province and Shangdong Province of the PRC
[REDACTED]	[REDACTED]



## **DEFINITIONS**

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“Excluded Territories”	in respect of the [REDACTED], such territory or territories which our Directors consider it necessary or expedient, on account of the legal restrictions under the laws of the relevant jurisdiction or the requirements of the relevant regulatory body or stock exchange in that jurisdiction, to exclude the CNT Shareholders having the recorded addresses within them from the [REDACTED]
“Exclusive Agency Agreement”	the exclusive agency agreement dated 16 February 2015 and entered into between Resene Paints Limited, an Independent Third Party, and CNT Resene (Distribution)
“Ezhou Production Plant”	our production facilities situated at Gedian Economic and Technological Development Zone, Ezhou City, Hubei Province, the PRC and operated by Hubei Giraffe
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., an independent market, research and consulting company
“GDP”	gross domestic product
“General Mandate”	the general unconditional mandate granted to our Directors by our Shareholders in relation to the issue of new Shares, further information of which is set forth in the section headed “Share Capital – General mandate to issue Shares” in this [REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
“Group” or “our Group”	our Company and our subsidiaries or, where the context so requires, in respect of the period prior to our Company becoming the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at that time
[REDACTED]	[REDACTED]

## **DEFINITIONS**

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“Hainuowei Coating”	海諾威特種塗料(新豐)有限公司 (Hainuowei Special Coating (Xinfeng) Company Limited*), a wholly foreign-owned enterprise established in the PRC on 9 April 2010 and a wholly-owned subsidiary of China Paint Shenzhen prior to completion of the Reorganisation
“HK\$” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
“HKFRS”	Hong Kong Financial Reporting Standards (including Hong Kong Accounting Standards and their interpretations) issued by the Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited
[REDACTED]	[REDACTED]
“Hong Kong” or “HK”	The Hong Kong Special Administrative Region of the PRC
“Hong Kong Branch Registrar”	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]

## **DEFINITIONS**

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<b>[REDACTED]</b>	<b>[REDACTED]</b>
<b>[REDACTED]</b>	<b>[REDACTED]</b>
“Hubei Giraffe”	湖北長頸鹿製漆有限公司 (Hubei Giraffe Paint Mfg. Co., Ltd.*) (formerly known as 湖北中鄂製漆有限公司 (Hubei Zhonghe Paint Mfg Co., Ltd*) and 湖北精華製漆有限公司 (Hubei Jinghua Paint Manufacturing Company Limited*)), a company established in the PRC on 11 June 1992 and a non wholly-owned subsidiary of our Company holding 90.5% of its equity interest with the remaining 9.5% of its equity interest held by an Independent Third Party following completion of the Reorganisation
“Independent Third Party(ies)”	a person or entity who is not considered as a connected person of our Company under the Listing Rules
“Innovax Capital”	Innovax Capital Limited, a licenced corporation under the SFO permitted to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities (as defined under the SFO)
<b>[REDACTED]</b>	<b>[REDACTED]</b>
<b>[REDACTED]</b>	<b>[REDACTED]</b>

## **DEFINITIONS**

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<b>[REDACTED]</b>	<b>[REDACTED]</b>
<b>[REDACTED]</b>	<b>[REDACTED]</b>
<b>[REDACTED]</b>	<b>[REDACTED]</b>
“Investment Property Business”	the business of acquisition and holding of real properties in the PRC and Hong Kong for investment purpose, being one of the Remaining Businesses
<b>[REDACTED]</b>	<b>[REDACTED]</b>
<b>[REDACTED]</b>	<b>[REDACTED]</b>
“Latest Practicable Date”	<b>[REDACTED]</b> being the latest practicable date prior to the printing of this <b>[REDACTED]</b> for ascertaining certain information in this <b>[REDACTED]</b>
<b>[REDACTED]</b>	<b>[REDACTED]</b>
“Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange
<b>[REDACTED]</b>	<b>[REDACTED]</b>
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time
<b>[REDACTED]</b>	<b>[REDACTED]</b>

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## DEFINITIONS

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“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with The Growth Enterprise Market of the Stock Exchange
“Majority Faith”	Majority Faith Corporation 眾信公司 (formerly known as Majority Faith Corporation), a company incorporated in the BVI on 16 January 1991 and a wholly-owned subsidiary of our Company following completion of the Reorganisation
“Memorandum” or “Memorandum of Association”	the amended and restated memorandum of association of our Company, as amended from time to time
“Northwestern China”	Shaanxi Province, Gansu Province, Qinghai Province, Ningxia and Xinjiang Uygur Autonomous Region of the PRC
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
“Other Business”	the provision of advertising services and other trading and investment holding businesses, being one of the Remaining Businesses
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
“Paint Business”	the business of production and sales of paint and coating products previously carried out by the CNT Group prior to the Spin-Off and the [REDACTED], which is our current principal business
“PRC” or “China”	the People’s Republic of China and, except where the context requires and only for the purpose of this [REDACTED], references in this [REDACTED] to the PRC or China do not apply to Taiwan, Hong Kong and The Macau Special Administrative Region of the PRC

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## DEFINITIONS

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“PRC EIT”	enterprise income tax in the PRC
“PRC EIT Law”	中華人民共和國企業所得稅法 (Enterprise Income Tax Law of the PRC) adopted by the National People’s Congress of the PRC on 16 March 2007, effective on 1 January 2008
“PRC Government”	the government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof or any of them
“PRC Legal Adviser”	Han Kun Law Offices
[REDACTED]	[REDACTED]
“Recent Regulations”	the two regulations issued by local governments in Beijing municipality and Guangdong Province, namely the Prohibited and Restricted Catalogue of New Industry of Beijing Municipality (version of 2015) (北京市新增產業的禁止和限制目錄 (2015年版) ) and the Guangdong Province Implementing Regulations for Comprehensive Treatment on VOC of Key Industries (廣東省環境保護廳關於重點行業揮發性有機物綜合整治的實施方案), published in August 2015 and December 2014, respectively, further information on which is set forth in the section headed “Applicable Laws and Regulations – the PRC” in this [REDACTED]
“Regulation S”	Regulation S under the U.S. Securities Act
“Remaining Businesses”	the principal business activities engaged by the Remaining Group, following completion of the Spin-Off and the [REDACTED], namely (i) the Investment Property Business; (ii) the Trading Business; and (iii) the Other Business
“Remaining Group”	CNT and its subsidiaries following completion of the Spin-Off and the [REDACTED], excluding members of our Group
“Reorganisation”	the corporate reorganisation implemented by the CNT Group for the Spin-Off and the [REDACTED], further information on which is set forth in the section headed “History, Development and Reorganisation” in this [REDACTED]
[REDACTED]	[REDACTED]

## **DEFINITIONS**

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“R, J & Thomas”	R, J & Thomas Secretaries Limited 滙智經理秘書有限公司 (formerly known as Winwell Management Limited 永威管理有限公司), a company incorporated in Hong Kong on 23 December 1977 and a wholly-owned subsidiary of our Company following completion of the Reorganisation
“RMB” or “Renminbi”	Renminbi yuan, the lawful currency of the PRC
“S\$” or “Singapore dollars”	Singapore dollars, the lawful currency of Singapore
“SAFE”	中華人民共和國國家外匯管理局 (State Administration of Foreign Exchange of the PRC)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shajing Production Plant”	the production facilities situated at Yabian Industrial Zone, Shajing Town, Bao’an District, Shenzhen City, the PRC and operated by China Paint Shenzhen
“Shanghai Giraffe”	長頸鹿製漆(上海)有限公司 (Giraffe Paint Mfg. Co., (Shanghai) Ltd.*) (formerly known as 精華制漆(上海)有限公司 (Jinghua Paint Manufacturing Co., (Shanghai) Ltd.*)), a wholly foreign-owned enterprise established in the PRC on 13 April 2004 and a wholly-owned subsidiary of our Company following completion of the Reorganisation
“Shanghai Complex”	the land and the building in Shanghai owned by Shanghai Giraffe which would be developed, subject to the grant of the relevant government approvals, to be our product development centre
“Share(s)”	ordinary share(s) with a nominal value of HK\$0.10 each in the share capital of our Company
“Shareholder(s)”	holder(s) of Share(s)
“Shine Express”	Shine Express Development Limited 瑞捷發展有限公司, a company incorporated in Hong Kong on 23 June 1993 and a wholly-owned subsidiary of our Company following completion of the Reorganisation

## DEFINITIONS

<b>[REDACTED]</b>	<b>[REDACTED]</b>
“Southern China”	Guangdong Province, Guangxi Province and Hainan Province of the PRC
“Southwestern China”	Chongqing City, Sichuan Province, Guizhou Province, Yunan Province and Tibet of the PRC
“Spin-Off”	the separate <b>[REDACTED]</b> of the Shares on the Main Board, which is proposed to be implemented by way of the <b>[REDACTED]</b>
“Sponsor”	Innovax Capital
“sq. ft.”	square feet
“sq. m.”	square metre(s)
<b>[REDACTED]</b>	<b>[REDACTED]</b>
<b>[REDACTED]</b>	<b>[REDACTED]</b>
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Takeovers Code”	the Codes on Takeovers and Mergers and Share Buy-backs, as amended, supplemented or otherwise modified from time to time
“Track Record Period”	the three years ended 31 December 2016
“Trading Business”	the trading business of iron and steel products, being one of the Remaining Businesses
“U.S.” or “United States”	the United States of America, any state of the United States and the District of Columbia, and all territories and possessions areas subject to its jurisdiction
“U.S. dollars” or “US\$”	United States dollars, the lawful currency of the United States



## DEFINITIONS

“U.S. Securities Act”	the United States Securities Act of 1933, as amended, and the rules and regulations as promulgated thereunder
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
“we”, “us” or “our”	our Company or our Group, as the context may require
[REDACTED]	[REDACTED]
“Xinfeng Production Plant”	our production facilities situated at 18, Jiuzu, Sanwei, Hengjiang Village, Fengcheng Sub-district Office, Xinfeng County, Shaoguan City, Guangdong Province, the PRC and operated by China Paint Xinfeng
“Xuzhou Giraffe”	長頸鹿製漆(徐州)有限公司 (Giraffe Paint Mfg. Co., (Xuzhou) Ltd.*) (formerly known as 北海溶劑(徐州)有限公司 (CNT Solvents Co., (Xuzhou) Ltd.*)), a wholly foreign-owned enterprise established in the PRC on 9 August 2004 and a wholly-owned subsidiary of our Company following completion of the Reorganisation
“Xuzhou Production Plant”	our production facilities situated at 22 Jinshui Road, Xuzhou Economic Development Zone, Jiangsu Province, the PRC and operated by Xuzhou Giraffe, the production activities at which have been suspended since the end of May 2016 as part of our business strategy to reallocate our production capacity and pending the grant of the work safety licences for the production of solvent-based paint products
“Yangsang Law Firm”	Yangsang Law Firm of Guangdong (廣東洋三律師事務所), our PRC legal adviser as to intellectual property and related litigation matters
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
“%”	per cent

\* For identification purpose only

## GLOSSARY OF TECHNICAL TERMS

*This glossary contains certain definitions and technical terms used in this [REDACTED] in connection with our business. As such, some terms and definitions may not correspond to standard industry definitions or usage of such terms.*

“additives”	substance added to paint and coating products for the purpose of improving the properties of the paint and coating products, such as the finishing appearance, texture and colour-changing
“alkyd”	modified resins made from soya bean and linseed oils in different combinations
“architectural paints”	paint products used for renovation purposes and are normally applied onto walls, floors and indoor and outdoor surface of construction
“baking enamels”	paints that are applied on to metal and later baked dry to form a finish that is more durable and resistant to thinners and chemicals
“CAGR”	compound annual growth rate
“coatings”	layer of materials that is applied onto a surface of an object for decorative or functional purposes
“emulsion paints”	architectural paints bonded by latex
“epoxy resins”	resins which have water resistance properties and are usually applied in the manufacturing of primers
“extenders”	materials used in the manufacturing of paints for increasing the solid content of the paint
“ISO”	the International Organization for Standardization, a non-governmental organisation having a central secretariat based in Geneva, Switzerland, which gives world-class specifications for products, services and systems to ensure quality, safety and efficiency
“ISO 9001”	the quality management standards set by ISO which specify the requirements for a quality management system where an organisation needs to demonstrate its ability to consistently provide products that meet customer and applicable statutory and regulatory requirements with an aim to enhance customer satisfaction through the effective application of that system
“industrial paints”	paint products used in the production process and are normally applied onto furniture, vehicles, toys and a wide range of industrial and consumer products for protection and decoration purposes

## **GLOSSARY OF TECHNICAL TERMS**

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“lacquers”	paints used primarily on wood with a base of nitrocellulose and alkyd; coloured lacquers have pigments added to them
“polyurethane paints”	paints with a base of polyurethane resin
“paints”	any liquid, liquefiable or mastic composition that, after application to a substrate in a thin layer, converts into a solid film and are commonly used to protect, colour or provide texture to the objects
“pigments and fillers”	materials used primarily in paint and coating industry for the purpose of giving better colour strength and intensity
“primers”	coatings used prior to the application of the first coat of paint to fill in the rough surface
“putties”	paint products with high plasticity and used primarily in construction and repairing process as sealant or filler on wooden surface
“resin”	an organic substance in liquid or in powder, or insoluble in water, excluded by some trees and plants
“sealant”	a material used for sealing two components so as to make them water-tight or air-tight
“solvent-based paints”	paint products containing high level of organic solvents, such as alkyd or linseed oils, and are made up of liquefying agents that will be evaporated through chemical reaction with oxygen, thereby reducing the drying time
“thinners”	diluent for paints
“undercoatings”	the coatings applied over sealers or primers before the application of the first coat of paint
“varnishes”	resinous solutions that dry to give a glossy coat, normally applied to wood
“VOC”	volatile organic compounds, organic chemicals that have a high vapor pressure at room temperature and cause large number of molecules to evaporate from the liquid to the surrounding air
“water-based paints”	paint products containing low level of organic solvents, also known as acrylic emulsion, paints in the production process and release zero or low level of VOC during the drying time

## **FORWARD-LOOKING STATEMENTS**

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This [REDACTED] contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our business and operating strategies and our ability to implement such strategies;
- our dividend policy;
- our ability to further develop and manage our projects as planned;
- our capital commitment plans;
- our operations and business prospects for our existing and new businesses;
- the future development and the competitive environment of the paint and coating industry in the PRC;
- the regulatory environment in terms of changes in laws and regulations, policies and approval processes in the regions where we develop or manage our business as well as the restriction on the use of paint and coating products in the PRC;
- exchange rate fluctuations and restrictions; and
- the general economic trend of the PRC and, in particular, the cities in which we operate.

The words “anticipate”, “believe”, “could”, “expect”, “going forward”, “intend”, “may”, “plan”, “seek”, “will”, “would” and other similar expressions, as they relate to us, in particular, in the sections headed “Business” and “Financial Information” in this [REDACTED], are intended to identify a number of these forward-looking statements. These statements are based on numerous assumptions regarding our present and future business strategy and the environment in which we will operate in the future. They reflect the current views of our management with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this [REDACTED]. Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this [REDACTED], whether as a result of new information, future events or otherwise. Hence, should one or more of these risks or uncertainties materialise, or should underlying assumptions prove to be incorrect, our financial condition could be adversely affected and may vary materially from those described herein as anticipated, believed, or expected. Accordingly, such statements are not a guarantee of future performance and you should not place undue reliance on such forward-looking information. All forward-looking statements contained in this [REDACTED] are qualified by reference to the cautionary statements set forth in this section.

In this [REDACTED], statements of references to our intention or those of any of our Directors are made as of the date of this [REDACTED]. Any such intention may change in light of future developments.

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**INFORMATION ABOUT THIS [REDACTED] AND THE [REDACTED]**

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[REDACTED]

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**INFORMATION ABOUT THIS [REDACTED] AND THE [REDACTED]**

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[REDACTED]

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**INFORMATION ABOUT THIS [REDACTED] AND THE [REDACTED]**

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[REDACTED]

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**INFORMATION ABOUT THIS [REDACTED] AND THE [REDACTED]**

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[REDACTED]



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**INFORMATION ABOUT THIS [REDACTED] AND THE [REDACTED]**

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[REDACTED]

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## WAIVER FROM STRICT COMPLIANCE WITH THE REQUIREMENTS UNDER THE LISTING RULES

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*In preparation for the [REDACTED], the following waiver has been sought from strict compliance with certain provisions of the Listing Rules.*

### NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

We have entered into, and are expected to continue to carry on, after [REDACTED], certain transactions which would constitute continuing connected transactions for our Company under the Listing Rules. We have applied to the Stock Exchange, and the Stock Exchange has granted, a waiver from strict compliance with the requirements set forth in Chapter 14A of the Listing Rules in respect of such transactions. Further information on such non-exempt continuing connected transactions and the waiver is set forth in the section headed “Continuing Connected Transactions – Non-exempt continuing connected transactions” in this [REDACTED].

## RISK FACTORS

*You should carefully consider all of the information in this [REDACTED] including the risks and uncertainties described in the following risk factors when considering making an investment in the Shares being [REDACTED] in the [REDACTED]. You should pay particular attention to the fact that we are incorporated in the Cayman Islands and our business and operations are conducted substantially in the PRC and are governed by a legal and regulatory environment which in certain aspects differs from that prevailing in other countries. Our business could be adversely affected by any of the risks and uncertainties described below. The trading price of our Shares may decline due to any of the risks and uncertainties and you may lose all or part of your investment. Further information on the PRC and other relevant matters is set forth in the section headed “Applicable Laws and Regulations” in this [REDACTED] and “Summary of the Constitution of our Company and Cayman Companies Law” in Appendix III to this [REDACTED].*

*This [REDACTED] also contains forward-looking information that involves risks and uncertainties. Our actual results may differ from those anticipated in these forward-looking statements as a result of many factors, including the risks described below and elsewhere in this [REDACTED].*

### RISKS RELATING TO OUR BUSINESS

#### **We rely on distributors to distribute and sell our paint and coating products.**

We rely on the distributors to distribute and market our paint and coating products. During the Track Record Period, revenue generated from the sales to the distributors amounted to HK\$767.2 million, HK\$629.0 million and HK\$684.5 million, respectively, representing 67.8%, 72.5% and 73.0% of our revenue, respectively.

The performance of the distributors, their sales network and their ability to expand their businesses are crucial to the future growth of our business and directly affect our sales volume and profitability. If any of the distributors fails to distribute our products in a timely manner or pursuant to the terms of our distribution agreements, or at all, or if our distribution agreements are suspended, terminated or otherwise expired without renewal, our profitability could be materially and adversely affected. We cannot assure you that we will be able to maintain our agreements with the distributors on favourable terms or at all. The distributors may not be able to maintain their competitiveness and sell and market our products successfully, or we may not be able to monitor the distributors directly to ensure efficient sales of our products to the customers. Furthermore, if the sales volume of our products cannot be maintained at a satisfactory level, the distributors may not place orders on new products with us or may reduce the quantity of their orders for our existing products or may ask for discount on the purchase price. In addition, we may not have sufficient control over the distributors, and we cannot assure you that the distributors will not breach their distribution agreements or will comply with their obligations thereunder, including those with respect to our retail policies. The loss of the distributors, or reduced orders from them or if the distribution agreements cannot be renewed or if the distributors breach any of the terms thereunder, could materially and adversely affect our business and financial condition and operating results. We are focused on identifying, recruiting and retaining quality distributors as part of our growth strategies. If we are unable to maintain or grow our sales and distribution network, we could experience a decline in sales and market share.

## RISK FACTORS

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**We are dependent on our brands, and any adverse event affecting our brands could have a material adverse effect on our business and financial condition and operating results.**

We are dependent on our brands, including “*Flower (菊花牌)*”, “*Giraffe (長頸鹿牌)*” and “*Toy Brand (玩具牌)*”, for the sales of our paint and coating products which in turn generate our revenue and we expect to be relying heavily on our brands in the future. Counterfeit products, product defects, and ineffective promotional activities are all potential threats to the image and potency of our brands. If we fail to successfully promote and protect our brands, our brand image may deteriorate, and we may not be able to increase our sales volumes, maintain current prices, launch new products or enter into new markets. As a result, our business and financial condition and operating results would be materially and adversely affected.

**We face competition from both domestic and international brands of paint and coating products, which could affect our market share and our operating results.**

Our competitors include PRC domestic and international paint and coating manufacturers. Increased competition may result in the decline in our revenue, increase in our production costs and affect our profit margins and market share. The paint and coating industry in the PRC is highly competitive and has a number of well-established companies with well recognised brand names. Similar to us, these companies endeavour to increase their market shares through the launch of new products, active marketing campaigns and expansion of sales and distribution channels. We expect to face fierce competition from the existing and new competitors and such competition may result in price reduction or excessive capacity.

During the year ended 31 December 2015, we maintained the profit margin maintaining pricing strategy in the sales of our industrial and architectural paint and coating products whilst our competitors launched price campaigns and other promotional strategies. As a result, the revenue generated from the sales of paint and coating products in the PRC, particularly in Eastern China and Central China, recorded a notable decrease in 2015 and we lost a significant market share. Our current or potential competitors may provide products comparable or superior to those provided by us. Our competitors may also adapt more quickly to the changing market requirements and evolving industry trends than we do. Our competitors may have better capability in product innovation, greater access to financial resources, longer operating histories, better management and more experience in resource allocation. Certain of our international competitors may also have more advanced technologies than we do. Our competitors in any particular market may also benefit from closer proximity to raw material supplies or closer proximity of production facilities to such markets than we do, which provide them with competitive advantages in terms of cost and proximity to customers.

There may also be consolidation in the paint and coating industry among our competitors. Alliances may develop among our competitors leading to their acquiring significant market share, which may in turn increase the level of competition faced by us. We cannot assure you that we will be able to compete effectively against our current and future competitors.

## **RISK FACTORS**

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**Any failure by our customers to make payments to us, or any disputes over, or significant delays in receiving, such payments could materially and adversely affect our cash flows and profitability.**

A significant part of our sales was credit sales, under which we will receive payments from our customers after the delivery of products. As of 31 December 2014, 2015 and 2016, the balance of trade and bills receivables, net of impairment, was HK\$392.9 million, HK\$325.8 million and HK\$445.5 million, respectively. Further information on our trade and bills receivables is set forth in the section headed “Financial Information – Principal components of our current assets and current liabilities – Trade and bill receivables” in this [REDACTED]. Our trade receivable turnover days were 107 days, 151 days and 150 days during the Track Record Period, respectively. The trade receivable turnover days are based on the average of the beginning and the ending balance of trade receivables of each year divided by revenue for that corresponding year multiplied by 365 days. The increase in the trade receivable turnover days were primarily due to the requests by our customers (including distributors) to extend the credit period amid the less favourable industry environment in the PRC. Any failure by our customers to make payments to us, or any dispute over or significant delays in receiving such payments from our customers, could require us to write off or make provision against our trade receivables, either of which could adversely affect our cash flows and profitability. Trade and bills receivables overdue for more than six months amounted to HK\$13.8 million, HK\$55.8 million and HK\$16.1 million as of 31 December 2014, 2015 and 2016, respectively. Our Directors review the trade receivables on a timely basis, to ensure that impairment losses would be recognised when necessary. Impairment losses recognised during the Track Record Period were HK\$1.3 million, HK\$5.5 million and HK\$11.7 million, respectively. If we cannot collect our trade and bills receivables in full in a timely manner, we would need to make further provision for impairment and our business and financial conditions and operating results could be adversely affected. The amount of impairment provided by us as of 31 December 2014, 2015 and 2016 amounted to HK\$13.5 million, HK\$18.3 million and HK\$28.3 million, respectively.

**We may not be able to effectively manage increase in inventory while we grow our business.**

As of 31 December 2014, 2015 and 2016, the balance of our inventory was HK\$71.7 million, HK\$54.9 million and HK\$61.0 million, respectively. Further information on the components of our inventory is set forth in the section headed “Financial Information – Principal components of our current assets and current liabilities – Inventories” in this [REDACTED]. During the Track Record Period, our inventory turnover days were 39 days, 42 days and 36 days, respectively. As of the Latest Practicable Date, we consumed 89.6% of our inventory balance as of 31 December 2016. This level of inventory, particularly of finished goods, may result in obsolescence if we over-estimate the demand level or if there is a sudden change in customer preference. If we cannot manage increases in our inventory, our business and financial conditions and operating results could be adversely affected.

## **RISK FACTORS**

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**Fluctuations in the average selling prices of our paint and coating products could adversely affect our business and financial condition and operating results.**

The average selling prices of our products may be subject to fluctuations depending on the market conditions. During the Track Record Period, we did not experience any material fluctuation in our average selling prices because of our pricing policy and our well recognised brands of paint and coating products. The average selling prices of our products are affected by the general market conditions, such as competition and raw material costs, which could impact on the businesses of our customers and, in turn, their demand for our products. An unflexible pricing policy may result in reduction in sales because of reduced price competitiveness.

We cannot assure you that we will not experience declining average selling prices for our products or that our average selling prices can remain consistently at the same level in the future. A decline in the average selling prices for our products could adversely affect our business and financial condition and operating results.

**We experience seasonal fluctuations in our sales due to our customers’ purchase patterns and as a result, our interim performance may not be an indicator of our overall performance in a given year.**

Our sales are subject to seasonal fluctuations. Our sales are low during the first quarter and the third quarter in each calendar year because of holiday season and the raining season, respectively. Generally speaking, our sales would increase in the second and the fourth quarter in each calendar year as a result of the increase in renovation works during such period. We believe that this is part of the industry trends. As a result, any half-yearly operating results of our Group may not be indicative of our operating results for the entire year. Further information is set forth in the section headed “Business – Sales and sales channel – Seasonality” in this [REDACTED].

**We could be adversely affected by the loss of major customers.**

It is important for us to maintain close business relationship with our major customers, most of them are distributors. Sales to our five largest customers, amounted to HK\$120.3 million, HK\$118.7 million and HK\$144.4 million, respectively, representing 10.6%, 13.7% and 15.4% of our revenue during the Track Record Period. Except for one of our major customers in 2014, all of our five largest customers during the Track Record Period were distributors who had entered into annual agreements with us, further information on which is set forth in the sections headed “Business – Our customers” and “Business – Distributors” in this [REDACTED]. Nevertheless, we cannot assure you that our major customers will continue their purchase from us at the current levels or at all in the future.

Our revenue is also subject to the sales strategy and the business of our customers, industry conditions and the overall economic development. There may be the risk that distributors may terminate our contracts prior to the agreed term, become insolvent, default on payments under such contracts or fail to take delivery of our products pursuant to the annual distribution agreements. Any significant reduction of sales to our customers or loss of any of our customers could materially and adversely affect our business and financial conditions and operating results.

## **RISK FACTORS**

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**We have not entered into long-term agreements with our customers, and we could fail to match our production with our customers’ demand, which could result in low utilisation rate of our production facilities and material adverse impact on our business and financial condition and operating results.**

It is not the industry practice to enter into long-term written sales agreements with respect to sales to distributors. Sales to distributors which are our customers are generally governed by purchase orders or, in certain cases, short-term agreements that include pricing terms and estimated quantity requirements. We primarily use internal rolling forecasts to determine the number and the type of products we produce and we may also consult with major customers. Customers may cancel orders or reduce the quantity of purchase for a number of reasons, including price reduction in products offered by our competitors or decreasing demand due to cyclical trends in the paint and coating industry. Additionally, our customers may discontinue their business relationship with us at any time.

If we over-estimate the demand for a particular type of paint product, we may need to reduce our price level in order to sell the excess inventory. If we are unable to have an accurate prediction of the required quantity level of products to meet customer requirements, or if our customers were to unexpectedly cancel or reduce a large number of orders simultaneously, we could fail to match our production with our customers’ demand, resulting in a low utilisation rate of our production facilities. This could materially and adversely affect our business and financial condition and operating results.

**Our profitability could decline if we are unable to continuously maintain high capacity utilisation and optimise the product mix.**

Our ability to maintain our profitability depends on our ability to (a) maintain our high capacity utilisation, defined as the output divided by the estimated production capacity; (b) optimise the product mix to support high-margin products and products with consistent long-term demand; and (c) demand and supply balance of our principal products in the principal and target markets.

In particular, the level of our capacity utilisation can impact on our operating results. High capacity utilisation allows us to spread our fixed costs, resulting in a high gross profit margin. Our product mix also affects capacity utilisation of our production facilities, and the demand and supply balance and the average selling prices of our products, would in turn affect our gross profit margin. If we are unable to continuously maintain high capacity utilisation or optimise our product mix, our gross profit margin would decline which would affect our profitability and operating results.

## **RISK FACTORS**

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**We require various permits and licences for our business operation and for the production and/or trading of paint and coating products in the PRC, and the loss of or failure to renew any or all of such licences and permits could adversely affect our business and financial condition and operating results.**

We are required to comply with the relevant laws and regulations in relation to our production process, and the relevant regulatory authorities will also carry out regular inspections to ascertain our compliance with the applicable laws and regulations. We have received confirmation from our PRC Legal Adviser that except for those which are set forth in the section headed “Business – Non-compliance incidents” in this [REDACTED], we have obtained and maintained all the material permits and licences required in respect of our operations as of the Latest Practicable Date. Under the applicable laws and regulations, we are also required to renew our licences and permits on a regular basis. The failure to pass such inspections, loss of the relevant licences and permits or failure to renew our licences and permits could result in our having to temporarily or permanently suspend some or all of our production activities, which could disrupt our operations and could result in our being unable to meet our contractual obligations. This could adversely affect our business and financial condition and operating results.

**We are subject to the risk of loss and production disruption due to explosion and fire as some of the materials used in our production process are inflammable.**

We use combustible materials in our production process and are therefore subject to the risk of loss and production disruption due to industrial accidents, such as explosion, fire or environmental influence which may not be entirely eliminated. In addition, our risk management and insurance coverage may not be sufficient to cover all of our potential losses. If any of our production facilities were damaged, or cease operations as a result of industrial accidents, it could also reduce our production capacity and may cause us to lose our market share customers, thereby having a potentially material adverse impact on our business and financial condition and operating results.

On 12 August 2015, a series of explosions happened at a container storage station at the Port of Tianjin located in the Binhai New Area, Tianjin, the PRC. Fires caused by the explosions continued to burn throughout the weekend and caused a number of explosions after the first explosion. The cause of the explosions was not known immediately after the incident, but an investigation concluded in February 2016 that an overheated container of dry nitrocellulose was the cause of the initial explosion. The explosions raised concern on the safety procedures in place for storing and transportation of dangerous chemicals, including solvent and solvent-based paint and coating products.

The explosions in Tianjin resulted in a nationwide inspection and a halt on the transportation of hazardous materials (including solvent-based paint and coating products) in selected areas in the PRC. The sales orders placed by the distributors, particularly in Eastern China, Central China and Southwestern China, experienced significant decreases, as the distributors prefer not to maintain inventory in light of the sluggish demand for solvent-based paint and coating products and the stringent requirements on the storage of hazardous materials. The explosions also accelerated the industry consolidation amongst the distributors in paint and coating industry as well as the shift in the consumers’ preference for water-based paint and coating products. All of these factors had adverse impact on our sales.



## **RISK FACTORS**

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**Our business could be adversely affected by the increases in the raw material prices and if we are unable to increase the prices of our products or secure adequate supply of raw materials in a timely manner and at reasonable prices, our business and financial condition and operating results could be adversely affected.**

Our operating results are affected by the cost of raw materials and the prices that we are able to charge for our products. During the Track Record Period, the cost of raw materials accounted for 90.2%, 86.6% and 85.7% of our total cost of sales, respectively. The cost of raw material is affected by the market demand and supply. We cannot assure you that we will always be able to secure an adequate supply of raw materials at commercially viable terms for our production requirements. Any significant increases in the cost of raw materials will increase our cost of sales and adversely affect our gross profit margin and our business and financial condition and operating results. A reduction in, or lack of availability of, raw materials or interruptions in the supply of raw materials may also impact our profitability to the extent that we are required to pay higher prices for, or are unable to secure adequate supplies of, the necessary raw materials in a timely manner and at reasonable prices.

Moreover, fluctuations in the prices of our raw materials may increase our costs of sales and reduce our gross profit and gross margin. We cannot guarantee that we will not suffer adverse effects from any price increases of raw materials in the future. If we are not able to pass on the increases in raw material cost to our customers in a timely manner or we encounter a shortage of raw materials, our business and financial condition and operating results could be adversely affected.

**Any failure in our quality control system could harm our business and lead to potential product liability claims for compensation if our products are found to be defective.**

In the event any of our products are alleged or found to be defective, we may be subject to product liability claims. Thus, the quality of our products is critical to the success of our business and depends significantly on the effectiveness of our quality control system.

Despite having an established quality control system in place, there could be instances in which our products do not meet the specifications and requirements agreed upon with or requested by our customers, or our products could be found to be defective, or result in our customers suffering losses. In such cases, we may be subject to product liability claims and litigation for compensation which could result in substantial and unexpected expenditure and could materially and adversely affect our cash flow and operating results. Moreover, product failures or defects, and any complaints or negative publicity, could result in a decrease in sales of our Group. Even if certain of the product defects are attributable to raw materials supplied by our suppliers, we cannot guarantee that we would be able to recover all or part of the damages by claiming against our suppliers.

## **RISK FACTORS**

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**We may be subject to potential product liability claims or suffer losses due to product returns or recalls, which may adversely affect our business and financial condition and operating results.**

If our products are proved to be defective or result in industrial accidents, personal injuries or financial losses to our customers, we may be subject to product liability claims. We were not affected by product liability claims during the Track Record Period. We cannot assure you that we will not be exposed to material product liability claims in the future. As a result, we may have to incur significant legal costs. Any product liability claims, lawsuits and complaints may significantly divert our efforts and financial resources despite their outcomes. In addition, any adverse determination in such claims, lawsuits and complaints may cause us to pay damages and further adversely affect our customer relationships and our goodwill. We may also be subject to increased scrutiny by regulatory authorities over our business operations.

In the event that any of our products is found to be defective, our customers may request for compensation and we may also need to initiate product recalls. Any product returns or recalls in the future may result in substantial and unexpected capital expenditure and could materially reduce our operating profit and cash flows.

**Personal injuries may occur in the course of our production process, which may result in cessation of business or civil liability claims.**

Our production process involves the operation of equipment and use of chemicals which may require a number of steps to ensure work safety. In addition to compliance with the necessary work safety requirements, we bear the risks associated with such production process, including industrial accidents. Such accidents may result in personal injuries and damages to property and equipment. During the Track Record Period, there were 19, 18, and 21 minor industrial accidents, respectively, occurred during our production process. Since 1 January 2017 and up to the Latest Practicable Date, there were no material industrial accidents. Further information is set forth in the section headed “Business – Safety and health” in this [REDACTED]. Accidents similar to any of these may result in personal injury, cessation of business or civil liability claims. We may also incur significant costs for compensation, which could have a material adverse impact on our business and financial condition and operating results.

Furthermore, we may be forced to shut down certain equipment or suspend our operations due to government investigation or may need to implement additional safety measures pursuant to government requirement. Such business interruptions will have a material adverse effect on our business and financial condition and operating results. We cannot assure you that all the risks have been adequately covered by our existing insurance policies. If we incur substantial liabilities and they are not sufficiently covered by our insurance policies, our business and financial condition and operating results could be materially and adversely affected.

## **RISK FACTORS**

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**We could sustain substantial losses from damages not covered by, or exceeding the coverage limits of, our insurance policies.**

Insurance policies taken out by us, including those against fire, natural disasters, operational interruptions and third-party liability, are subject to exclusions and limitations of liability both in amount and with respect to the insured events. In particular, such exclusions include damages from acts of war, acts of terrorism, flooding and damages from nuclear energy. Our assessment that we are sufficiently insured against contingencies may not be accurate. In addition, our insurers could become insolvent. Floods, fires, storms and similar natural disasters or other events may cause damages to our property or production facilities in excess of insurance coverage and may thus lead to significant costs in connection with remediation and repair work that must be borne by us. If we suffer a loss or incur a liability against which we are uninsured or insufficiently insured, this could adversely affect our business and financial condition and operating results.

**We use, generate and dispose of environmental wastes which may subject us to liabilities.**

We are subject to PRC environmental protection laws and regulations which govern the emission, discharge, release and disposal of environmental wastes and other pollutants. Under the applicable laws and regulations, enterprises that produce environmental wastes are required to adopt effective measures to control, properly manage and dispose of environmental wastes, including waste gas, wastewater, solid wastes and noise. Producers discharging environmental wastes and other pollutants are required to pay fines for discharges above permitted levels under the PRC environmental protection laws and regulations. Failure to comply with the applicable PRC environmental laws or regulations may result in local environmental protection authorities imposing fines or suspending operations, and may lead to the loss of environmental and production licences. The PRC Government and PRC regional regulatory authorities have the discretion to suspend or close any facility failing to comply with such environmental protection laws and regulations. We cannot assure you that we will be in full compliance with such laws and regulations at all times. In the event that the PRC Government imposes more stringent environmental protection laws and regulations, our production costs may substantially increase, or we may also be forced to suspend production or may need to incur material capital expenditures or other costs in order to remain in compliance and as such we may be unable to pass on these additional costs to our customers.

**Our production process is subject to environmental laws and regulations, which could require us to incur environmental liabilities, increase our manufacturing costs and related compliance costs or otherwise materially and adversely affect our business, net assets, financial condition and operating results.**

Our production process is subject to a variety of PRC laws and regulations governing the protection of the environment. These environmental laws and regulations include those relating to the use, storage, handling, discharge, emission, disposal and reporting of toxic, volatile or otherwise hazardous materials used in the production process. If these substances were to leak into the soil or groundwater at the various properties on which our facilities are located or otherwise contaminate the environment, we may be liable and could incur significant costs, including clean-up costs, fines and civil or criminal sanctions, third-party property damage or personal injury claims. We may also be liable and incur significant costs for our properties that have pre-existing contamination and may be responsible for remediating such contamination.

## **RISK FACTORS**

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We may become subject to legislation, regulation, or treaty obligations designed to address global climate change, air quality in the PRC, and other environmental concerns. For example, the Recent Regulations may have impact on our business, further information on which is set forth in the section headed “Business – Impact of the Recent Regulations on us” in this [REDACTED]. Compliance with any new rules could be costly, causing us to incur additional energy and environmental costs, as well as costs for defending and resolving legal claims.

The laws and regulations governing environmental protection and environmental responsibilities may become more stringent in the future, which would expose us to additional liability risks under future legislation or for currently unidentified contamination.

**Our business expansion plan may not be completed as planned and may not achieve commercial viability or the intended economic results.**

Our future success depends to a certain extent on our ability to expand our production capacity. We have expanded our production capacity by constructing new facilities in order to cater for the anticipated growing demand of our products. We plan to further increase our production capacity in the future by upgrading and acquiring additional production facilities at our existing production plants. We plan to expand our designed annual production capacity of our major products. We also plan to diversify our product portfolios. We cannot guarantee that we will be able to complete our expansion plans within budget or on schedule or at all. Our expansion plans could be adversely affected by factors such as lack of personnel, unexpected technical problems, natural disasters and inability to obtain the required governmental permits and approvals, problems with construction of production facilities, logistical difficulties and any unforeseen legal or regulatory impediments imposed by the PRC Government. If there is any delay in our expansion plans, we may not be able to deliver our products demanded by our customers and, our reputation and future business opportunities may therefore be adversely affected. Further, these plans may not achieve the commercial viability or the intended economic results, which in turn could weaken our competitive position in the market and adversely affect our business and financial condition and operating results.

In addition, higher utilisation rate of our production facilities enables us to allocate fixed costs over a greater quantity of products thus leading to an increase in our profit margin. The utilisation rate of our production facilities primarily depends on the demand for our products, which may be affected by market trends, customers’ plans and preferences and other factors beyond our control. If we do not receive sufficient orders from our customers to effectively utilise our production facilities, we may be subject to low utilisations rate of production capacity, over-capacity or high depreciation charges for our production facilities, and thus we may not be able to maintain a comparable level of profit and profit margin in the future. If our capacity expansion does not occur as we desire, not completed in a timely manner or does not result in the anticipated benefits, our future growth and profitability could be materially and adversely affected.

## **RISK FACTORS**

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### **We may not be successful in the product development of new products or improvement in the quality of our existing products.**

We rely on our technology department to develop new products as well as develop new production technologies to improve our existing products. Our technology department face constant pressures to develop new products with better specifications and features. Our ability to continue offering new product categories depends on our ability to incorporate technological advancements and innovations in our products. We cannot assure you that we will be able to launch new and better products in the future. Product development of new products or improvement of our existing products can take very long time and can also be very costly. We cannot assure you that any of our research projects would be completed within the anticipated time frame, or would lead to viable commercial production. If we are not successful in developing new products and new techniques or we fail to translate our product development efforts into commercial production, we may not be able to recover the relevant product development costs incurred. This could restrict our ability to compete in the market and, in turn, our business and financial condition and operating results may be materially and adversely affected.

### **We may not be successful in implementing our business strategies.**

We plan to implement a number of business strategies for the purpose of strengthen our market position in the paint and coating industry in the PRC. These business strategies include the development and launch of new water-based paint and coating products or the penetration of new market. For example, we intend to explore the sales of our wood coating products to the customers in manufacturing wood coating market which generated insignificant amount of revenue during our business development history.

According to *Frost & Sullivan*, the sales value of the retailing wood coating market in the PRC decreased at the rate of 7.0% in 2015 and 3.0% in 2016 and at the CAGR was 6.8% during the five-year period from 2010 to 2016. Such decrease was due to the change in consumers’ preference and the general slowdown of overall residential property market in the PRC. The market size of retailing wood coating market is expected to remain stable during the period from 2017 to 2021. During the Track Record Period, our industrial paint and coating products sold to customers in the retailing wood coating market amounted to HK\$501.6 million, HK\$405.4 million and HK\$417.9 million, respectively, representing 80.1%, 85.8% and 79.3% of the total amount of our revenue generated from our industrial paint and coating products.

Further information on our business strategies is set forth in the section headed “Business – Our business strategies” in this [REDACTED]. The implementation of these new business strategies has its own inherent risks, and such business strategies may or may not be successful implemented or that such business strategies may not result in the desirable outcome expected by us. We also may not have the experience in the implementation of such new business strategies or may encounter such difficulty as we have never anticipated. In any of these events, our operating results and business and financial condition could be materially and adversely affected.

## **RISK FACTORS**

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**We may misallocate our product development resources or have insufficient resources to conduct the necessary level of product development to remain competitive, which could materially and adversely affect our business and financial condition and operating results.**

We may devote product development resources to new products that turn out to be unsuccessful. Development of any new product must be made well in advance of sales in the market. Customer demands and technology may change while the new products are still in the stage of development, rendering our products outdated or uncompetitive before their introduction to the market. We must therefore make anticipation on both the future demand and technology features that will be required to match with such demand. If our revenue decreases significantly or if we incur losses as a result of a market downturn or otherwise, we may not be able to devote sufficient resources to the product development needed to remain competitive. Our failure to properly allocate product development resources could materially and adversely affect our business and financial condition and operating results.

**Any failure to protect our intellectual property rights could harm our business and competitive position.**

Throughout our business development history, we have developed and maintained a number of patents and trademarks for our products. As of the Latest Practicable Date, we had registered various trademarks in China, Hong Kong, Singapore, Taiwan, Macau and Malaysia. As of the Latest Practicable Date, we had a total of 43 registered patents and 23 pending patent applications in the PRC. Seeking patent protection can be lengthy and expensive, and we cannot assure you that our patent applications will result in patents being issued or that our existing patents or patents issued in future will be sufficient to provide us with the meaningful or required protection or commercial advantage. Our patents and patent applications may be challenged, invalidated or circumvented. Our current or potential competitors, many of whom have substantial resources and have made substantial investments in competing technologies, may have, and may develop, products that compete directly with our products despite our possession of intellectual property rights. Implementation and enforcement of the relevant intellectual property-related laws in the PRC have historically been deficient and ineffective, primarily due to the lack of procedural rules for discovery of evidence, low damage awards and low rates of criminal penalties against intellectual property right infringements.

Accordingly, protection of intellectual property rights in China may not be as effective as that in the United States or other western countries. In addition, policing unauthorised use of proprietary technology is difficult and expensive, and we may need to commence litigation to enforce or defend patents issued to us or to determine the enforceability, scope and validity of our proprietary rights or those of others. The experience and capabilities of PRC courts in handling intellectual property litigation vary, and the outcomes are also unpredictable. In the event of any such litigation or an adverse determination in any such litigation, could result in substantial costs and diversion of resources and management attention, which could harm our business, reputation and competitive position.



## **RISK FACTORS**

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**We may become involved in litigation and regulatory proceedings, which could require attention from our management and result in significant expenses to us and disruptions in our business.**

As part of our business, we may be involved in litigations and claims. Generally speaking, these litigations and claims may be broadly divided into three categories. First, we may be liable for product liability claims if our products are proven to be defective or otherwise fall short of the relevant quality requirements and specifications. Second, we may be exposed to claims from our employees for any industrial accidents. Third, we may be subject to claims on infringement of trademarks of Independent Third Parties or other intellectual property rights.

In September 2016, China Paint Shenzhen, as one of the defendants, received a summons served by the People’s Court of Luohu District, Shenzhen (深圳市羅湖區人民法院) (the “**Court**”) regarding an alleged trademark infringement. China Paint Shenzhen is claimed by an Independent Third Party for infringement of its trademark of “長頸鹿”. The claimant requested us to stop the infringing acts and to destroy the infringing goods and related materials bearing registered trademark of the Independent Third Party. Our Directors have been advised that China Paint Shenzhen is a legitimate licensee of the trademark of “長頸鹿” and China Paint Shenzhen is entitled to use the trademark claimed by the claimant. Therefore, our Directors believe that the claim by the claimant has no merits.

We were in the past and may in the future be involved in lawsuits and regulatory actions relating to our business. Some of these proceedings may involve payment of damages and may cause reputational risk. Due to the inherent uncertainties of litigation and regulatory proceedings, we cannot accurately predict the ultimate outcome of any proceeding. An unfavourable outcome could materially and adversely affect our business and financial condition and operating results. In addition, regardless the outcome, any litigation or regulatory proceedings are often expensive, time-consuming, disruptive to our normal business operations and require significant attention from our management.

**If we cannot compete successfully in our industry, our business and financial conditions and operating results could be adversely affected.**

The paint and coating industry is highly fragmented and competitive. Some of our competitors may have access to other unique or patented technologies. These production technologies may provide customers with performance and application features that may be comparable to, or exceed, features offered by us. Our competitors may also be more cost-effective with higher production volumes for certain application. If our potential or existing competitors choose to design their products using these advanced processes, our business could be negatively impacted.

Many of our competitors may also have greater financial or other resources than we have that may be unavailable to us. In addition, our competitors may, from time to time, decide to undertake aggressive pricing initiatives in one or more technology nodes. Increase in these kinds of competitions may diminish our customer base, or our average selling price, or both. Increased competition in the paint and coating industry and our failure to compete effectively could materially and adversely affect our business and financial condition and operating results.

## **RISK FACTORS**

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**We may not be able to recruit and retain qualified executives, managers or skilled technical and service personnel.**

Our success depends on the continued service of our executive Directors and senior management, further information on which is set forth in the section headed "Directors, Senior Management and Employees" in this [REDACTED]. Our business could suffer if we lose, for whatever reasons, the services and contributions of some of these personnel and we cannot adequately and timely replace them. In addition, we may be required to increase or reduce the number of employees in connection with any business expansion or contraction, in accordance with market demand for our services. Since there is intense competition for the recruitment of these personnel, we cannot assure you that we will be able to fulfil our personnel requirements in order to support our growth plans.

**Our operating results during the Track Record Period included fair value gains on structured deposits and government grants, which may fluctuate over the financial periods and may materially and adversely affect our business, results of operations and financial conditions.**

We use structured deposits primarily to enhance the return on investment. During the Track Record Period, we had fair value gain on structured deposits of HK\$5.7 million, HK\$4.9 million and HK\$3.2 million. Structured deposits were stated at fair value and represented several wealth management products issued by banks, as of 31 December 2014, 2015 and 2016, though the aggregate principal of deposits was fully guaranteed by the banks the rates of return were not guaranteed. Our profits may be affected as we designated these structured deposits as investments at fair value through profit or loss on initial recognition.

During the Track Record Period, the amount of other income and gains amounted to HK\$16.6 million, HK\$18.3 million and HK\$12.8 million, respectively. The fluctuations in the amount of other income and gain were due to the fluctuations in the bank interest income and the amount of government grants received. In particular, our other income and gains increased by 10.2% to HK\$18.3 million during the year ended 31 December 2015 from HK\$16.6 million during the year ended 31 December 2014. The increase in other income and gain was principally due to the increase in the amount of subsidies from the PRC Government to members of our Group in the PRC and the increase in the bank interest income by 33.8% to HK\$5.2 million because of the increased in the amount of investment in structured deposits in 2014. We cannot guarantee whether the fair value gain on structured deposits can be maintained at the historical levels. If there is any significant fair value loss on structured deposits in the future, our business, results of operations and financial conditions may be materially and adversely affected.

In addition, we received government grants of HK\$2.8 million, HK\$4.8 million and HK\$4.6 million, respectively for the year ended 31 December 2014, 2015 and 2016, 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. There can be no assurance that we will be able to receive any such government grants in the future. If we no longer receive these government grants in the future, our profitability can be adversely affected.



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## **RISK FACTORS**

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### **RISKS RELATING TO THE INDUSTRY IN WHICH WE OPERATE**

#### **Changes in the law and regulation may have an adverse effect on us.**

The industry in which we operate in is subject to various safety, health and environmental laws and regulations. Changes in the rules, regulations, controls and laws with which we must comply may lead to increased compliance costs. We expect such safety, health and environmental laws and regulations will be increasingly stringent in the future. We have to comply with laws and regulations of the PRC on environmental protection, including the Environmental Protection Law of the PRC (中華人民共和國環境保護法), Law of the People’s Republic of China on the Prevention and Control of Atmospheric Pollution (中華人民共和國大氣污染防治法) and Law of the People’s Republic of China on the Prevention, Control of Water Pollution (中華人民共和國水污染防治法), the Implementing Proposals for Comprehensive Treatment on VOC of Key Industries issued by the Department of Environment Protection of Guangdong Province (廣東省環境保護廳關於重點行業揮發性有機物綜合整治的實施方案) and other regulatory measures issued by the government authorities from time to time. Further information is set forth in the section headed “Applicable Laws and Regulations” in this [REDACTED].

According to the Recent Regulations, namely the Prohibited and Restricted Catalogue of New Industry of Beijing Municipality (version of 2015) (北京市新增產業的禁止和限制目錄(2015年版)) and the Guangdong Province Implementing Regulations for Comprehensive Treatment on VOC of Key Industries (廣東省環境保護廳關於重點行業揮發性有機物綜合整治的實施方案), published in August 2015 and December 2014, respectively, opening of new specialised coating retail stores in certain districts of Beijing and the sales of solvent-based paint products in Beijing are restricted. The Department of Environment Protection of Guangdong Province issued the Implementing Proposals. In Guangdong Province, furniture manufacturing industry is required to limit the use of solvent-based paint products: the percentage of using environmental-friendly coating by the furniture manufacturing industry is required to reach 50%, the percentage of using paint products with low level of VOC shall not be less than 90% and the use of solvent-based paint products for wood furniture containing more than 700 grams of hazardous substance or VOC per litre is prohibited. Pursuant to the Action Plan of Air Pollution Prevention and Control of Guangdong Province (2014-2017) (廣東省大氣污染防治行動方案(2014-2017年)), which became effective on 7 February 2014, the architectural decoration industry shall reduce the use of solvent-based paint products in Guangdong Province. The sales of solvent-based paint and coating products in Beijing and Guangdong Province, including Guangzhou and Shenzhen, could be adversely affected by the Recent Regulations. We cannot assure you that similar regulations will not be implemented in other PRC cities which could have a material impact on our sales of solvent-based paint and coating products in the PRC.

#### **We are required to comply with various environmental, health and safety laws that are extensive and the compliance of which may be onerous or expensive.**

We are subject to applicable national and local laws and regulations with respect to the protection of the environment and the health and safety of employees and the public in the PRC, such as The Environment Protection Law, The Production Safety Law and the Regulations on the Safe Management of Hazardous Chemical Materials. These laws and regulations govern, among other things, aerial emissions, waste water discharges, storage, use and handling of chemicals, waste disposal, potential

## **RISK FACTORS**

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investigation and remediation of soil and ground water contamination and protection of the health and safety of employees. Our production process and products are subject to stringent quality, environmental and occupational safety standards. In addition, as of the Latest Practicable Date, we have obtained Quality Management System ISO 9001: 2008, Environmental Management System ISO 14001: 2004 and Occupational Health and Safety Management System GB/T28001-2011 certifications for our management systems.

The PRC Government has been imposing stricter regulations on the environmental effects in respect of the production and usage of paint and coating products, restricting the development of paints producers who cannot meet the environmental requirement.

If we fail to comply with these laws and regulations or if a more stringent enforcement regime is implemented, we may be exposed to penalties, fines, suspension or revocation of our licences or permits to conduct business, administrative proceedings and litigation. In light of the magnitude and complexity of these laws and regulations, compliance with them or the establishment of effective monitoring systems may be onerous or require a significant amount of financial and other resources.

In addition, as these laws and regulations continue to evolve, we cannot assure you that the PRC Government or the governments of other jurisdictions in which we have operations would not impose additional or more onerous laws or regulations, compliance with that may cause us to incur significantly increased costs that we might not be able to pass on to our customers.

As of the Latest Practicable Date, we are not aware of any material adverse changes or developments in environmental, health and safety laws or regulations imposed by relevant governmental authorities. Nevertheless, we cannot assure you that there will not be adverse changes or developments in such laws and regulations in the future. If we fail to adapt to these changes, our reputation may be damaged, we may lose or might not be able to renew our licences and permits or we may be required to pay penalties or fines or take remedial actions, any of which could have an adverse effect on our business and financial condition and operating results.

**The market demand and the sales and growth for our products are dependent on the condition of the PRC economy.**

During the Track Record Period, we primarily derived our revenue from the sales in the PRC. The demand for our products depends substantially on the condition of the PRC economy.

In the PRC, factors including economic growth, consumer confidence, general economic condition, inflation, unemployment rates, interest rate levels and demographic trends, affect the growth of industries where our products are used. A downturn in the relevant industries or in the markets where our products are used or sold to, a downturn in the general economic condition or competition in the markets in which our products are currently sell to, or intend to sell, could affect our sales, resulting in downward pressure on the prices, affecting the volume sold and margins achieved or achievable in the future. A decline in demand or a lower demand for our products resulting from deteriorating economic condition may adversely affect our business and financial condition and operating results.

## **RISK FACTORS**

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### **RISKS RELATING TO HONG KONG AND THE PRC**

**Uncertainty on the state of the political environment in Hong Kong and the PRC could materially and adversely affect our business and financial condition and operating results.**

Hong Kong is a special administrative region of the PRC and is entitled to enjoy a high level of autonomy under the principle of “one country, two systems” according to the Basic Law of Hong Kong. However, we are not in any position to guarantee the implementation of the “one country, two systems” principle and the level of autonomy as currently in place at the moment. Since a significant portion of our operations are located in Hong Kong and the PRC, any change of such political arrangements may pose an immediate threat on the stability of the economy in Hong Kong and the PRC, thereby directly and negatively affecting our results of operations and financial positions.

**PRC economic, political, social conditions as well as government policies could adversely affect our business, prospects, financial condition and financial results.**

We conduct our business operations in the PRC. The PRC economy differs from the economies of most of the developed countries in many aspects, including:

- political structure;
- level of the PRC Government’s involvement and control;
- growth rate and level of development;
- level and control of capital investment and reinvestment;
- control of foreign exchange; and
- allocation of resources.

The PRC economy has been transitioning from a centrally planned economy to a more market-oriented economy. For approximately three decades, the PRC Government has implemented economic reform measures to utilise market forces in the development of the PRC economy. We cannot predict whether changes in the PRC’s economic, political and social conditions and in its laws, regulations and policies will have any adverse effect on our current or future business and financial condition and operating results.

In addition, many of the economic reforms carried out by the PRC Government are unprecedented or experimental and are expected to be refined and improved over time. This refining and adjustment process may not necessarily have a positive effect on our operations and business development. For example, the PRC Government has in the past implemented a number of measures intended to curtail certain segments of the economy, including the real estate industry, which the government believed to be overheating. These actions, as well as other actions and policies of the PRC Government, could cause a decrease in the overall level of economic activity in the PRC and, in turn, have an adverse impact on our business and financial condition.

## **RISK FACTORS**

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**Our prospects could be adversely affected by acts of war, terrorism, civil unrest, riots, strikes, natural disasters, pestilence, or acts of God.**

We could be adversely affected by any negative developments or uncertainties resulting from acts of war, civil unrest, riots, strikes, natural disasters, pestilence, or acts of God. The occurrence of war, civil unrest, riots and strikes could impede administration and management, cause damages to infrastructures necessary to our operations and impact all aspects of our business. The countries or regions in which we operate and to which our products are sold may be under the threat of flood, earthquake, rainstorm or drought. In addition, natural disasters, epidemics such as the human swine flu, also known as Influenza A (H1N1), H5N1 avian flu, severe acute respiratory syndrome ("SARS"), ebola virus or zika virus and other natural disasters and acts of God are beyond our control and may adversely affect the global economy, infrastructure and people's livelihood.

For instance, the PRC reported a number of cases of SARS in 2003. Since its outbreak in 2004, there have been reports on occurrences of avian flu in various parts of the PRC, including several confirmed human cases and deaths. Furthermore, a serious earthquake and its successive aftershocks hit Sichuan province in May 2008, resulting in tremendous loss of life and injury, as well as destruction of assets in the region. In 2009, there were reports of the occurrence of H1N1 influenza in certain region of the world, including the PRC, where we operate our business. In 2014 and 2015, there have been ebola virus and Middle East Respiratory Syndrome, or MERS outbreak which have yet to be completely contained. In 2015, there has been Zika virus outbreak in certain regions of the world which is still ongoing. Any future outbreak of SARS, avian flu, Zika virus or other similar adverse epidemics may, among other things, significantly disrupt our business. An outbreak of infectious disease may also severely restrict the level of economic activity in affected areas, which in turn may have a material and adverse effect on our business and financial condition and operating results.

**Fluctuations in the value of the Renminbi may have a material and adverse impact on your investment.**

A significant portion of our revenue and almost all of our cost of sales and expenses are denominated in Renminbi, while the net proceeds from the [REDACTED] and any dividends, if any, declared by us will be in HK dollars. Any appreciation in the Renminbi against foreign currencies will adversely affect the relative value of the proceeds we will receive from the [REDACTED]. A depreciation in the Renminbi, on the other hand, would adversely affect the value of any dividends, if any, we pay our Shareholders in foreign currencies, or require us to use more Renminbi funds to service the same amount.

During the Track Record Period, we recorded net foreign exchange loss of HK\$655,000, HK\$2,256,000 and HK\$71,000, respectively, arising from transactions conducted in our ordinary course of business. Fluctuations in Renminbi exchange rates are affected by, among other things, changes in political and economic conditions and China's foreign exchange regime and policy. The Renminbi has been unpegged from the U.S. dollars since 2005 and, the People's Bank of China regularly intervenes in the foreign exchange market to limit fluctuations in Renminbi exchange rate. The Renminbi may appreciate or depreciate significantly in value against the U.S. dollars in the future. There are limited hedging instruments available in China to reduce our exposure to exchange rate fluctuations between the Renminbi and other currencies. The cost of such hedging instruments may fluctuate significantly over time and can outweigh the potential benefit from the reduced currency volatility. As of the Latest Practicable Date, we had not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risks. In any event, the availability and effectiveness of these hedges may be limited and we may not be able to hedge our exposure successfully, or at all.

## **RISK FACTORS**

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In addition to the exchange difference arising from transactions conducted by us, we may also be subject to foreign exchange gain or loss as our consolidated financial statements are denominated in Hong Kong dollars while most of our assets/liabilities are denominated in RMB. Such gain or loss is recorded in the combined statements of other comprehensive income of our Group.

The amount of the exchange difference represents the difference in the exchange rates between our reporting currency and the foreign currencies at the beginning and the end of the respective reporting year. The exchange difference is not charged to our consolidated statements of profit or loss because such difference related to the translation of foreign operations as of the respective reporting dates and arose in the preparation of our consolidated audited financial statements. During the Track Record Period, the losses charged to other comprehensive income resulting from such exchange difference on translation of foreign operations amounted to HK\$18.5 million, HK\$38.3 million and HK\$53.7 million, respectively.

**Any material incorrect estimation of our deferred taxation may have an impact on our operating results.**

We recorded deferred tax asset of HK\$9.1 million, HK\$7.9 million and HK\$7.5 million as of 31 December 2014, 2015 and 2016, respectively. We recognise deferred tax assets based on the estimate that it is probable that it will generate sufficient taxable profits in the foreseeable future against which the deductible losses will be utilised. The recognition of the deferred tax assets mainly involved our management’s judgment and estimation about the timing and the amount of taxable profits of the companies which had tax losses. If our estimation of deferred taxation is not accurate, we may need to provide additional amount which could affect our operating results.

**Any change in tax treatment in the PRC may have an impact on our operating results.**

The current standard EIT rate in the PRC is 25%. Since 27 June 2009, China Paint Shenzhen was awarded the status of “High and New Technology Enterprise\* (高新技術企業)” by relevant PRC government authorities and was entitled to enjoy a preferential tax rate of 15% on EIT during the Track Record Period. Such preferential tax rate will expire on 1 November 2018.

We cannot assure you that China Paint Shenzhen will continuously be awarded the status as “High and New Technology Enterprise\* (高新技術企業)” or enjoy the favourable tax rate of 15% in the future. Any change in or discontinuation of such favourable tax treatment may adversely affect our results of operations and profitability.

**The PRC Government’s control of foreign currency conversion may limit our foreign exchange transactions, including dividend payments on our Shares.**

Currently, the Renminbi cannot be freely converted into any foreign currency, and conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. It cannot be guaranteed that under a certain exchange rate, we will have sufficient foreign exchange to meet our foreign exchange requirements. Under the current PRC foreign exchange control system, foreign exchange transactions under the current account conducted by us, including the payment of dividends, do not require advance approval from SAFE, but we are required to present documentary evidence of such transactions and conduct such transactions at designated foreign exchange banks within China that have the licences to carry out foreign exchange businesses. Foreign exchange transactions under the capital account conducted by us, however, must be approved in advance by SAFE.

## RISK FACTORS

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Under existing foreign exchange regulations, following the completion of the [REDACTED], we will be able to pay dividends in foreign currencies without prior approval from SAFE by compliance with certain procedural requirements. However, we cannot assure you that these foreign exchange policies regarding payment of dividends in foreign currencies will continue to be effect in the future. In addition, any insufficiency of foreign exchange may restrict our ability to obtain sufficient foreign exchange for dividend payments to shareholders or to satisfy any other foreign exchange requirements. If we fail to obtain approval from SAFE to convert Renminbi into any foreign exchange for any of the above purposes, our capital expenditure plans, and even our business and financial condition and operating results, could be materially and adversely affected.

**Interpretation of PRC laws and regulations involves uncertainty and the current legal environment in China could limit the legal protections available to you.**

Our business is in the PRC and is governed by the PRC laws and regulations. Substantially all of our subsidiaries are located in China and are subject to the PRC laws and regulations. The PRC legal system is a civil law system based on written statutes, and prior court decisions have little precedential value and can only be used as a reference. Additionally, the PRC written statutes are of principle-oriented and require detailed interpretations by the enforcement bodies to further apply and enforce such laws. Since 1979, the PRC legislature has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organisation and governance, commercial transactions, taxation and trade, with a view to develop a comprehensive system of commercial law, including laws relating to property ownership and development. However, due to the fact that these laws and regulations have not been fully developed, and because of the limited volume of published cases and the non-binding nature of prior court decisions, interpretation of the PRC laws and regulations involves a degree, sometimes a significant degree, of uncertainty. Depending on the government agency or how or by who an application or case is presented to such agency, we may receive less favourable interpretation of laws and regulations than our competitors. In addition, any litigation in China could be protracted and result in substantial costs and diversion of resources and management attention. All these uncertainties may limit the legal protections available to the foreign investors.

**We could be deemed a PRC resident enterprise under the PRC EIT Law and be subject to PRC taxation on our worldwide income.**

Under the PRC EIT Law, enterprises established outside China whose “*de facto* management bodies” are located in China are considered “resident enterprises” and their global income will generally be subject to the CIT at the rate of 25%. Under the implementation rules for the PRC EIT Law, “*de facto* management bodies” is defined as the bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise.

Substantially all of our management is currently based in China and may remain in China. In April 2009, the PRC State Administration of Taxation promulgated a circular to clarify the definition of “*de facto* management bodies” for enterprises incorporated overseas with controlling shareholders being onshore enterprises or enterprise groups in the PRC. However, it remains unclear how the tax authorities will treat an overseas enterprise invested or controlled by another overseas enterprise and ultimately controlled by the PRC residents. The tax consequences of such treatment are currently unclear as they will depend on how the PRC finance and tax authorities apply or enforce the PRC EIT Law and the implementation rules.



## **RISK FACTORS**

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**Dividends payable by us to our foreign investors and gains on the sale of our Shares may become subject to withholding taxes under PRC tax law.**

Under the PRC EIT Law and its implementation regulations issued by the State Council, the PRC income tax at the rate of 10% is applicable to dividends payable by a PRC “resident enterprise” to investors that are “non-resident enterprises” (those enterprises that do not have an establishment or place of business in the PRC, or those that have such an establishment or place of business but the relevant income of which is not effectively connected with the establishment or place of business) to the extent such dividends have their source within the PRC. Similarly, any gain realised on the transfer of shares by such enterprises is also subject to 10% PRC income tax if such gain is regarded as income derived from sources within the PRC. If we are regarded as a PRC “resident enterprise,” it is unclear whether the dividends we pay with respect to our Shares, or the gain you may realise from the transfer of our Shares, will be treated as income derived from sources within the PRC and be subject to PRC income tax. This will depend on how the PRC tax authorities interpret, apply or enforce the PRC EIT Law and the implementation rules. One example of a limitation on the 10% withholding tax is that a company incorporated in Hong Kong may be subject to a reduced withholding tax at the rate of 5% on dividends it receives from a company established in the PRC. If we are required under the PRC EIT Law to withhold the PRC income tax on our dividends payable to our Shareholders, or if you are required to pay the PRC income tax on the transfer of your Shares, the value of your investment in our Shares could be materially and adversely affected.

**We cannot guarantee the accuracy of facts, forecasts and other statistics with respect to the PRC, the PRC economy and the industry in which we operate contained in this [REDACTED].**

Facts, forecasts and other statistics in this [REDACTED] relating to the PRC, the PRC economy and the industry in which we operate have been derived from the report issued by *Frost & Sullivan*. However, we cannot guarantee the quality or reliability of such materials. They have not been prepared or independently verified by us, the Sponsor, the [REDACTED], the [REDACTED], the [REDACTED] or any of our or their respective affiliates or advisers and, therefore, we make no representation as to the accuracy of such facts, forecasts and statistics, which may not be consistent with other information compiled within or outside the PRC. We have, however, taken reasonable care in the reproduction and/or extraction of the official government publications for the purpose of disclosure in this [REDACTED]. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, these facts, forecasts and statistics in this [REDACTED] may be inaccurate or may not be comparable to facts, forecasts and statistics produced with respect to other economies. Further, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy as the case may be in other jurisdictions. Therefore, you should not unduly rely upon the facts, forecasts and statistics with respect to the PRC, the PRC economy and the PRC real estate industry contained in this [REDACTED].

## **RISK FACTORS**

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### **RISKS RELATING TO THE [REDACTED]**

**There has been no prior public market for our Shares and their liquidity and market price may be volatile.**

Prior to the [REDACTED], there has been no public market for our Shares. The initial [REDACTED] range for our Shares was the result of negotiations among us and the [REDACTED] (for themselves and on behalf of the other [REDACTED]), and the [REDACTED] may differ significantly from the market price for our Shares following the [REDACTED]. We expect our Shares to be [REDACTED] on the Stock Exchange. A [REDACTED] on the Stock Exchange, however, does not guarantee that an active trading market for our Shares will develop, or if it does develop, will be sustained following the [REDACTED] or that the market price of our Shares will not decline following the [REDACTED]. Furthermore, the price and trading volume of our Shares may be volatile.

The following factors may cause the market price of our Shares following the [REDACTED] to vary significantly from the [REDACTED]:

- variation in our turnover, earnings and cash flow;
- liability claims brought against us based on, for example, defective products or safety-related regulatory actions;
- interruptions to our distribution arrangements;
- our failure to execute our strategy;
- any unexpected business interruptions resulting from operational breakdowns or natural disasters;
- inadequate protection of our intellectual property or legal proceedings brought against us for infringement of third parties’ intellectual property rights;
- any major changes in our key personnel or senior management;
- our inability to obtain or maintain regulatory approval for our products; and
- political, economic, financial and social developments.

**The market price of our Shares when [REDACTED] begins may be lower than the [REDACTED] as a result of, among other things, adverse market conditions or other adverse developments that may occur between the time of [REDACTED] and the time [REDACTED] begins.**

The [REDACTED] will be determined on the [REDACTED]. However, the [REDACTED] will not commence trading on the Stock Exchange until they are delivered, which is expected to be the third business day after the [REDACTED]. As a result, investors might not be able to sell or otherwise deal in the [REDACTED] during that period. Accordingly, holders of the [REDACTED] are subject to the risk that the price of the [REDACTED] when trading begins may be lower than the [REDACTED] as a result of adverse market conditions or other adverse developments that may occur between the time of sale and the time trading begins.



## **RISK FACTORS**

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### **Any future issuance of our Shares may dilute the investors’ shareholding in our Company.**

Any future capital issuance to expand our business or otherwise may lead to the dilution of investors’ shareholding in our Company. We may need to raise additional funds in the future to finance expansion of or new developments relating to our existing operations or new acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities of our Company other than on a pro-rata basis to the existing Shareholders, the percentage ownership of such Shareholders in our Company may be reduced or such new securities may confer rights and privileges that take priority over those conferred by our [REDACTED]. Purchasers of our Shares may experience dilution in the net tangible asset book value for each Share of their Shares if we issue additional Shares or securities convertible into Shares in the future at a price which is lower than the net tangible asset book value for each Share.

### **Our historical dividend payments should not be taken as an indication of our payment of dividends in the future.**

We did not declare or pay any dividend during the Track Record Period. Prior to the Spin-Off and the [REDACTED], we declared and paid a special interim dividend of HK\$180 million. After completion of the [REDACTED] and the Capitalisation Issue, our Shareholders will be entitled to receive dividend declared by our Company, and we may distribute dividends by way of cash or by other means that we consider appropriate. A decision to declare and pay any dividends would require the approval of our Board and will be at the discretion of the Board. We do not have any pre-determined dividend payout ratio. Our Board will review and adopt dividend policy from time to time in light of various factors such as our business and financial condition and our operating results and our cash flows and the general business environment and such other factors as our Board may deem relevant in determining whether dividends are to be declared and paid.

### **Our Controlling Shareholders may exert substantial influence over our operations and may not act in the best interests of our independent Shareholders.**

Immediately upon completion of the [REDACTED] and the Capitalisation Issue, our Controlling Shareholders will own [REDACTED]% of the number of our Shares in issue, without taking into account of our Shares which may be issued upon the exercise of the [REDACTED]. Therefore, our Controlling Shareholders will be able to exercise significant influence over all matters requiring Shareholders’ approval, including the election of directors and the approval of significant corporate transactions. Our Controlling Shareholders will also have veto power with respect to any shareholder action or approval requiring a majority vote except where they are required by relevant rules to abstain from voting. Such concentration of ownership may also have the effect of delaying, preventing or deterring a change in control of our Group that would otherwise benefit our Shareholders.

The interest of our Controlling Shareholders may not always coincide with our Company or your best interests. If the interest of our Controlling Shareholders conflicts with the interest of our Company or our other Shareholders, or if our Controlling Shareholders choose to cause our business to pursue strategic objectives that conflict with the interests of our Company or other Shareholders, our Company or those other Shareholders, including you, may be disadvantaged as a result.

## **RISK FACTORS**

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**Sale, or perceived sale, of substantial amounts of our Shares in the public market could adversely affect the prevailing [REDACTED] of our Shares.**

Our Shares held by certain of our Controlling Shareholders are subject to certain lock-up periods expiring upon the first anniversary of the [REDACTED], further information on which is set forth in the section headed “[REDACTED]” in this [REDACTED]. Our Shareholders may dispose of Shares that they may own now or in the future. Sales of substantial amounts of our Shares in the public market, or the perception that these sales may occur, could materially and adversely affect the prevailing market price of our Shares.

**Investors for our Shares may face difficulties in protecting their interests under Cayman Islands law, which may provide different remedies to minority shareholders as compared with the laws of Hong Kong or other jurisdictions.**

Our corporate affairs are governed by, among other things, the Articles, the Cayman Companies Law and the common law of the Cayman Islands. The rights of Shareholders to take action against our Directors, actions by minority shareholders and the fiduciary responsibilities of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands and the Articles. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as that from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those in Hong Kong and other jurisdictions. Such differences mean that the remedies available to our minority Shareholders may be different from those they would have under the laws of Hong Kong or other jurisdictions. Further information is set forth in Appendix III to this [REDACTED].

**You should read the entire [REDACTED] carefully (including the risks disclosed) and we strongly caution you not to place any reliance on any information in press articles, other media and/or research analyst reports regarding us, our business, our industry and the [REDACTED].**

You should read the entire [REDACTED] carefully and rely solely upon the information in this [REDACTED] in making your investment decisions regarding our Shares. You should note that undue reliance should not be placed on any forward looking statements contained in this [REDACTED] which may not occur in the way we expect or may not materialise at all as set forth in the section headed “Forward-looking Statements” in this [REDACTED]. There has been prior to the publication of this [REDACTED], and there may be subsequent to the date of this [REDACTED] but prior to the completion of the [REDACTED] and the Capitalisation Issue, press, media and/or research analyst coverage regarding us, our business, our industry and the [REDACTED]. We do not accept any responsibility for the accuracy or completeness of the information in such press articles, other media and/or research analyst reports nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press, other media and/or research analysts regarding our Shares, the [REDACTED], our business, our industry or us.

We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information, forecasts, views or opinions expressed or any such publications. To the extent that such statements, forecasts, views or opinions are inconsistent or conflict with the information in this [REDACTED], we disclaim them. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information in this [REDACTED] only and should not rely on any other information.

## DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

### DIRECTORS

Name	Residential address	Nationality
<i>Non-executive Director and Chairman</i>		
Mr. LAM Ting Ball, Paul (林定波) . . . .	House 83, Mouton Avenue The Vineyard 23 Ngau Tam Mei Road Yuen Long New Territories Hong Kong	Chinese
<i>Executive Directors</i>		
Mr. TSUI Ho Chuen, Philip (徐浩銓) . . . (Managing Director)	House C7 Habitat, Off Hiram's Highway Hebe Haven, Sai Kung New Territories Hong Kong	Chinese
Mr. LI Guangzhong (李廣中) . . . . . (Sales Director)	Room 1405, Building A No. 9 Xingsheng Road Tianhe District Guangzhou PRC	Chinese
Mr. WONG Anders (王詩遠) . . . . . (Finance Director)	Flat A, 22nd Floor, Block 3 Park Belvedere 188 Ma On Shan Road Ma On Shan Shatin New Territories Hong Kong	Chinese
<i>Non-executive Director</i>		
Mr. CHONG Chi Kwan (莊志坤) . . . . .	Flat D, 5th Floor, Block 4 Metro City, Phase II Tseung Kwan O New Territories Hong Kong	Chinese

## DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

Name	Residential address	Nationality
<i>Independent non-executive Directors</i>		
Ms. CHIU Kam Hing Kathy (趙金卿) . . .	Flat B, 7th Floor, Tower 3 37 Repulse Bay Road Repulse Bay Hong Kong	Chinese
Mr. CHUA Joo Bin (蔡裕民) . . . . .	House 47, Dunbar Walk Singapore 459346	Singaporean
Mr. XIA Jun (夏軍). . . . .	A506 Shihao mingdi No. 81 Zizhuyuanlu Haidian District Beijing PRC	Chinese

*Further information on our Directors is set forth in the section headed “Directors, Senior Management and Employees” in this [REDACTED].*

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## DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

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### PARTIES INVOLVED

**Sponsor** .....Innovax Capital Limited  
Room 2002, 20th Floor  
Chinachem Century Tower  
178 Gloucester Road  
Wanchai, Hong Kong  
*(a licenced corporation under the SFO to conduct Type 1  
(dealing in securities) and Type 6 (advising on corporate  
finance) regulated activities (as defined under the SFO))*

[REDACTED] .....[REDACTED]

[REDACTED] and [REDACTED] .....[REDACTED]

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**DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]**

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[REDACTED] .....[REDACTED]

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## DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

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Legal adviser to our Company . . . . .as to Hong Kong law:

Squire Patton Boggs  
29th Floor  
Edinburgh Tower  
The Landmark  
15 Queen's Road Central  
Hong Kong

*as to the PRC law:*

Han Kun Law Offices  
Room 2103-04, 21st Floor  
Kerry Plaza Tower 3  
1-1 Zhongxinsi Road  
Futian District  
Shenzhen 518048  
PRC

*as to the PRC intellectual property and  
related litigation matters:*

Yangsang Law Firm  
26 Dongyu Road  
Zhongshan City  
Guangdong 528403  
China

## DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

*as to Cayman Islands law:*

Conyers Dill & Pearman  
Cricket Square, Hutchins Drive  
PO Box 2681  
Grand Cayman  
KY1-1111  
Cayman Islands

**Legal adviser to the Sponsor and**

**the [REDACTED] . . . . .***as to Hong Kong law:*

Deacons  
5th Floor  
Alexandra House  
18 Chater Road  
Central  
Hong Kong

*as to the PRC law:*

Jingtian & Gongcheng  
34th Floor, Tower 3, China Central Plaza  
77 Jianguo Road, Chaoyang District  
Beijing  
PRC

**Auditor and reporting accountants . . . . .**Ernst & Young

*Certified Public Accountants*  
22nd Floor  
CITIC Tower  
1 Tim Mei Avenue  
Central  
Hong Kong

**Compliance adviser . . . . .**Innovax Capital Limited

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

**Industry consultant . . . . .**Frost & Sullivan (Beijing) Inc.

Shanghai Branch Company  
Room 1018, Tower B  
No. 500 Yunjin Road  
Xuhui District  
Shanghai, 200232  
PRC

**[REDACTED] . . . . . [REDACTED]**



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## CORPORATE INFORMATION

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<b>Registered office</b> .....	Cricket Square Hutchins Drive PO Box 2681 Grand Cayman KY1-1111 Cayman Islands
<b>Principal place of business in Hong Kong</b> .....	31st Floor, CNT Tower 338 Hennessy Road Wanchai Hong Kong
<b>Authorised representatives (for the purpose of the Listing Rules)</b> .....	Mr. TSUI Ho Chuen, Philip (徐浩銓) House C7, Habitat, Off Hiram’s Highway Hebe Haven, Sai Kung New Territories Hong Kong  Ms. FOK Pik Yi, Carol (霍碧儀) 31st Floor, CNT Tower 338 Hennessy Road Wanchai Hong Kong
<b>Company secretary</b> .....	Ms. FOK Pik Yi, Carol (霍碧儀) 31st Floor, CNT Tower 338 Hennessy Road Wanchai Hong Kong
<b>Company’s website</b> .....	www.cpmgroup.com.hk (information contained on this website does not form part of this [REDACTED])
<b>Audit committee of our Board</b> .....	Ms. CHIU Kam Hing Kathy (趙金卿) (Chairlady) Mr. CHUA Joo Bin (蔡裕民) Mr. CHONG Chi Kwan (莊志坤)
<b>Remuneration committee of our Board</b> .....	Ms. CHIU Kam Hing Kathy (趙金卿) (Chairlady) Mr. CHONG Chi Kwan (莊志坤) Mr. XIA Jun (夏軍)

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## CORPORATE INFORMATION

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**Nomination committee of our Board** . . . . . Ms. CHIU Kam Hing Kathy (趙金卿) (*Chairlady*)  
Mr. TSUI Ho Chuen, Philip (徐浩銓)  
Mr. XIA Jun (夏軍)

[REDACTED] . . . . . [REDACTED]

[REDACTED] . . . . . [REDACTED]

**Principal bankers** . . . . . *In Hong Kong:*  
The Hongkong and Shanghai Banking Corporation Limited  
HSBC Main Building  
1 Queen’s Road Central  
Hong Kong  
  
DBS Bank (Hong Kong) Limited  
11/F, The Center  
99 Queen’s Road Central  
Hong Kong  
  
*In the PRC:*  
HSBC Bank (China) Company Limited  
Shenzhen Branch  
8/F, China Resources Building  
5001 Shennan Road East  
518010 Shenzhen  
PRC

## INDUSTRY OVERVIEW

*The information and statistics set forth in this section and elsewhere in this [REDACTED] have been derived from an industry report, commissioned by us and independently prepared by Frost & Sullivan in connection with the [REDACTED]. In addition, certain information is based on, or derived or extracted from, among other sources, publications of government authorities and internal organisations, market data providers, communications with various PRC government agencies or other independent third-party sources unless otherwise indicated. We believe that the sources of such information and statistics are appropriate and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information and statistics are false or misleading in any material respect or that any fact has been omitted that would render such information and statistics false or misleading. Our Directors confirm that, after taking reasonable care, they are not aware of any adverse change in market information since the date of this [REDACTED] which may qualify, contradict or adversely impact the quality of the information in this section. None of our Company, the Sponsor, the [REDACTED], the [REDACTED], the [REDACTED] or their respective directors, advisers and affiliates have independently verified such information and statistics and no representation has been given as to their accuracy. Accordingly, such information should not be unduly relied upon.*

### SOURCE OF INFORMATION

We have commissioned *Frost & Sullivan* to analyse and report on the current status of, and forecasts for, the selected industries in which we operate in China. We agreed to pay *Frost & Sullivan* a fee of RMB0.6 million for the preparation and use of the report. Unless the context requires otherwise, market estimates or forecasts in this section represent *Frost & Sullivan*’s view on the future development of the selected industries both in the PRC and Hong Kong and worldwide.

Established in 1961, *Frost & Sullivan* has conducted industry research and provided market and enterprise strategies, consultancy and training services for several industries, including automobile, transportation and logistics, chemical engineering, energy and power systems, environmental protection technologies, electronics, information and telecommunication technologies, and medical and healthcare. In preparing the report, *Frost & Sullivan* has relied on the statistics and information obtained through primary and secondary research. Primary research includes interviewing industry insiders and recognised third-party industry associations, while secondary research includes reviewing corporate annual reports, databases of relevant official authorities, independent research reports and publications, as well as the exclusive database established by *Frost & Sullivan* over the past decades.

The forecasts were made by *Frost & Sullivan* based on the following assumptions:

- The social, economic and political conditions in the PRC and the world currently discussed will remain stable during the forecast period;
- Government policies on paint and coating industry in the PRC will remain unchanged during the forecast period;

## INDUSTRY OVERVIEW

- The paint and coating market in the PRC will be continuously growing driven by the growing demand from China’s construction, furniture, automobile and decoration industry, and technology advancement of paint and coating market.

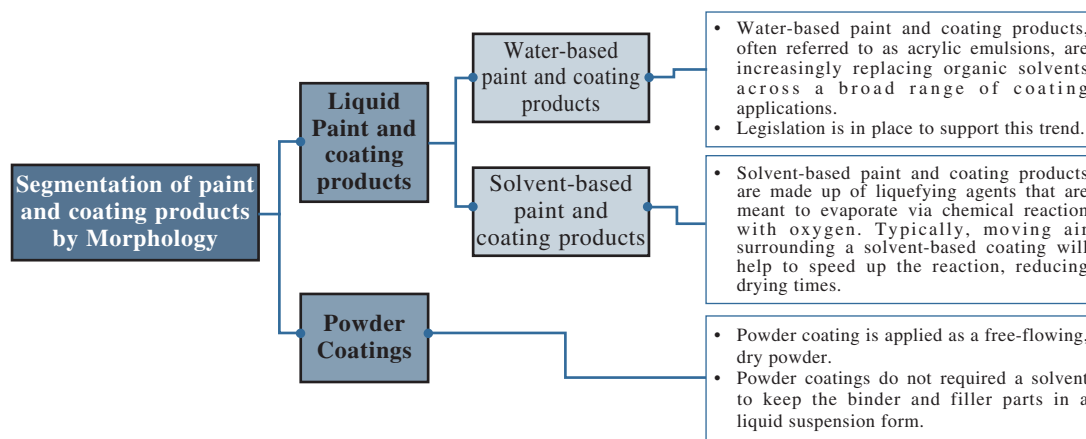
Our Directors have taken reasonable care in reviewing and discussing the above assumptions and factors with *Frost & Sullivan*, and nothing has come to the attention of our Directors to indicate that the disclosure of projections and industry data relating to future periods in this section is misleading. Unless otherwise indicated, market estimates or forecasts in this section represent *Frost & Sullivan*’s view on the future development of the relevant industries in China.

### OVERVIEW OF PAINT AND COATING MARKET IN THE PRC

Paint and coating products are substances used as layers that spread over the surface of objects. The purposes of the applications of paint and coating products are either decoration or functionality, such as protection.

Paint and coating products can be categorised into liquid coatings and powder coatings by morphology, and liquid coatings can be further split into solvent-based coatings and water-based coatings. Compared to water-based coatings, solvent-based coatings are potentially hazardous for both human health and the environment, but less susceptible to environmental conditions such as temperature and humidity during the curing phase. Many countries have made concerted efforts to reduce or remove their presence in coatings without negatively impacting on coating performance.

The following chart shows segmentation of paint and coating products by morphology:

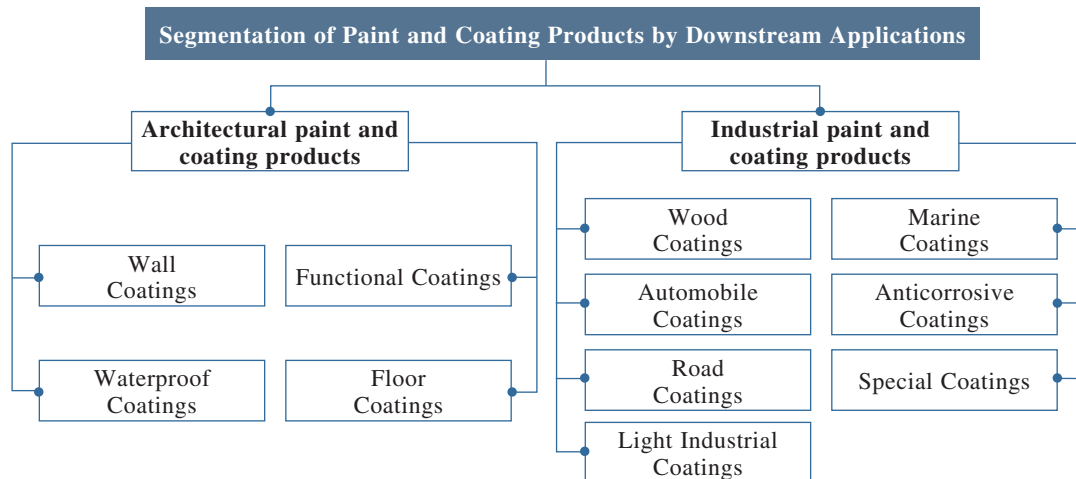


Due to the wide application in architectural paint and coating products, water-based coatings which are more environmentally friendly, have accounted for 34.0% of the production of total paint and coating products in 2016 in mainland China. Water-based coatings is expected to receive more application due to the encouragement from the government, especially for industrial coatings in which the current penetration of water-based coatings is low. In Hong Kong, the penetration of water-based coatings is around 50%, higher than that in mainland China due to stricter environmental requirements. The penetration is expected to be stable in the forecast period as the solvent-based coatings are still irreplaceable under many situations due to their advantages in cost and performance.

## INDUSTRY OVERVIEW

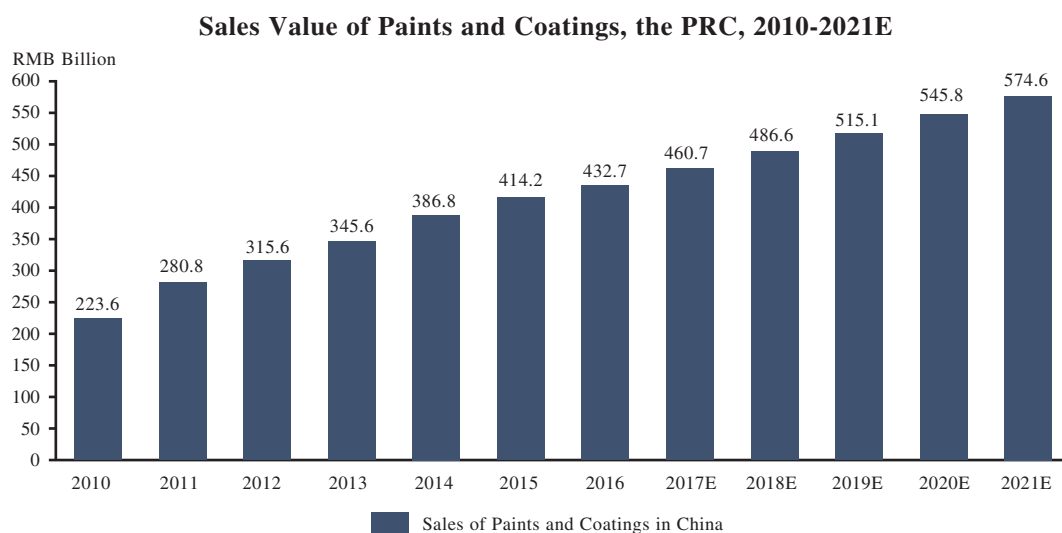
Paint and coating products can be categorised into architectural paint and coating products and industrial paint and coating products by downstream applications. Currently, the consumption of industrial paint and coating products is increasing faster than that of architectural paint and coating products in recent years, due to the industrial paint and coating products can provide a better performance of protecting equipment and machines.

The following chart shows segmentation of paint and coating products by downstream applications:



### Sales value of paint and coating products in the PRC

Sales value of paints and coatings in the PRC increased from RMB223.6 billion in 2010 to RMB432.7 billion in 2016 with a CAGR of 11.6%, and is forecasted to reach RMB 574.6 billion in 2021, with a CAGR of 5.7% from 2017 to 2021. The forecasted growth in the PRC is attributable to steady growth of downstream industries including building and construction, furniture and automotive industry, increasing application of protective and environmental-friendly coatings and continuous expansion of domestic production.

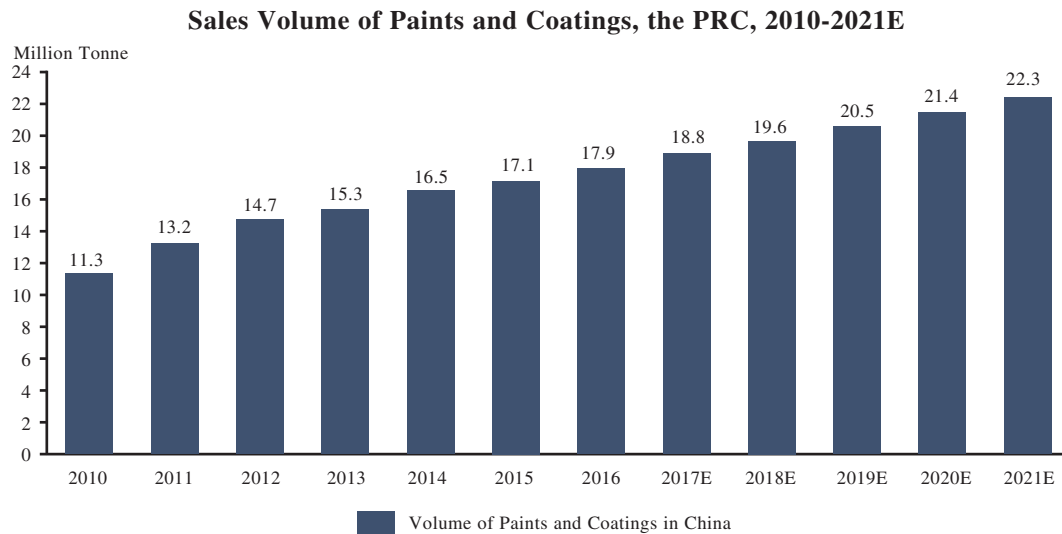


Source: Frost & Sullivan

## INDUSTRY OVERVIEW

### Sales volume of paint and coating products in the PRC

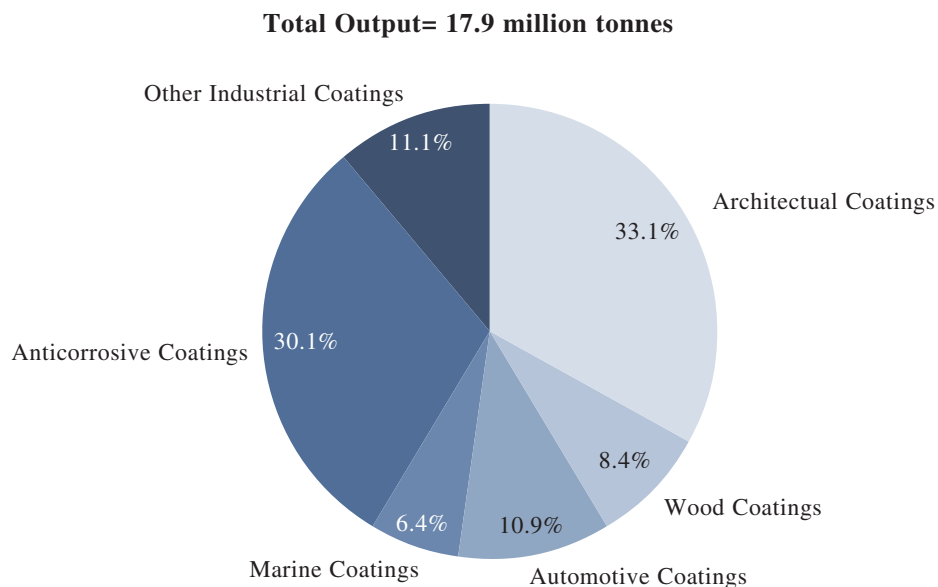
Sales volume of paints and coatings in the PRC increased from 11.3 million tonnes in 2010 to 17.9 million tonnes in 2016 with a CAGR of 7.9%, and is expected to hit a record of 22.3 million tonnes in 2021, indicating a CAGR of 4.4% from 2017 to 2021.



Source: Frost & Sullivan

In terms of application, 33.1% of all the paints and coatings in China were produced for construction market in 2016. Industrial paints and coatings include anticorrosive coatings, wood coatings, automotive coatings, marine coatings, other industrial coatings, accounted for 66.9% of all the paints and coatings produced in 2016.

### Market Size Breakdown by Application, the PRC, 2016



Source: Frost & Sullivan

## INDUSTRY OVERVIEW

### Sales volume of wood coatings in the PRC

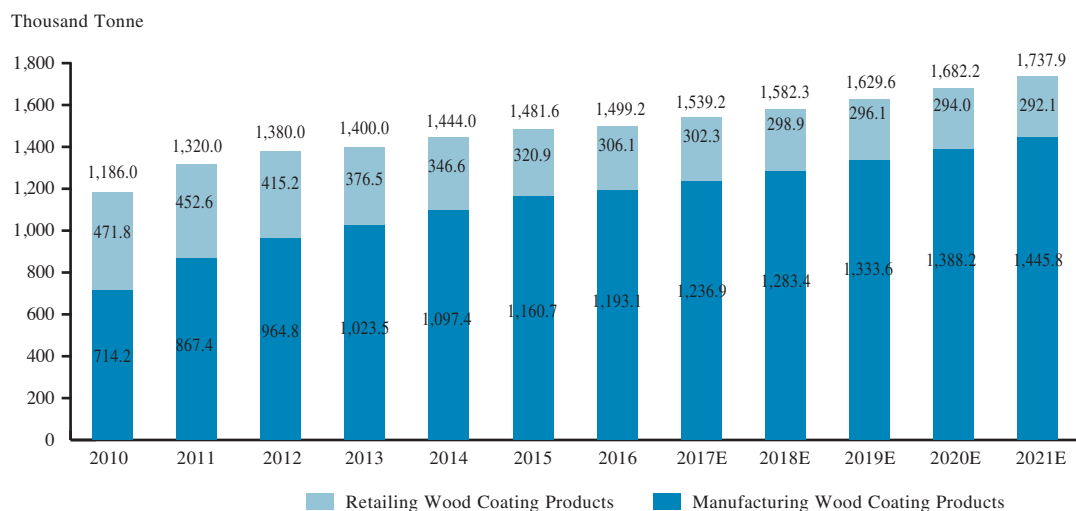
The wood coating market in China can be divided into two categories: retailing wood coating products and manufacturing wood coating products. Retailing coatings are sold to household users for on-site decoration and repair while manufacturing wood coating products are sold to wooden furniture factories.

From 2010 to 2016, the sales volume of manufacturing wood coating products increased with a CAGR of 8.9% while the sales volume of retailing wood coating products decreased with a CAGR of -7.0%. The sales volume of manufacturing wood coating products is expected to increase while the retailing wood coating products will continue shrinking.

Several reasons account for the shrinking of retailing wood coating market: (a) weak real estate market led to the declining demand for retailing wood coating products from domestic decoration market; (b) wide application of paint-free plates in homemade furniture reduced the demand for retailing wood coating products; (c) custom-made furniture in factories replaced homemade furniture gradually, thus the users of wood coatings transferred from the household to the factory; and (d) policies limited the development of solvent-based coatings which still accounts for the majority of retailing wood coating products.

The decline of retailing wood coating products is expected to slow down and its market size will remain at a stable level because (a) some homemade wooden furniture such as doors, wardrobe and cabinet is still preferred due to their lower price, design flexibility and better suitability and quality; (b) as wood coatings companies are taking actions to train the painters and improve their painting techniques, the advantages of wood coatings over paint-free plates will become more prominent, which will reduce the replacement by paint-free plate for homemade furniture; and (c) the increasing penetration of water-based retailing wood coating products will offset the negative policy impact on solvent-based coatings.

Sales Volume of Wood Coatings, the PRC, 2010-2021E

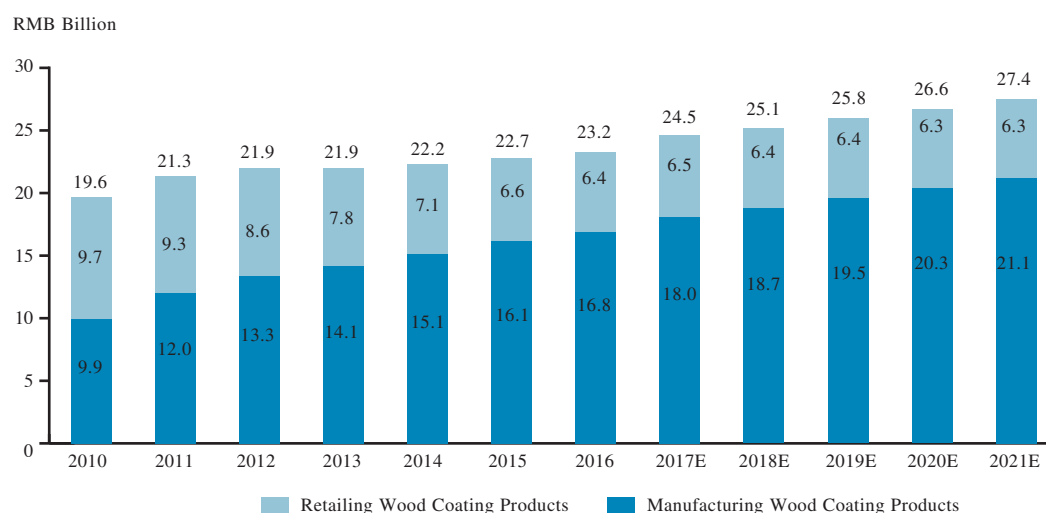


Source: Frost & Sullivan

## INDUSTRY OVERVIEW

In the second half of 2016, many wood coating producers in China raised the price of their products due to the dramatic rise of major raw materials such as solvent and titanium dioxide, leading to an increase in average wood coating price in 2016 and 2017. As the proportion of retailing wood coating products decreases, the sales value of retailing wood coating products decreased at a CAGR of -6.8% from 2010 to 2016 while that of manufacturing wood coating products grew at a CAGR of 9.3%. During 2017 and 2021, the sales value of retailing wood coating products is expected to decrease at a slower CAGR of -0.8% and that of manufacturing wood coating products will grow at a CAGR of 4.1%.

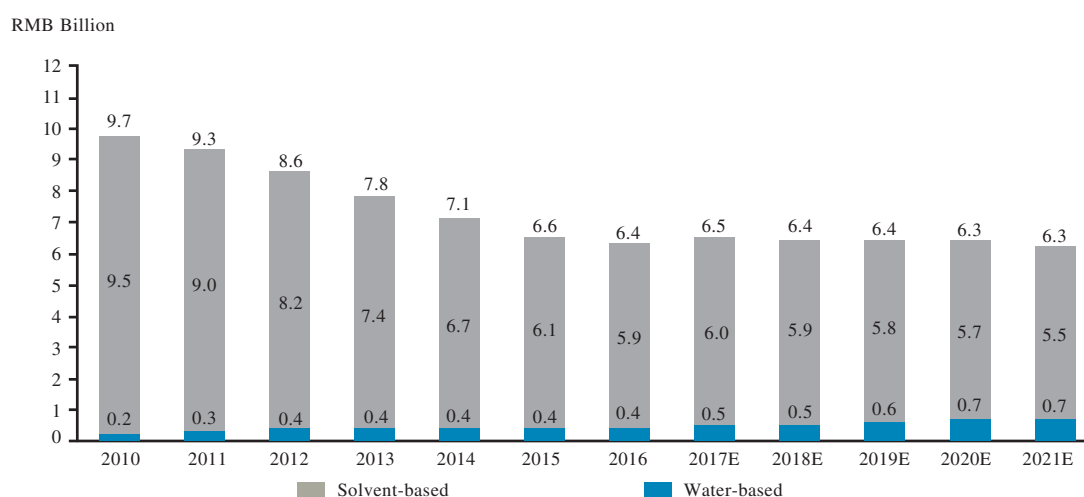
**Sales Value of Wood Coatings, the PRC, 2010-2021E**



Source: Frost & Sullivan

In China, in terms of sales value, solvent-based product accounted for around 93% while water-based product accounted for around 7% of total retailing wood coatings market in 2016, increasing steadily from around 2% in 2010. With rising awareness of its advantages in environmental protection and public health as well as improvement of performance, water-based retailing wood coatings are expected to see fast growth and increasing penetration during 2017 and 2021, despite that the market size of overall retailing wood coatings are expected to remain stable.

**Sales Value of Retailing Wood Coatings, the PRC, 2010-2021E**



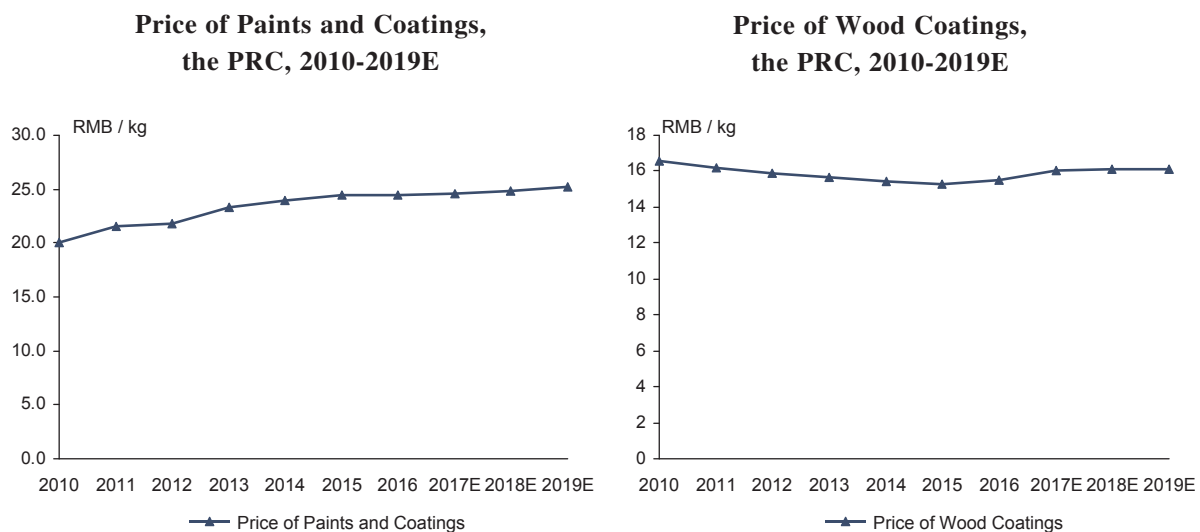
Source: Frost & Sullivan



## INDUSTRY OVERVIEW

### Price analysis of paint and coating products in the PRC

The average price of paints and coatings rose from 2010 to 2016 as proportion of environmental-friendly products, usually with higher prices, increases due to tightened environmental rules. The proportion of paints and coatings with high added value increases with the rising requirements for protective function and decorative function. The average price of wood coatings decreased slightly from 2010 to 2015 due to the fierce competition and the decline of raw materials. In the second half of 2016, the price of wood coatings started to rise due to the increase in price of some raw materials such as titanium dioxide. Affected by the increasing price of raw materials, the prices of paints and coatings and wood coating are expected to increase slightly at a CAGR of 1.3% and 0.3% , respectively from 2017 to 2019.



Source: Frost & Sullivan

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## INDUSTRY OVERVIEW

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### Drivers of paint and coating product market in the PRC

*Continuous Growth of Downstream Markets.* The major downstream markets of paint and coating products are construction, furniture, automobile and decoration, which are closely related to the people’s livelihood and consumption. Steady growth of macro-economy and rising living standards of China’s residences will continue to drive the growth of real-estate, decoration and automobile market, leading to the increasing demand for paint and coating products. In addition, the emerging markets such as wind-power turbine and high-speed railway provide growing demand for specialised paint and coating products.

*Diversified Demand and Upgrade of Consumption.* With rising living standards, people are seeking for more personalisation, better quality and safety in their choices for decoration and furniture, leading to the increasing usage of environmentally-friendly and high-quality paint and coating products.

*Government Support on Environmentally-friendly Paint and Coating Products.* Production of environmentally-friendly paint and coating products are encouraged in the Guidance Catalogue for Upgrade of Industrial Structure issued by NDRC in China. In 2016, Ministry of Environmental Protection (“MEP”) of the PRC has removed the waste produced during the production of water-based coatings from the National Hazardous Waste Catalogue. The supportive policies will encourage the development of environmentally-friendly coatings and ensure the healthy growth of the industry in the long term.

*Increasing Application of Protective Coatings.* Maintenance cost of industrial equipment contributes to a significant portion of production cost. With rising awareness of the important role of protective coatings and improvement of technology for protective functions such as anticorrosion and waterproof, protective coatings are expected to be adopted more widely in equipment production or refurbishing.

### Development trends of paint and coating product market in the PRC

*Multi-function and High Quality.* With development of architectural and equipment manufacturing technology, paint and coating products are required to provide functions other than protection and decoration, such as water-proof, thermal insulation, anticorrosion, fire-protection. Paint and coating products with multi-function and high quality will gain popularity.

*Increasing Share of Water-based Coatings.* Water-based coatings are receiving encouragement from the government due to its environmental friendliness. Also, water-based coatings are less toxic compared with solvent-based coatings. It is expected that water-based coatings will receive wider adoption with rising concerns over safety and pollution.

*Technology Improvement of Domestic Players.* With the development of China’s paint and coating product industry, the leading domestic players start to invest in the research and development instead of simply following the technology of international players. Improvement of technology will enable domestic players to develop products with better performance and more functions catering to diversified demands.

*Rising Market Concentration.* The current concentration of China’s paint and coating product market is relatively low. As the market growth is expected to be decelerating and more stringent regulations on environmental protection are expected to be imposed, the market concentration is predicted to rise and more mergers and acquisitions activities are expected to happen.

## INDUSTRY OVERVIEW

*Stricter Control of Hazardous Chemicals.* A majority of solvent-based coatings is flammable and considered as hazardous chemicals. It is witnessed in 2015 that several severe accidental explosions of hazardous chemicals, including the one in Binhai District of Tianjin in August 2015, leading to stricter supervision on storage and transportation of hazardous chemicals and the limited number of specialised coating stores, especially in North China, including Beijing-Tianjin-Hebei Region. The explosions in Tianjin resulted in a nationwide inspection on the transportation of hazardous materials (including solvent-based paint and coating products) in selected areas in the PRC. The sales orders placed by some distributors of paint and coating products, particularly in Eastern China, Central China and Southwestern China, experienced significant decreases, as they prefer not to maintain inventory in light of the sluggish demand for solvent-based paint and coating products and the stringent requirements on the storage of hazardous materials. The explosions also accelerated industry consolidation amongst the distributors in the paint and coating industry as well as the shift in the consumers' preference for water-based paint and coating products which will have a prolonged impact on the paint and coating products industry.

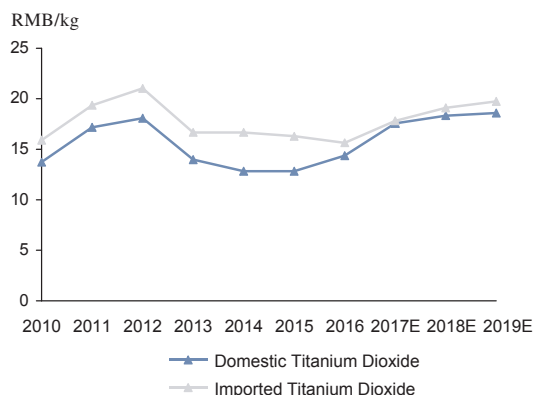
*Solvent-based wooding coating are still the mainstream of wood coating.* Water-based coatings refer to coatings that use water as primary thinning agent while solvent-based coatings use organic solvent as liquefying agent. Currently, solvent-based coatings enjoy advantages in resistance, appearance, drying rate, cost, sensitivity to environmental conditions and market acceptance while water-based coatings are more environmentally friendly and safer and receiving favourable government support. Currently, solvent-based wooding coatings are still the mainstream of wood coatings, accounting for over 90% of all wood coatings in China, around 95% of retailing wood coatings in China and around 60% in Europe and North America in terms of sales volume. Despite the global trend of shift from solvent-based coatings to water-based coatings, the output of solvent-based wood coatings is still increasing in China, Europe and North America.

### Price analysis of key raw material of paint and coating products in the PRC

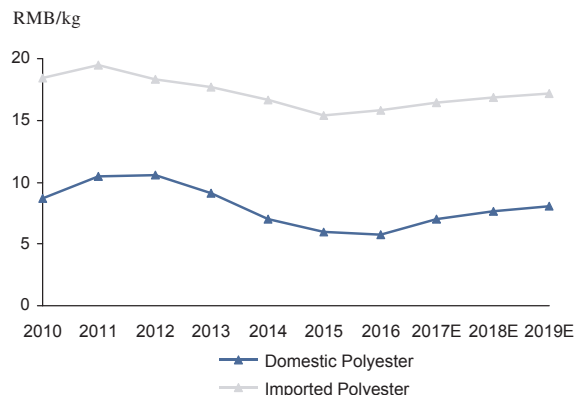
Raw materials of paints and coatings include resin, pigment, solvent, additives, etc. Titanium dioxide is one of the key pigments used for paint and coating production. The price of titanium dioxide rose from 2010 to 2012 and declined later. In 2016, the price of titanium dioxide started rising again. Polyester resin is a film-forming matter widely used in industrial paints and coatings, including wood coatings. The price of polyester resin also declined after 2012.

Affected by the increasing prices of raw materials and strict regulations on environment protection, the prices of titanium dioxide and polyester are expected to increase during the forecast period.

**Price of Main Pigment,  
the PRC, 2010-2019E**



**Price of Main Resin,  
the PRC, 2010-2019E**

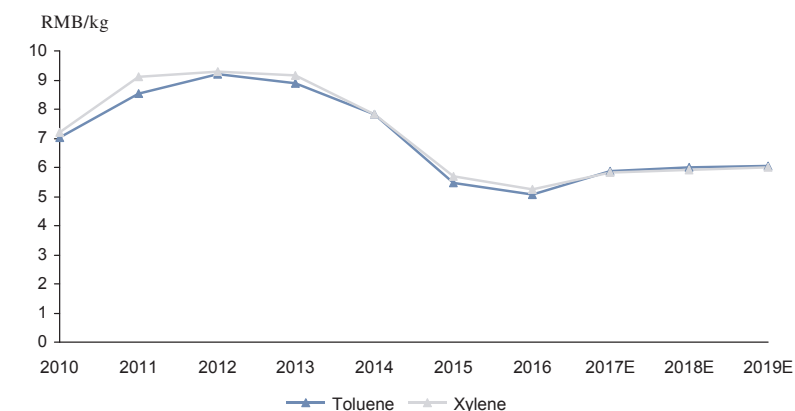


Source: Frost & Sullivan

## INDUSTRY OVERVIEW

Main solvent used for paints and coatings includes toluene and xylene. The price of solvent recorded a declining trend after 2013, as a result of falling price of crude oil, which is the main raw material of solvent. Affected by the increasing costs of energy and transportation and fluctuations in exchange rate, the prices of toluene and xylene start to increase in the second half of 2016. The prices of solvent are expected to fluctuated around the present prices during the forecast period.

**Price of Main Solvent, the PRC, 2010-2019E**



Source: Frost & Sullivan

## INDUSTRY OVERVIEW

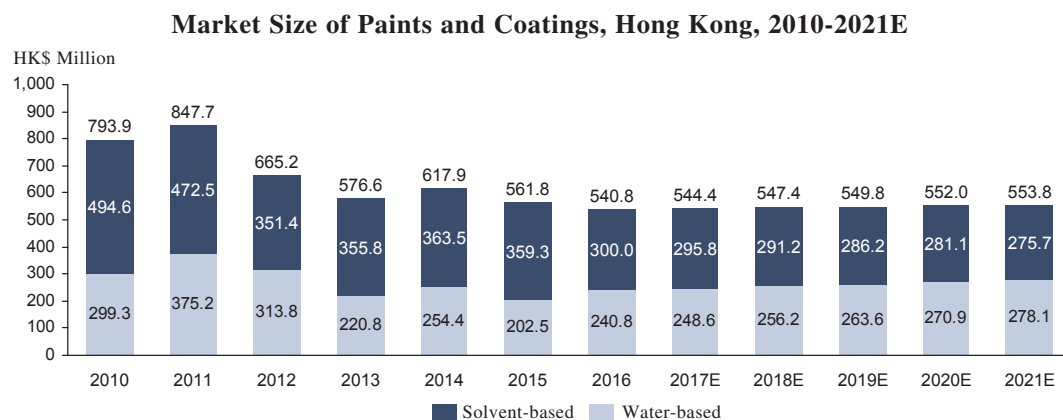
### OVERVIEW OF PAINT AND COATING PRODUCT MARKET IN HONG KONG

#### Sales value of paint and coating products in Hong Kong

Sales value of paints and coatings in Hong Kong decreased from HK\$793.9 million in 2010 to HK\$540.8 million in 2016 with a CAGR of -6.2%. The historical change in sales value of paints and coatings in Hong Kong is resulted from 1) fall in consumption of industrial coatings due to shrinking manufacturing industry; 2) fluctuations in completed floor areas of buildings.

Sales value of paints and coatings in Hong Kong is forecasted to reach HK\$553.8 million in 2021, with a CAGR of 0.4% from 2017 to 2021 as a result of stable manufacturing sector and slightly growing completed floor areas of buildings under stable land supply.

Solvent-based products accounted for around 55.5% of total market in Hong Kong in terms of sales value in 2016. While the market size of paints and coatings products in Hong Kong is estimated to be stable from 2017 to 2021, the proportion of solvent-based products is expected to decrease.



Source: Frost & Sullivan

#### Drivers of paint and coating products market in Hong Kong

**Growing Demand from New Construction and Decoration Market.** The construction market in Hong Kong has been growing steadily in recent years. According to the 2016 Policy Address, Hong Kong government aims to provide 97.1 thousand units of public houses in the next five years. The construction of residential and commercial buildings will drive the consumption of paint and coating products in Hong Kong.

**Growing Refurnishing Demand.** With aging buildings and decoration, the refurnishing demand is expected to drive the consumption of paint and coating products in Hong Kong.

**Increasing of Railway Network.** Hong Kong’s government is planning and carrying out several expansion projects of the railway transit system and the total distance of railway transit will increase to 300 km in 2030s, which will increase the demand for industrial coatings on the protection of tracks and train carriages.

## INDUSTRY OVERVIEW

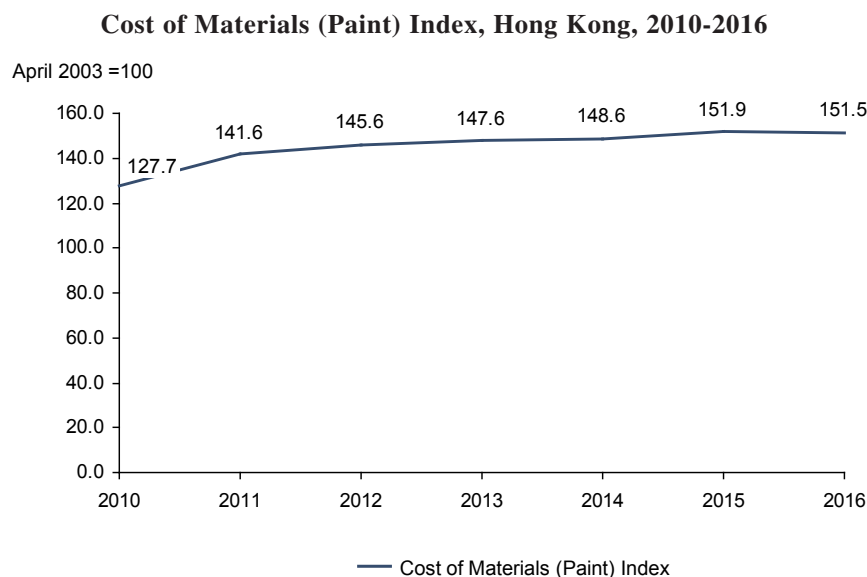
### Development trends of paint and coating product market in Hong Kong

*Mitigation of Factories to the PRC.* Due to the great potentials of the paint and coating product market in the PRC, more paint and coating companies will move their factories to the PRC, in order to have lower operation cost, as well as expand their share in the PRC’s market.

*Service-Driven Sales Model.* As auxiliary service such as style designing, product recommendation and painting instruction is increasingly important in differentiating the product, especially in construction market, providing better services will become as important as products’ quality. Therefore, service-driven sales model will be a key concept during marketing stage and adopted by more players.

### Price analysis of key raw material of paint and coating products in Hong Kong

The cost of materials index reveals the change of construction cost caused by the fluctuation of raw materials. When the price of one particular material increase and the proportion of amount used is stable, the cost of this material index increases. The price of paints used in public sector construction in Hong Kong rose dramatically by 10.9% in 2011 and kept increasing at a moderate rate later. With increasing proportion of environmentally friendly and high quality paint and coating products used in public-sector construction, the cost of paint index in Hong Kong increased.



Source: Hong Kong Census and Statistics Department, Frost & Sullivan

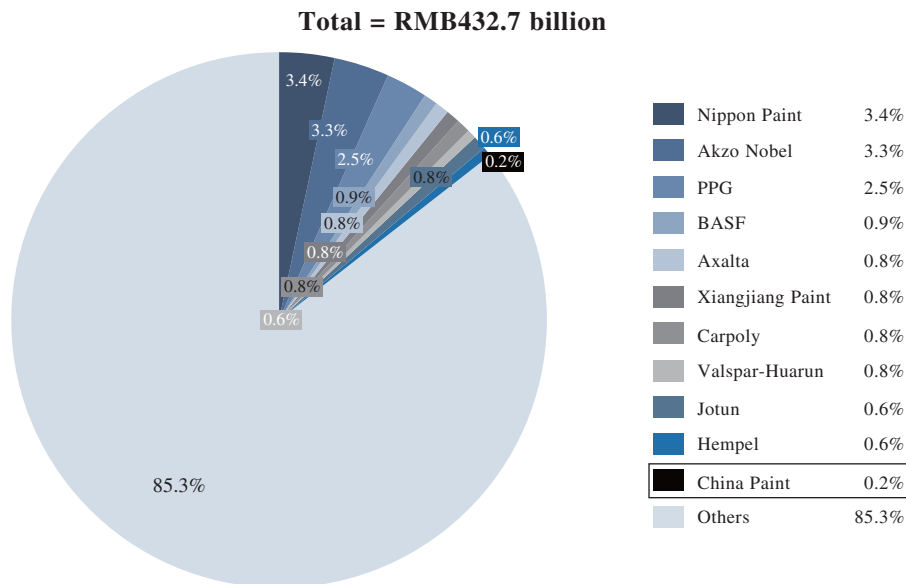
### COMPETITIVE LANDSCAPE OF PAINT AND COATING PRODUCT MARKET IN THE PRC AND HONG KONG

The paint and coating product market in China is relatively fragmented. The top 10 paint and coating manufacturer accounted less than 15% market share in total.

## INDUSTRY OVERVIEW

Eight of the 10 largest paint and coating manufacturers in China are foreign companies. Foreign companies have advantages in technology and quality of products.

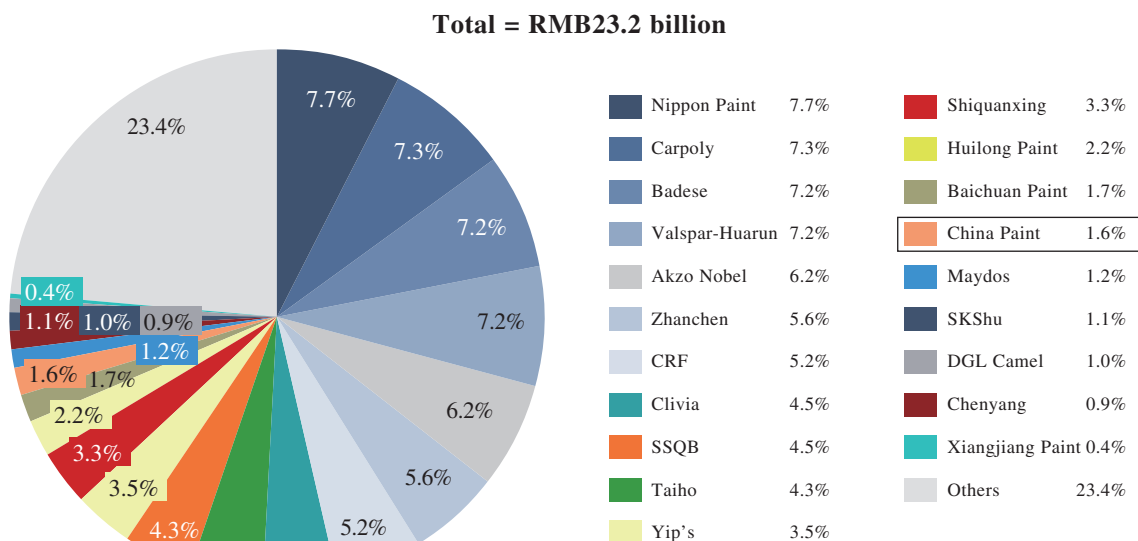
### Market Share of Top Paints and Coatings Manufacturers, China, 2016



Source: Frost & Sullivan

The wood coating market in China is much more concentrated than paints and coatings market. The total market share of top 10 manufacturers was 59.7% in 2016. China Paint ranked fifteenth in 2016 in terms of sales value of wood coatings.

### Market Share of Top Wood Coatings Manufacturers, China, 2016



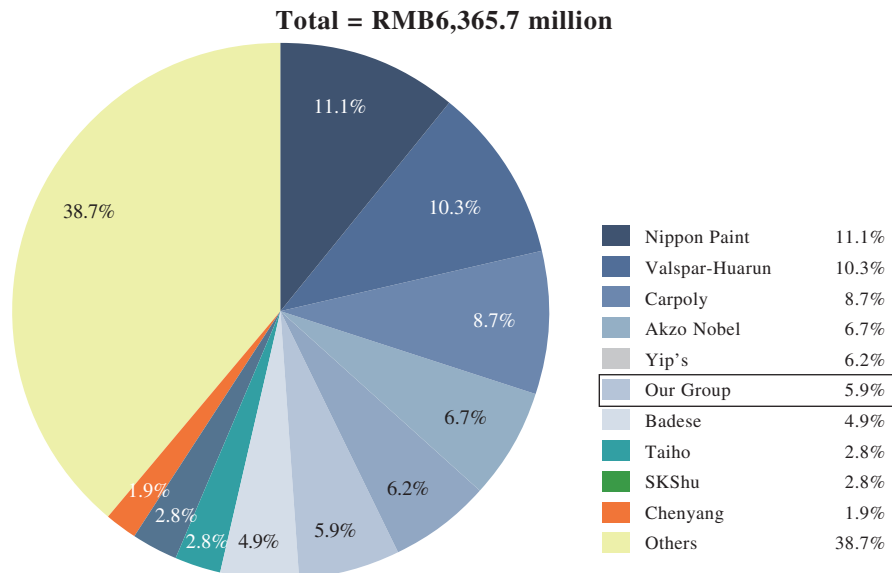
Source: Frost & Sullivan

## INDUSTRY OVERVIEW

The price of retailing wood coating products is higher than that of manufacturing wood coating products. In 2016, 20.4% of the wood coatings produced in China were retailing wood coating products in term of sales volume.

The retailing wood coating market is more concentrated than wood coating market. The top 10 retailing wood coating producers occupied 61.3% of the retailing wood coating market in terms of sales revenue. China Paint ranked 6th in terms of sales value of retailing wood coating products in 2016.

### Market Share of Top Retailing Wood Coating Products Manufacturers, China, 2016



Source: Frost & Sullivan

### Entry barriers of market in the PRC and Hong Kong

**Intensifying Environmental Regulation.** With the increasing environmental awareness from both the public and the Chinese government, more intensified environmental regulation is expected to impose on the China's paint and coating product market. For example, the Ministry of Finance issued the policy in January 2015 that the coatings with VOC higher than 420 grams per litre should be charged for consumer tax. Also, in October 2015, the MEP decided that traditional paint and coating products manufacturers should be charged for VOC emission. Intensifying environmental regulation prevents new entrants who cannot meet the requirements from entering the market.

**High R&D Requirement.** The long-term target set by the Chinese government is to make the China's paint and coating product market “greener” and more environmentally friendly. Under this target, the Chinese government publicly supports the development of water-based paint and coating products. Multiple national technology development roadmaps have clearly mentioned the importance of developing such environmentally friendly paint type. However, to develop water-based paints requires high R&D investment for market players, leading to a high technology barrier for the new entrants.

**Branding and Distribution Channels.** Branding and distribution channels are critical in paint and coating product market. Brand is an essential factor in consumer's choices, especially for retailing users who rely on brand reputation to ensure product quality and safety. The existing players have cumulated strong brand and developed mature distribution channels. It will take a significant amount of time and investment to establish brand reputation and penetrate into the distribution network for new entrants.



## APPLICABLE LAWS AND REGULATIONS

*This section sets forth summaries of certain aspects of applicable laws and regulations, which are relevant to our business and operation in different jurisdictions.*

The following is a summary of the laws and regulations relating to the business operations of our Group in the PRC and Hong Kong.

### THE PRC

#### Laws and regulations relating to foreign-invested enterprise in the PRC

The Company Law of the PRC (中華人民共和國公司法), or the Company Law, was adopted in 1993, and the latest version of the Company Law took effect on 1 March 2014. The Company Law is the basic law that generally regulates the establishment, operation and management of corporate entities in China.

Besides the Company Law, the wholly foreign-owned enterprises in China, such as some of our PRC subsidiaries, are also subject to the Wholly Foreign-owned Enterprise Law of the PRC (中華人民共和國外資企業法) and the Implementation Rules of the Wholly Foreign-owned Enterprise Law of the PRC (中華人民共和國外資企業法實施細則). The Wholly Foreign-owned Enterprise Law of the PRC, adopted in 1986 and the latest version of which promulgated on 3 September 2016, and the Implementation Rules of the Wholly Foreign-owned Enterprise Law of the PRC, effective on 12 December 1990 and amended in 2001 and 2014, govern the establishment, approval, registered capital requirement and day-to-day operational matters of wholly foreign-owned enterprises in China.

As for one of our PRC subsidiaries, Hubei Giraffe, which is a sino-foreign equity joint venture, shall observe the Law of the People’s Republic of China on Sino-Foreign Equity Joint Ventures (中華人民共和國中外合資經營企業法), adopted on 1 July 1979 and the latest version of which promulgated on 3 September 2016, and the Regulation on the Implementation of the Law of the People’s Republic of China on Sino-Foreign Equity Joint Ventures (中華人民共和國中外合資經營企業法實施條例), adopted on 20 September 1983 and revised in 1986, 1987, 2001, 2011 and 2014, as well as the Company Law. The Law of the People’s Republic of China on Sino-Foreign Equity Joint Ventures and the Regulation on the Implementation of the Law of the People’s Republic of China on Sino-Foreign Equity Joint Ventures prescribe the establishment, approval, registered capital requirement and day-to day operational matters of Sino-Foreign Equity Joint Ventures.

Investment activities in the PRC by foreign investors are principally governed by the Guidance Catalogue of Industries for Foreign Investment (外商投資產業指導目錄) (Revised in 2015), or the Catalogue, which was promulgated in 1995 and amended in 1997, 2002, 2004, 2007, 2011 and 2015. The most updated version of the Catalogue came into force on 10 April 2015. The Catalogue divides industries into three categories for foreign investment, encouraged, restricted and prohibited. The manufacture of paint and coating falls into the category of encouraged industries, the “Production of high-performance coatings, high solid, solventless coatings, water-based industrial paint and coating products, and auxiliary water-based resins” under the section “Manufacturing of Chemical Raw Materials and Chemical Products” of the Catalogue.

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## APPLICABLE LAWS AND REGULATIONS

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### Laws and regulations relating to environmental protection

#### *Pollutant Emission*

The Environmental Protection Law of the PRC (中華人民共和國環境保護法), or the Environmental Protection Law, promulgate in 1989 and amended on 24 April 2014, is the comprehensive law on environmental protection in China. In accordance with the Environmental Protection Law, the enterprise that discharge pollutants shall take measures to prevent and control pollution and public nuisances, such as waste gas, wastewater, waste residue and noise, etc. in the process of production and other activities. The State implements the pollution discharge licence management system. Enterprises shall discharge pollutants according to the requirements of pollution discharge licence and for those fail to obtain pollution discharge licence, such enterprises shall not discharge any pollutants. The environmental impact assessment shall be conducted for construction projects that will have adverse effect on environment. The pollution prevention and control facilities in construction projects shall be designed, built and commissioned along with the principal part of the project at the same time, and shall meet the requirements specified in the approved documents of the environmental impact assessment.

The Law of the People's Republic of China on the Prevention and Control of Water Pollution (中華人民共和國水污染防治法), issued in 1984 and amended on 15 May 1996 and 28 February 2008, provides that enterprises that discharge industrial waste water directly and indirectly into a water body shall obtain pollution discharge licence and shall pay the fee for pollutant discharge based on the types and quantity of the pollutants discharged in accordance with standards for collecting the fee for pollutant discharge. The Administrative Regulations on the Collection and Use of Pollutant Emission Charges (排污費徵收使用管理條例), effective on 1 July 2003, also provides such term regarding collecting of the fee for pollutant discharge and further regulates that where the pollutants discharged exceed the national or local emission standards, the enterprises shall pay more fee for pollutant discharge than standard amount.

Pursuant to the Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution (中華人民共和國大氣污染防治法), adopted in 1987 and the latest version of which took effect on 1 January 2016, where construction projects of enterprises discharge pollutants into the atmosphere, the enterprises shall comply with the standards for discharge of air pollutants as well as the requirements on the total emission control of key air pollutants. According to the Administrative Regulations on the Collection and Use of Pollutant Emission Charges (排污費徵收使用管理條例), enterprises discharging pollutants shall pay fee for pollutant discharge based on the types and quantity of the pollutants discharged. The Action Plan for Air Pollution Prevention and Control (大氣污染防治行動計劃), which was adopted by the State Council and became effective on 10 September 2013, requires people's governments of all provinces, autonomous regions and municipalities directly under the Central Government, ministries and commissions under the State Council to improve limit standards for volatile organic compounds (VOCs) of paint and coating, cementing compound and other products, promote the use of water-based paint and coating, encourage production, sale and use of low toxic and low volatile organic solvents, strengthen comprehensive treatment on air pollution of industrial enterprises. And pursuant to the Notice of the Ministry of Finance and the State Administration of Taxation on the Levy of Consumption Tax on Batteries and Coatings (財政部、國家稅務總局關於對電池、塗料徵收消費稅的通知), promulgated on 26 January 2015 and effective on 1 February 2015, the coatings with contents of VOCs higher than 420 grams per litre are subject to consumer tax.

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## APPLICABLE LAWS AND REGULATIONS

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The Ministry of Environmental Protection issued the Interim Provisions for the Administration of Pollutant Emission Permit (排污許可證管理暫行規定) on 23 December 2016, which regulates the procedures for the application, approval, issuance and administration of the pollutants emission permit.

Pursuant to the Guangdong Province’s Action Plan of Prevention and Control of Atmospheric Pollution (2014-2017) (廣東省大氣污染防治行動方案(2014-2017年)) promulgated by the Guangdong Provincial Government on 7 February 2014, the building decoration industry in the Guangdong Province should gradually reduce the use of organic solvent-based coatings. In accordance with the Measures on the Prevention and Control of Atmospheric Pollution in Pearl River Delta of Guangdong Province (廣東省珠江三角洲大氣污染防治辦法), which was promulgated by the Government of Guangdong Province on 30 March 2009 and took effect on 1 May 2009, the paint and coating products with high content of VOCs shall be eliminated in the region of Pearl River Delta for the purpose of protecting and improving the atmosphere environment of the region. In order to reduce emission of VOCs, the Department of Environment Protection of Guangdong Province adopted the Opinions on Strictly Control Discharge of VOCs of Industrial Enterprises in Pearl River Delta (廣東省環境保護廳關於珠江三角洲地區嚴格控制工業企業揮發性有機物(VOCs)排放的意見) on 23 March 2012, that provides newly-built paint and coating manufacturing enterprises to submit project description of source of emission reduction of VOCs along with the application documents of the environmental impact assessment of the newly-built projects, confirm the source of the total emission index of VOCs of the newly-built projects, and guarantee the total emission control of VOCs of the industrial enterprises.

In addition, the Department of Environment Protection of Guangdong Province issued the Implementing Proposals for Comprehensive Treatment on VOCs of Key Industries (廣東省環境保護廳關於重點行業揮發性有機物綜合整治的實施方案) (the “**Implementing Proposals of Guangdong**”) on 31 December 2014 providing that, paint and coating products for indoor decoration and solvent wood furniture produced by newly-built paint and coating manufacturing enterprises shall meet the state requirements for environmental labelling products, the production shall be prohibited of paint and coating products for indoor decoration per liter containing more than 200 grams of hazardous substance or VOCs and those for solvent wood furniture per liter containing more than 700 grams of hazardous substance or VOCs, the production equipments of paint and coating without collection, recycling/cleansing system for VOCs shall be eliminated, the production scale of water-based paint and coating is encouraged to be expanded, and identification of environmental labelling products shall be carried out actively.

Furthermore, Shenzhen Municipal People’s Government also adopts regulations on controlling emission of VOCs. Pursuant to the Circular of the General Office of Shenzhen Municipal People’s Government on Improvement Project of Air Environment Quality of Shenzhen (深圳市人民政府辦公廳關於印發深圳市大氣環境質量提升計劃的通知) (the “**2013 Circular**”), promulgated on 20 September 2013, one of the tasks explicitly provided therein is to strengthen the control on emission of VOCs. Specific measures provided therein include to shut down illegal production lines, eliminate low-end technologies, complete VOCs census and establish an overall management system, etc. The Circular of the Living Environment Commission of Shenzhen Municipal People’s Government on Program of VOCs Pollution Treatment for the Year of 2014 (深圳市人居環境委員會關於印發2014年揮發性有機物污染整治工作方案的通告), promulgated on 16 July 2014, provides detailed measures, time limits and responsible departments with respect to treatment on pollution of VOCs. The measures include but not limited to improving of exhaust gas outlets, constructing of treatment facilities for exhaust gas and regularly monitoring emission status of exhaust gas.

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## **APPLICABLE LAWS AND REGULATIONS**

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Pursuant to the Circular of Shenzhen Municipal People's Government on Improvement Project of Air Environment Quality of Shenzhen (2017-2020) (深圳市人民政府關於印發大氣環境質量提升計畫(2017-2020)的通知), promulgated on 27 February 2017, based on the 2013 Circular, one of the tasks is to strengthen the control on emission of particulate matter 2.5.

Besides the Implementing Proposals of Guangdong, the Shanghai and Zhejiang Provinces also issued local government regulating documents with specific and quantitative requirements to encourage the use of water-based coating while limiting the use of solvent-based coating, which may restrict the development of the business of solvent-based paint and coating products to some extent. According to the Circular of the Shanghai Environmental Bureau on Strengthening the Prevention and Control of the Volatile Organic Compounds Pollution in Key Industries of Shanghai (上海市環境保護局關於加強本市重點行業揮發性有機物(VOCs)污染防治工作的通知) effective from 31 October 2012, the amount of the water-based coating and other types of coatings with low content of VOCs, which are used by new coating projects of the electron industry, furniture industry and other industries, shall be no less than 50% of the total amount of all types of coatings. The Implementation Plan of Zhejiang Province on Prevention and Control of Air Pollutants in 2016 (浙江省2016年大氣污染防治實施計劃) effective from 1 April 2016, stipulates that civil architectures and family decorations are forbidden to use solvent-based coating, and sets a goal that the usage amount of water-based coating shall reach 90% of the total usage amount of all types of coatings.

The Law of the People's Republic of China on the Prevention and Control of Environmental Noise Pollution (中華人民共和國環境噪聲污染防治法) was promulgated on 29 October 1996 and came into force on 1 March 1997. Any industrial enterprise that produces environmental noise pollution due to the use of permanent equipments in the course of production shall, according to the Law of the People's Republic of China on the Prevention and Control of Environmental Noise Pollution, report to local competent administrative department of environment protection the types and quantity of its equipment that produces environmental noise pollution, the noise level produced under normal operation and the facilities installed for prevention and control of such pollution, and provide technical information relating to the prevention and control of noise pollution. Where there is any material change in the above report information, such industrial enterprise shall immediately update the report and take necessary prevention and control measures. Enterprises that produce environmental noise pollution shall take control measures and pay fee for pollutant discharge. The Administrative Regulations on the Collection and Use of Pollutant Emission Charges (排污費徵收使用管理條例) also provides that if the noise level of environmental noise pollution produced by any enterprise exceeds the State standard, the enterprise shall pay fee for pollutant discharge.

The Measures on the Implementation of the Law of the People's Republic of China on the Prevention and Control of Environmental Noise Pollution in Guangdong Province (廣東省實施《中華人民共和國環境噪聲污染防治法》辦法), promulgated on 1 December 1997 and amended on 29 July 2004 and 23 July 2010, stipulates that enterprises that produce environmental noise pollution shall report for registration and obtain pollution discharge licence. The Regulations of Shenzhen Special Economic Zone on the Prevention and Control of Environmental Noise Pollution (深圳經濟特區環境噪聲污染防治條例), adopted on 24 December 1993 and amended in 1997 and 2011, further requires that industrial enterprises that produce environmental noise pollution shall discharge noise pollution strictly in accordance with control index, specified way and time approved under pollution discharge licence.

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## APPLICABLE LAWS AND REGULATIONS

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The Law of the People’s Republic of China on the Prevention and Control of Environmental Pollution Caused by Solid Wastes (中華人民共和國固體廢物污染環境防治法), effective on 1 April 1996 and amended in 2004, 2013, 2015 and 2016, provides that enterprises discharging industrial solid wastes shall establish and improve the responsibility system for the prevention and control of environmental pollution and adopt measures on the prevention and control of environmental pollution caused by industrial solid wastes. The State implements the system of declaration and registration for industrial solid wastes. Enterprises discharging industrial solid wastes shall report information about the categories, discharging amount, flow direction, storage, treatment and other information concerning industrial solid wastes to the local competent administrative department of environment protection. Where there is any material change in the above report information, such industrial enterprise shall immediately update the report accordingly. The Administrative Regulations on the Collection and Use of Pollutant Emission Charges (排污費徵收使用管理條例) provides that enterprises that do not have any facility or place for storage or disposal of industrial solid wastes, or the facility or place fail to meet the environmental protection standards, shall pay the fee for pollutant discharge based on the types and quantity of the pollutants discharged; those enterprises that adopt landfill as the treatment of hazardous waste but fail to meet relevant national provisions, shall pay the fee for pollutant discharge based on the types and quantity of the pollutants discharged.

### *Examination of Clean Production*

The Law of the People’s Republic of China on the Promotion of Clean Production (中華人民共和國清潔生產促進法), or the Law on Promotion of Clean Production, adopted on 29 June 2002 and amended on 29 February 2012, provides that manufacturing enterprises shall organise to implement clean production. In order to implement the Law on Promotion of Clean Production, the National Development and Reform Commission, or the NDRC, and the Ministry of Environmental Protection adopted the Interim Measures on Clean Production Examination (清潔生產審核暫行辦法) on 16 August 2004 and amended on 16 May 2016 (the title has been amended to the Measures on Clean Production Examination (清潔生產審核辦法). Pursuant to the Law on Promotion of Clean Production and the Measures on Clean Production Examination, the clean production of enterprises shall be examined if the enterprises use toxic or harmful raw materials for production or discharge toxic or harmful substances in the course of production. The Circular of the Ministry of Environmental Protection on Further Promoting the Clean Production of Key Enterprises (環境保護部關於深入推進重點企業清潔生產的通知), adopted on 22 April 2010, paint and coating manufacturing falls into the category of industries subject to clean production examination.



## **APPLICABLE LAWS AND REGULATIONS**

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### *Environmental Impact Assessment*

The Law of the People’s Republic of China on Environment Impact Assessment (中華人民共和國環境影響評價法), or the Law on Environment Impact Assessment, adopted on 28 October 2002 and amended on 2 July 2016, provides the system of environment impact assessment, including that construction projects shall go through environmental impact assessment. Both of the Law on Environment Impact Assessment and the Administrative Regulations on the Environmental Protection of Construction Projects (建設項目環境保護管理條例) which was promulgated on 29 November 1998 provide that the State implements classified control over environmental protection of construction projects in accordance with the extent of environmental impact of construction projects. After the environmental impact assessment document of a construction project has been approved, either the scale, the production techniques employed or the measures on preventing pollution or any other circumstance of the construction project has undergone substantial changes, the enterprise shall resubmit the environmental impact assessment document of the construction project for examination and approval. The Administrative Measures on Inspection and Acceptance of Environmental Protection of Completed Construction Projects (建設項目竣工環境保護驗收管理辦法), promulgated on 27 December 2001 and amended on 22 December 2010, provides that the State implements classified control over inspection and acceptance of environmental protection of completed construction projects in accordance with national provisions on classified control over environmental protection of construction projects.

### **Laws and regulations relating to safety in production**

#### *Work Safety Law of PRC*

Pursuant to the Work Safety Law of PRC (中華人民共和國安全生產法) promulgated on 29 June 2002 and amended on 27 August 2009 and 31 August 2014, any containers of hazardous substances, means of conveyance as well as special equipments concerning life safety or with significant dangers used by any enterprises, shall, according to the relevant provisions of the state, be manufactured by specialised manufacturing enterprises, and may only be utilised after they have passed the examinations and tests of institutions which have relevant professional qualifications and been awarded a certificate for safe use or a mark of safety. In addition, the production, operation, transportation, storage and use of any hazardous substances or the disposal of abandoned hazardous substances shall, according to the provisions of the relevant laws and regulations, national standards and industrial standards, be subject to the approval as well as the supervision and administration of relevant administrative departments.

The major person-in-charge of an enterprise shall undertake the overall responsibility for the safety in production. Enterprises shall provide education and training to employees on safety in production. They shall also provide employees with articles of labour protection which meet the national or industrial standards, and supervise and guide employees to wear and use of these articles according to instructions.

#### *The Regulations of the Work Safety Licences*

Pursuant to the Regulations of the Work Safety Licences (安全生產許可證條例), promulgated on 13 January 2004 and amended on 18 July 2013 and 29 July 2014, the State implements the production safety licensing system to the enterprises engaged in mining, construction, production of hazardous chemicals, fireworks and crackers, and civil use explosive articles. No enterprise may engage in manufacturing activities without a Work Safety Licences.

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## APPLICABLE LAWS AND REGULATIONS

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The department of work safety supervision and administration under the State Council shall be in charge of the issuance and administration of Work Safety Licences for enterprises which are subject to the administration of the central authority and engage in the non-coal mining, production of hazardous chemicals, fireworks and crackers. The departments of work safety supervision and administration under the people's government of provinces, autonomous regions or municipalities directly, are in charge of the issuance and administration of Work Safety Licences for enterprises which engage in non-coal mining, the production of hazardous chemicals, fireworks and crackers except aforesaid. The departments of work safety supervision and administration under the people's government of provinces, autonomous regions or municipalities are subject to the guidance and supervision of the department of work safety supervision and administration under the State Council.

Before carrying out production, an enterprise shall apply for a Work Safety Licences. The period of validity of a Work Safety Licences shall be three years. Where any enterprise needs to extend the period of validity of its Work Safety Licences, the enterprise shall apply for extension three months prior to the expiration date.

### *Catalogue of Hazardous Chemicals*

Chemical productions listed in the 2015 version of the Catalogue of Hazardous Chemicals (危險化學品目錄), or the Catalogue, promulgated on 27 February 2015, refer to hazardous chemicals that meet production standards of the State, industry, local and enterprise (other than chemical productions that are forbidden to be produced, operated or used in accordance with the State's order). Certain products of our Group fall within the Catalogue. Enterprises that produce, sell, use, operate, transport productions listed in the Catalogue shall abide by relevant laws and regulations.

### *Regulations on the Safety Management of Hazardous Chemicals*

Pursuant to the Regulations on the Safety Management of Hazardous Chemicals (危險化學品安全管理條例), promulgated on 26 January 2002 and amended on 16 February 2011 and 7 December 2013, the enterprises manufacturing hazardous chemicals shall, before commencing manufacture, obtain Work Safety Licences for hazardous chemicals, and those enterprises manufacturing hazardous chemicals which are listed in the catalogue of products that are subject to production licensing system conducted by the State, shall obtain production licences for industrial products.

Any newly-built construction projects, reconstruction or expansion of any construction projects that manufacture or store hazardous chemicals shall go through examination on safety conditions conducted by work safety supervision and administration departments. The enterprises that manufacture or store hazardous chemicals shall set up corresponding safety facilities and equipments for monitoring, ventilation, fireproofing, etc. and conduct regular maintenance to guarantee the normal use of safety facilities and equipments. In addition, enterprises that manufacture or store hazardous chemicals shall put up obvious safety warning signs at workplace as well as on the safety facilities and equipments.

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## APPLICABLE LAWS AND REGULATIONS

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The enterprises that produce hazardous chemicals shall provide technical specifications for the safety of chemicals in full accord with hazardous chemicals manufactured by them, and shall affix or hang the safety signs for hazardous chemicals on the packing (including external packaging) in full accord with hazardous chemicals in the packing materials. The packing of hazardous chemicals shall accord with laws, administrative regulations and rules, and satisfy the requirements of the national standards and industrial standards. The packaging material and containers of hazardous chemicals, and the models, specifications, methods and unit quality (weight) shall be adapted to the nature and product usage of the packaged hazardous chemicals.

The major person in charge of enterprises that manufacture, store, use, operate or transport the hazardous chemicals, or the hazardous chemical enterprises, shall take overall responsibilities for the safety management of their hazardous chemicals. The hazardous chemical enterprises shall have the safety conditions required by laws and administrative regulations and national standards and industrial standards, establish and improve regulations on safety administration and position-based safety responsibility system, and provide employees with education on safety and law as well as technical training for their positions.

The enterprises that manufacture or store hazardous chemicals shall entrust institutes, with qualifications in accordance with national requirements, to conduct safety evaluation on their own production safety conditions once every three years and provide safety evaluation report. The safety evaluation report shall include a proposal to make rectification and improvement against the safety problems existing in production safety conditions.

### *Measures on the Implementation of Work Safety Licences for Hazardous Chemical Production Enterprises*

Pursuant to the Measures on the Implementation of Work Safety Licences for Hazardous Chemical Production Enterprises (危險化學品生產企業安全生產許可證實施辦法), promulgated on 5 August 2011 and the latest version of which was amended on 6 March 2017, production enterprises of hazardous chemicals refer to enterprises of which the end products or semi-finished products have been listed into the Catalogue of Hazardous Chemicals (危險化學品目錄) and such enterprises shall obtain the Work Safety Licences for hazardous chemicals. The Measures on the Implementation of Work Safety Licences for Hazardous Chemical Production Enterprises further provides explicit rules on the application requirements and application documents of Work Safety Licences, etc..

### *Measures for the Implementation of Use Safety Licence for Hazardous Chemicals*

Pursuant to Measures on the Implementation of Use Safety Licence for Hazardous Chemicals (危險化學品安全使用許可證實施辦法), promulgated on 16 November 2012 and amended on 27 May 2015 and 6 March 2017, chemical enterprises (other than manufacturing enterprises of hazardous chemicals), which are listed into the Catalogue of Industries Subject to Use Safety Licence for Hazardous Chemicals (危險化學品安全使用許可適用行業目錄), use hazardous chemicals in production and the number of their consumption of hazardous chemicals reach the quantitative standards of hazardous chemicals, shall obtain the Use Safety Licence for hazardous chemicals. Pursuant to the Catalogue of Industries Subject to the Use Safety Licence for Hazardous Chemicals promulgated on 21 February 2013, manufacturing of coating, printing ink, pigment and other like products is listed in this catalogue.



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## APPLICABLE LAWS AND REGULATIONS

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### *Administrative Measures on Operating Licence for Hazardous Chemicals*

Pursuant to Administrative Measures on Operating Licence for Hazardous Chemicals (危險化學品經營許可證管理辦法), promulgated on 17 July 2012 and amended on 27 May 2015, enterprises that engage in operating (including storage) hazardous chemicals which are listed in the Catalogue of Hazardous Chemicals (危險化學品目錄) (the “**Operation of Hazardous Chemicals**”) shall obtain Operating Licence for hazardous chemicals. However, production enterprises of hazardous chemicals which have obtained work safety licences for hazardous chemicals and sell hazardous chemicals within their factory area, or port operators which have obtained port operation licence and engage in storage of hazardous chemicals within their port area, are not required to obtain operating licences for hazardous chemicals.

Pursuant to applicable PRC law and regulations, if an enterprise that engages in Operation of Hazardous Chemicals fails to obtain the Operating Licence for hazardous chemicals, or continues its Operation of Hazardous Chemicals after the expiration date of its Operating Licence for hazardous chemicals, the enterprise may be subject to suspension of business operations, confiscation of related hazardous chemicals and illegal income and a fine from RMB100,000 to RMB200,000 imposed by work safety administrative department.

Pursuant to the Prohibition and Restriction Catalogue of New Industries in Beijing (2015) (北京市新增產業的禁止和限制目錄(2015年版)) which became effective on 17 August 2015, opening of new specialised coating retail store in certain districts in Beijing is prohibited.

### *Administrative Measures on Registration of Hazardous Chemicals*

Pursuant to Administrative Measures on Registration of Hazardous Chemicals (危險化學品登記管理辦法), promulgated on 1 July 2012, the State implements the registration system for hazardous chemicals. A newly established production enterprise of hazardous chemicals which are listed in the Catalogue of Hazardous Chemicals (危險化學品目錄) shall undergo the hazardous chemical registration before the completion inspection and acceptance of the production enterprise; an importer enterprise of hazardous chemicals shall undergo the hazardous chemical registration before it imports any hazardous chemical for the first time. The term of validity of the hazardous chemical registration certificate is three years. Where a registered enterprise intends to continue engaging in the production or import of hazardous chemicals after the expiration date of the said term of validity of its certificate, the registered enterprise shall, three months prior to the expiration date, submit the application for renewal of its hazardous chemical registration certificate.

### *Administrative Regulations on Precursor Chemicals*

Pursuant to the Administrative Regulations on Precursor Chemicals (易制毒化學品管理條例), promulgated on 26 August 2005 and amended on 29 July 2014 and 6 February 2016, the State implements the classified administration and licensing system to the production, operation, purchase, transportation, import and export of precursor chemicals. Precursor chemicals are classified into three categories. Category I includes major materials that can be used for producing drugs. Categories II and III include chemical reagents that can be used for producing drugs. The detailed classification and types of precursor chemicals are listed in the appendix hereof.

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## APPLICABLE LAWS AND REGULATIONS

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Enterprises shall obtain related licence for production, operation and purchase of the precursor chemicals of category I, and shall report relevant information for record for production, operation and purchase of the precursor chemicals of category II or III. Enterprises that have obtained licence for production of precursor chemicals of category I or have reported relevant information for record for production of precursor chemicals of category II or III, are allowed to sell precursor chemicals produced by them within their factories. However, if enterprises sell precursor chemicals of category I via sale outlets outside of their factories, the licence for operation of the precursor chemicals of category I shall be obtained. Where enterprises transport precursor chemicals of Category I or II in trans-administrative areas at the level of cities divided into districts (or trans-boundaries of a municipality in the case of municipalities directly under the central government) or trans-administrative areas at the level of counties within the key anti-drug areas determined by the Public Security Department of the State Council, the licence for transportation of precursor chemicals of category I or II shall be obtained. Where enterprises transport precursor chemicals of Category III in the areas abovementioned, the transportation of precursor chemicals of Category III shall be filed for record. Any enterprise that import or export of precursor chemicals shall obtain the import or export licence.

### *The Fire Prevention Law of the PRC*

The Fire Prevention Law of the PRC (中華人民共和國消防法), adopted on 29 April 1998 and amended on 28 October 2008, specifies fire prevention safety responsibilities that should be abided by enterprises, including without limitations the following matters: implement the fire prevention safety responsibility system, formulate the fire safety regulations, operating rules and fire fighting and emergency evacuation plans; deploy fire fighting facilities and equipments, set up fire safety signs and organise inspection and maintenance at regular intervals to ensure their proper functioning; conduct a comprehensive inspection of fire fighting facilities at least once a year to ensure their proper functioning. The inspection records shall be complete and accurate and shall be archived for the supervision purpose; guarantee that evacuation passages, safety exits and fire truck passages are kept clear and fire and smoke compartmentation as well as fire separation distance meet the relevant fire protection technical standards; organise fire protection inspections in order to eliminate any potential fire risks in time; organise target-specific fire drills.

The technical standards and administrative provisions for fire protection shall be observed for production, storage, transportation, sales, use or disposal of flammable or explosive hazardous substances. Anyone who enters a site that produces or stores flammable or explosive hazardous goods must comply with fire control safety regulations.

### *Regulations implemented following the Tianjin Explosions*

On 12 August 2015, the Work Safety Committee of State Council promulgated the Urgent Notice to Vigorously Carry Out the Special Program to Address Safety Problems regarding Hazardous Chemicals and Flammable and Explosive Materials (國務院安全生產委員會關於深入開展危險化學品和易燃易爆物品安全專項整治的緊急通知), which requested local competent authorities to immediately commence the special program to address safety problems regarding hazardous chemicals and flammable and explosive materials nationwide, including but not limited to immediately conducting a comprehensive investigation on all enterprises that engage in production, management, warehousing and transportation of hazardous chemicals and inflammable and explosive materials, and to strictly implementing the safety responsibility system that holds the hazardous chemicals and inflammable and explosive materials production and operation enterprises to undertake main safety responsibilities.

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## APPLICABLE LAWS AND REGULATIONS

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On 19 April 2016, the State Council promulgated the Notice of Work Safety Committee on Learning a Hard Lesson From the “8.12” Massive Explosion in Port of Tianjin and Carrying out Special Program to Address Safety Problems of Dangerous Chemicals (國務院安全生產委員會關於深刻吸取天津港“8.12”特別重大事故教訓集中開展危險化學品安全專項整治的通知) (the “**Tianjin Notice**”). Pursuant to the Tianjin Notice, State Council decided to conduct the chemical safety improvement program from April to October 2016 nationwide. The program covers the improvement of (1) safety of ammonium nitrate, nitro-cotton and sodium cyanide; (2) safety of ports, warehouse (heap) field and wharf related to hazardous chemicals; (3) safety of hazardous chemicals production and operation activities; (4) safety of hazardous chemicals use activities; and (5) safety of fire prevention in the sites related to inflammable and explosive materials and hazardous chemicals.

After the special programs carried out as a result of the Tianjin Explosions, on 29 November 2016, the General Office of the State Council issued Circular on the Comprehensive Improvement Plan of Dangerous Chemicals Safety (國務院辦公廳關於印發危險化學品安全綜合治理方案的通知, the “**Comprehensive Improvement Plan**”) to further improve the comprehensive management on dangerous chemicals safety. The Comprehensive Improvement Plan provides the working schedule of the plan, comprehensive management measures and system together with assignment of responsibility regarding dangerous chemicals safety.

### **Laws and regulations relating to product quality**

#### *Product Quality Law of the PRC*

Pursuant to the Product Quality Law of the PRC (中華人民共和國產品質量法), adopted on 22 February 1993 and latest amended on 27 August 2009, the victims who suffer personal injury or property losses due to product defects may claim for compensation from either the producers or sellers. Where the responsibility for product defects lies with the producer, the seller is, after assuming liability of compensation, entitled to recover such compensation from the producer, and vice versa. Under the Product Quality Law of the PRC, the defects refer to unreasonable dangers existing in the products that threaten the personal safety or property safety of others. Where there is national or industrial standard applicable to such products for guaranteeing human health and personal or property safety, defects refer to inconformity to the standards.

#### *Administrative Regulations of the PRC on Production Licence for Industrial Products and Its Implementing Measures*

Pursuant to Administrative Regulations of the PRC on Production Licence for Industrial Products (中華人民共和國工業產品生產許可證管理條例), promulgated on 9 July 2005, and Implementing Measures of the Administrative Regulations of the PRC on Production Licence for Industrial Products (中華人民共和國工業產品生產許可證管理條例實施辦法), promulgated on 21 April 2014, enterprises shall not produce products listed in the catalogue of products that are subject to production licensing system without production licence. No enterprise may sell or use in the course of business activities any product which is listed in the catalogue but producer of which failed to obtain production licence. Any enterprise that intends to produce any product listed in the catalogue shall apply for a production licence to the provincial administration of quality and technology supervision at its domicile.

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## APPLICABLE LAWS AND REGULATIONS

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Any enterprise that has obtained the production licence shall complete the labelling of the symbol and serial number of production licence on its products or the packaging or specifications thereof within six months from the day it obtains the licence. Any enterprise that has obtained a production licence shall, from the date of obtaining the production licence, submit a self-inspection report to the provincial administration of quality and technology supervision or its entrusted local administration of quality and technology supervision at or above county level every year.

### *Catalogue of Products Subject to Production Licensing System and Its Implementation Rules*

Pursuant to the Catalogue of Products Subject to Production Licence System (實行生產許可證制度管理的產品目錄), or the Catalogue, issued on 20 November 2012, hazardous chemicals are listed in the Catalogue, and certain products of our Group fall within the Catalogue. Any enterprise shall obtain a production licence for industrial products to manufacture the products listed in the Catalogue.

Pursuant to the Implementation Rules of Production Licence for Hazard Chemicals (Coating Products), or the Rules, amended on 26 April 2013, hazard chemicals (paint and coating products) are divided into 3 categories and 30 types. The Rules further provides explicit provisions on the products standard of the relevant products and other matters.

On 30 September 2016, the State Administration for Quality Supervision and Inspection and Quarantine promulgated the Notice on General Implementing Rules of Production License for Industrial Products and Implementing Rules of 60 Categories of Industrial Products (《質檢總局關於公佈工業產品生產許可證實施通則和60類工業產品實施細則的公告》)(the “**Notice**”), which became effective on 30 October 2016. According to this Notice, paint and coating is not included in the 60 Categories of Industrial Products, which means paint manufacturing enterprises are not required to obtain the Production License for Industrial Products after 30 October 2016.

### *Regulations of the PRC on Certification and Accreditation, Administrative Regulations for Compulsory Product Certification*

Pursuant to the Regulations of the PRC on Certification and Accreditation (中華人民共和國認證認可條例), promulgated on 3 September 2003 and amended on 6 February 2016, and the Administrative Regulations for Compulsory Product Certification (強制性產品認證管理規定), promulgated on 3 July 2009, for products that are subject to compulsory product certification, the State implements unified product catalogue, compulsory requirements, standard and compliance assessment procedures of unified technical specification, unified certification mark and unified charging standard. Enterprises complete production, sell, import or use the products in other business activities that have not obtained compulsory product certification, the enterprises shall be punished in accordance with laws and regulations.

## **Laws and regulations on labour and employee benefits**

### *Labour Contract Law of the PRC*

Pursuant to the Labour Contract Law of the PRC (中華人民共和國勞動合同法), adopted on 29 June 2007 and amended on 28 December 2012, employers and employees shall enter into labour contracts to establish their employment relationship. When hiring employees, employers are required to inform the employees about their job duties, working conditions, working places, occupational hazards, production safety conditions, remuneration and other information which the employees require to be informed.

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## APPLICABLE LAWS AND REGULATIONS

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Employers and employees shall fulfil their respective obligations in accordance with the labour contracts. Employers shall pay remuneration to employees on time and in full in accordance with the labour contracts and national regulations, strictly abide by working quota standard, and shall not directly or indirectly force any worker to work overtime. When a labour contract is terminated, the employer shall provide proof on such termination and transfer the file and social insurance relations of the employee within 15 days.

### *Law of the PRC on Prevention and Control of Occupational Diseases*

Pursuant to the Law of the PRC on Prevention and Control of Occupational Diseases (中華人民共和國職業病防治法), promulgated on 27 October 2001 and latest amended on 2 July 2016, occupational diseases refers to the diseases suffered by employees of an enterprise, a public institution, an individual economic organisation, or other kinds of employers due to their exposure to toxic or hazardous substances such as dust and radioactive substances in occupational activities. Employees have the right of occupational health protection in accordance with laws and regulations. Employers shall create the working environment and conditions conforming to the national standard of occupational health and requirements, and shall take measures to ensure that labourers receive occupational health protection. Employers shall establish and improve the responsibility system for the prevention and treatment of occupational diseases, intensify the management on the prevention and treatment of the same, enhance the ability to prevent and treat the same, and assume responsibilities arisen from the hazard of occupational diseases taken place therein.

### *Social Insurance Law of the PRC*

Pursuant to the Social Insurance Law of the PRC (中華人民共和國社會保險法), promulgated on 28 October 2010, employees shall participate in basic pension insurance, basic medical insurance, occupational injury insurance, unemployment insurances, maternity insurance and other social insurances. The contributions of basic pension insurance, medical insurance and unemployment insurance shall be paid by both employers and employees. The contributions of occupational injury insurance and maternity insurance shall be only paid by employers.

Any employer shall, within 30 days after its establishment, register with the local social insurance agency. Within 30 days after the date of hiring, any employer shall register for the employee with the local social insurance agency. An employer shall declare and make social insurance contributions in full and on time.

### *Administrative Regulations on the Housing Provident Fund*

Pursuant to the Administrative Regulations on the Housing Provident Fund (住房公積金管理條例), promulgated on 3 April 1999 and amended on 24 March 2002, enterprises are required to pay housing fund for their employees. Any employer shall, within 30 days after its establishment, register with the local housing fund management centre. Within 30 days after the date of hiring, any employer shall register for the employee with the local housing fund management centre.

The housing fund shall be used for employees to purchase, construct, renovate or rebuild principal residence, and no enterprise or individual may misappropriate it for any other purposes.



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## APPLICABLE LAWS AND REGULATIONS

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### Laws and regulations on imports and exports of goods

#### *Foreign Trade Law of the PRC, Measures for the Archival Filing and Registration of Foreign Trade Business Operators*

Pursuant to the Foreign Trade Law of the PRC (中華人民共和國對外貿易法), promulgated on 12 May 1994 and latest amended on 7 November 2016 and the Measures for the Archival Filing and Registration of Foreign Trade Business Operators (對外貿易經營者備案登記辦法), promulgated on 25 June 2004 and amended on 18 August 2016, foreign trade business operators that engage in import and export of goods or technologies are required to go through record filing and registration with the Ministry of Commerce or its entrusted institution, except those that are exempted from record filing and registration by laws, administrative regulations and stipulations of the Ministry of Commerce. In case a foreign trade business operator fails to go through the record filing and registration process, customs shall not handle the formalities of customs declaration for import or export goods.

#### *Customs Law of the PRC*

Pursuant to the Customs Law of the PRC (中華人民共和國海關法), adopted on 22 January 1987 and latest amended on 7 November 2016, the State Council sets up the general administration of customs which shall exercise unified administration of the customs offices throughout the country. The consignor or consignee of the goods exported or imported as well as the Customs broker must register themselves for declaration activities at the customs office in accordance with law. In addition, those persons declaring shall present proof of qualifications. No enterprises or persons can conduct declaration activities at the customs office without registration or qualification.

#### *Administrative Regulations on the Import and Export of Goods of the PRC*

Pursuant to the Administrative Regulations on the Import and Export of Goods of the PRC (中華人民共和國貨物進出口管理條例), promulgated on 10 December 2001, goods prohibited from export or import are not permitted to be exported or imported; goods limited in export or import shall be subject to licence system or quota control; goods free to be exported or imported have no limitation in export or import. The consignee of import goods or the consignor of export goods shall present the permit of automatic import or export, import or export licence or proof of quota in customs tariffs for handling the formalities of customs declaration.

#### *Law of the PRC on Import and Export Commodities Inspection and Its Implementing Regulations*

Pursuant to the Law of the PRC on Import and Export Commodities Inspection (中華人民共和國進出口商品檢驗法), adopted on 21 February 1989 and latest amended on 29 June 2013, the state administration for commodity inspection shall formulate and adjust the catalogue of import and export commodities subject to compulsory inspection, or the Catalogue. The inspection of the import and export commodities which are listed in the Catalogue shall be conducted by the commodity inspection authorities. No import commodities specified in the Catalogue which have not been inspected can be sold or used; and no export commodities specified in the Catalogue that fail to pass the inspection can be exported. The import and export commodities which are listed in the Catalogue shall be inspected in accordance with the compulsory requirements of the technical regulations of the State. With regard to those commodities for which compulsory requirements of the technical regulations of the state have not yet been formulated, those commodities may be inspected with reference to relevant foreign standards designated by the state administration for commodity inspection.

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## APPLICABLE LAWS AND REGULATIONS

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Pursuant to the Implementing Regulations of the Law of the PRC on the Import and Export Commodities Inspection (中華人民共和國進出口商品檢驗法實施條例), promulgated on 31 August 2005 and latest amended on 1 March 2017, the scope of inspection on import and export commodities conducted by the entry-exit inspection and quarantine organs shall cover: whether the commodities comply with the requirements of safety, sanitation, health, environmental protection, prevention of fraud, etc., and quality, quantity, weight, and other items. The consignees or consigners of imported and exported commodities may handle formalities of application for inspection by themselves, or may entrust an agency to handle formalities of application for inspections; where commodities are imported and exported by way of express mails, the consignees or consigners shall entrust entry-exit express mail enterprises to handle the formalities of application for inspection.

### **Laws and regulations relating to foreign exchange**

#### *Regulations of the PRC on Foreign Exchange Administration*

Pursuant to the Regulations of the PRC on Foreign Exchange Administration (中華人民共和國外匯管理條例), adopted in 1996 and amended in 1997 and 2008, generally there is no restriction on international payment and transfer of foreign exchange under current accounts. The State implements the statistics and reporting system for international balance of payment. The foreign exchange income of a domestic institution or an individual may be remitted back into the territory of PRC or deposited overseas. Payment and receipt of foreign exchange under current accounts shall be based on true and legal transactions. Foreign exchange and foreign exchange settlement funds under capital accounts shall be used for purposes approved by competent authority and the foreign exchange administrative department. Foreign institutions or individuals conducting direct investment, issuing or trading marketable securities or derivatives in the territory of PRC shall register with the foreign exchange administrative department. Domestic institutions or individuals conducting direct investment overseas or issuing or trading marketable securities or derivatives overseas shall complete the registration according to the regulations of the foreign exchange administration under the State Council.

#### *Wholly Foreign-owned Enterprise Law of the PRC and Its Implementation Rules*

According to the Wholly Foreign-owned Enterprise Law of the PRC (中華人民共和國外資企業法), amended in 2016, and its Implementing Rules, amended in 2014, a wholly foreign-owned enterprise, or a WFOE, shall open accounts with a bank engaging in foreign exchange business by its business licence. Receipt and payment of such account shall be supervised by the bank. Foreign exchange income of the WFOE shall be deposited to the foreign exchange account and its foreign exchange expenses shall be paid from the foreign exchange account.

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## APPLICABLE LAWS AND REGULATIONS

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### Laws and regulations on taxation

#### *Enterprise Income Tax*

#### ***The Enterprise Income Tax Law of the PRC and the Implementing Regulations of the Enterprise Income Tax Law of the PRC***

According to the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) which took effect on 1 January 2008 and amended on 24 February 2017 and the Implementing Regulations of the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法實施條例), effective on 1 January 2008, enterprise income taxpayers refer to enterprises (including resident enterprises and non-resident enterprises) and other organisations in the territory of the PRC that obtain income within the PRC and shall pay enterprise income tax in accordance with relevant PRC regulations. A resident enterprises, referring to an enterprise that is established in the territory of the PRC in accordance with the PRC laws and regulations, or that is established outside of the PRC in accordance with foreign laws and regulations but its actual management office is in the PRC, shall pay enterprise income tax at the rate of 25% for its income derived from both within and outside the PRC.

A non-resident enterprise refers to an enterprise that is established outside of the PRC in accordance with foreign laws and regulations, its actual management office is also outside of the PRC (1) but has institutions or establishments in the PRC or (2) has no institutions or establishments in the PRC but has income derived from the PRC. For a non-resident enterprise that has institutions or establishments in the PRC, it shall pay enterprise income tax at the rate of 25% for the income derived from the PRC and obtained by its institutions or establishments, and the income earned outside of the PRC which has connection with its institutions or establishments. For a non-resident enterprise that has no institutions or establishments in the PRC but has income derived from the PRC, or has institutions or establishments in the PRC but the income derived from the PRC has no connection with its institutions or establishments in the PRC, it shall pay enterprise income tax at the rate of 20% for the income derived from the PRC. And the Notice on Issues regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Resident Enterprises on the basis of De facto Management Bodies (關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知), promulgated on 22 April 2009 and effective on 1 January 2008, prescribes that a foreign enterprise controlled by a PRC enterprise or a PRC enterprise group will be recognised as a “PRC resident enterprise” with a “de facto management body” located within the PRC if all of the following conditions are satisfied: (i) the working places where the senior management and core management departments in charge of daily operations are located mainly within the PRC; (ii) financial and human resources decisions are subject to determination or approval by persons or bodies in the PRC; (iii) major assets, accounting books, company seals and minutes and files of board and shareholders’ meetings are located or kept within the PRC; and (iv) at least half of the enterprise’s directors with voting rights or senior management habitually reside within the PRC.



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## APPLICABLE LAWS AND REGULATIONS

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Pursuant to the Administrative Measures for the Accreditation of High-tech Enterprises (高新技術企業認定管理辦法), promulgated on 14 April 2008 and revised on 19 January 2016, any enterprise to be accredited as a high-tech enterprise shall satisfy all conditions: (1) the enterprise has been established for at least one year when applying for accreditation of high-tech enterprise, (2) the enterprise shall own intellectual property rights of technologies which are technically crucial to their key products (services) by such means as independent research and development, transfer, donation or merger, (3) the number of scientific and technical personnel engaged in research and development as well as relevant technology innovation activities shall account for at least 10% of the total number of employees of the enterprise for the current year and other conditions stipulated thereunder. The period of validity for the qualification of accredited high-tech enterprises shall be three years as of the issuance of the certificate of high-tech enterprise. After an enterprise obtains the qualification as a high-tech enterprise, it is entitled to enjoy tax incentives as of the year in which the certificate of high-tech enterprises was granted. Where relevant authorities find that an accredited high-tech enterprise does not satisfy the accreditation conditions in the process of daily management, the enterprise may be disqualified as a high-tech enterprise after an reexamination and the tax incentives it has enjoyed at the current year shall be recovered by competent tax authority. And according to Circular of the State Administration of Taxation on the Issues Concerning Implementation of the Preferential Income Tax for High-Tech Enterprises (國家稅務總局關於實施高新技術企業所得稅優惠有關問題的通知), promulgated on 22 April 2009 and effective on 1 January 2008, the enterprises which are recognised (or reexamined) qualified as high-tech enterprises may apply for preferential enterprise income tax at a rate of 15% from the year of accreditation as high-tech enterprises.

### *Regulations regarding Dividend Distribution*

Pursuant to the Wholly Foreign-owned Enterprise Law of the PRC (中華人民共和國外資企業法) and the Implementation Rules of the Wholly Foreign-owned Enterprise Law of the PRC (中華人民共和國外資企業法實施細則), foreign investors may remit abroad their legitimate profit, other lawful incomes received from the WFOE and funds obtained after the liquidation of the WFOE.

The Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) and the Implementing Regulations of the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法實施條例) provide that for a non-resident enterprise which does not have any institutions or establishments inside the PRC but has income derived from the PRC or for a non-resident enterprise whose income derived from the PRC has no actual connection with its institutions or establishments inside the PRC, it shall pay enterprise income tax on the incomes derived from the PRC at the tax rate of 10%. But where there is any difference between a tax treaty concluded by and between the government of the PRC and a foreign government and the Enterprise Income Tax Law of the PRC, the treaty shall prevail.

The mainland of the PRC and Hong Kong Special Administrative Region signed the Arrangement between the Mainland of the PRC and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Income Taxes (內地和香港特別行政區關於對所得稅避免雙重徵稅和防止偷漏稅的安排) on 21 August 2006 and its serval protocols, according to which, a 5% withholding tax rate applies to dividends paid by a PRC resident enterprise to a Hong Kong resident enterprise, provided that such Hong Kong resident enterprise directly holds at least 25% of the equity interests of the PRC resident enterprise; a 10% withholding tax rate applies to dividends paid by a PRC resident enterprise to a Hong Kong resident enterprise if such Hong Kong resident enterprise holds less than 25% of the equity interests of the PRC resident enterprise.

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## **APPLICABLE LAWS AND REGULATIONS**

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According to the Circular of the State Administration of Taxation on Relevant Issues Concerning the Implementation of Dividend Clauses in Tax Treaties (國家稅務總局關於執行稅收協定股息條款有關問題的通知), promulgated on 20 February 2009, if any fiscal resident of the other party to the tax agreement directly owns a certain percentage or more (generally 25% or 10%) of the capital of the PRC resident company which pays dividends to such fiscal resident, dividends obtained by such fiscal resident may be taxed at a tax rate specified in the tax agreement, provided all of the following requirements are satisfied:

- (1) such fiscal resident who obtains dividends should be a company as provided in the tax agreement;
- (2) shareholder’s equity interest and voting shares of the PRC resident company directly owned by such fiscal resident reaches a specified percentage; and
- (3) the capital of the PRC resident company directly owned by such fiscal resident, at any time during the twelve months prior to the acquisition of the dividends, reaches a percentage specified in the tax agreement.

Furthermore, the State Administration of Taxation promulgated the Measures for the Administration of Non-Resident Taxpayers’ Enjoyment of the Treatment under Tax Agreements (非居民納稅人享受稅收協定待遇管理辦法) on 27 August 2015 which became effective on 1 November 2015, pursuant to which, any non-resident taxpayer qualified to enjoy any treaty treatment could be entitled to the treaty treatment when filing a tax declaration or making a withholding declaration through a withholding agent, subject to the subsequent administration by tax authorities.

### *Value-Added Tax*

#### ***Interim Regulations of the PRC on Value-Added Tax and the Implementing Rules for the Interim Regulations of the PRC on Value-added Tax***

According to the Interim Regulations of Value-added Tax of the PRC (中華人民共和國增值稅暫行條例), promulgated on 13 December 1993 and amended in 2008 and 2016, and the Implementing Rules for the Interim Regulations of the PRC on Value-added Tax (中華人民共和國增值稅暫行條例實施細則), promulgated on 18 December 2008 and amended on 28 October 2011, all enterprises and individuals in the PRC engaging in selling goods and providing services of processing, repairs or maintenance in China, or importing goods to China, shall pay value-added tax, or the VAT. The amount of VAT payable by a taxpayer for selling goods or providing taxable services shall amount to the balance of “output VAT in the current period” minus “input VAT in the current period”. Taxpayers who sell or import goods (except as otherwise provided) and who provide services of processing, repair and maintenance (taxable labour services) shall be subject to 17% tax rate. Adjustment to the tax rates shall be decided by the State Council.

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## APPLICABLE LAWS AND REGULATIONS

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### *Urban Maintenance and Construction Tax*

Pursuant to the Circular of the State Council on Unifying the System of Urban Maintenance and Construction Tax and Education Surcharge Paid by Domestic and Foreign-invested Enterprises and Individuals (國務院關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知), effective on 1 December 2010, the Interim Regulations of the PRC on Urban Maintenance and Construction Tax (中華人民共和國城市維護建設稅暫行條例), came into effect on 1 January 1985 and amended on 8 January 2011, and the Interim Provisions on the Collection of Educational Surcharges (徵收教育費附加的暫行規定), amended on 8 January 2011, shall be applicable to foreign-invested enterprises, foreign enterprises and individual foreigners.

According to the Interim Regulations of the PRC on Urban Maintenance and Construction Tax and the Circular of the State Administration of Taxation on Issues concerning the Collection of the Urban Maintenance and Construction Tax (國家稅務總局關於城市維護建設稅徵收問題的通知), effective from 12 March 1994, any enterprise or individual who is liable to pay consumption tax, value-added tax and business tax shall also pay urban maintenance and construction tax. The amount of consumption tax, value-added tax and business tax actually paid by a taxpayer shall be the taxation basis of urban maintenance construction tax. The urban maintenance construction tax shall be paid simultaneously when consumption tax, value-added tax and business tax are paid. Furthermore, the rates of urban maintenance and construction tax shall be 7% for a taxpayer domiciles in a city, 5% for a taxpayer domiciles in a county or a town, and 1% in other places.

### *Educational Surcharges*

#### *Interim Provisions on the Collection of Educational Surcharges (徵收教育費附加的暫行規定)*

According to The Interim Provisions on the Collection of Educational Surcharges promulgated in 1986 and revised in 1990, 2005 and 2011, any enterprise or individual who is liable to pay consumption tax, value-added tax and business tax shall also pay educational surcharges. The amount of consumption tax, value-added tax and business tax actually paid by a taxpayer shall be the taxation basis of educational surcharges, the tax rate of which is 3%. Educational surcharges shall be paid simultaneously when consumption tax, value-added tax and business tax are paid. The collection of education surcharges shall follow relevant regulations concerning consumption tax, value-added tax and business tax.

### **Laws and regulations on intellectual property rights**

#### *Patent*

#### *The PRC Patent Law and the Implementing Rules of the PRC Patent Law*

Pursuant to the PRC Patent Law (中華人民共和國專利法), adopted in 1984 and amended in 1992, 2000 and 2008, and the Implementing Rules of the PRC Patent Law (中華人民共和國專利法實施細則), adopted in 2001 and amended in 2002 and 2010, enterprises can apply for intellectual property rights of inventions, utility models or appearance designs. The duration of a patent right for inventions is 20 years and the duration of a patent right for utility models and appearance designs is 10 years, all commencing from the application date. Except otherwise provided in the PRC Patent Law, any enterprise or individual shall not exploit any patent without the permission of the patentee.

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## APPLICABLE LAWS AND REGULATIONS

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### *Trademarks*

#### ***The PRC Trademark Law and Implementing Rules of the PRC Trademark Law***

According to the PRC Trademark Law (中華人民共和國商標法), adopted in 1982 and the latest version of which was amended on 30 August 2013, and the Implementing Rules of the PRC Trademark Law (中華人民共和國專商標法實施條例), adopted in 2002 and amended on 29 April 2014, any individual, legal entity or other organisation that needs to acquire the exclusive right to use a trademark in the production and operation activities shall file an application for trademark registration with the Trademark Office. The duration of a trademark right is 10 years, commencing from date of approval for registration. Conducts that shall constitute an infringement of the exclusive right to use a registered trademark include but not limited to: using a trademark that is identical with or similar to a registered trademark on the same or similar goods without the permit of the trademark registrant, selling goods that violate the exclusive right to use a registered trademark, etc.

### **HONG KONG**

#### **Laws and regulations relating to sales of goods**

##### *Sales of Goods Ordinance (Chapter 26 of the Laws of Hong Kong)*

Contracts for the sale of goods in Hong Kong are mainly governed by the Sales of Goods Ordinance. It aims to strengthen protection to consumers by defining the scope of conditions and warranties that are implied into sale contracts. These implied terms generally relate to the safety and suitability of the goods supplied.

Examples of the implied terms under the Sales of Goods Ordinance include: (a) where goods are purchased by description, the goods must correspond with the description (section 15); (b) the goods supplied are of merchantable quality (section 16); (c) the goods must be fit for (i) the purpose for which they are commonly bought, or (ii) the particular purpose for which they are bought if the particular purpose were made known to the seller (section 16); and (d) where there is a contract for sale by sample, (i) the bulk must correspond with the sample in quality, (ii) the buyer must have a reasonable opportunity of comparing the bulk with the sample, and (iii) the goods must be free from any defects which would not be apparent on reasonable examination of the sample (section 17).

Subject to the Control of Exemption Clauses Ordinance (Chapter 71 of the Laws of Hong Kong), the right, duty, or liability arises under a sale contract by implication of law can be negative or varied by express agreement, by the course of dealing between the parties, or by usage if the usage is such as to bind both parties to the contract.

##### *Consumer Goods Safety Ordinance (Chapter 456 of the Laws of Hong Kong)*

The Consumer Goods Safety Ordinance imposes criminal liability on persons who supply, manufacture, or import into Hong Kong any consumer goods (except for goods listed in the Schedule of Consumer Goods Safety Ordinance, for example, food, pharmaceutical products and electrical products) that do not comply with the general safety requirement or the safety standards and specifications approved by the Secretary for Commerce and Economic Development in Hong Kong (section 6).

## **APPLICABLE LAWS AND REGULATIONS**

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To meet the general safety requirement, the consumer goods must be reasonably safe, having regard to all the circumstances, including but not limited to: (a) the manner in which, and the purpose for which, the consumer goods are presented, promoted, and marketed; (b) the use of any marks, instructions, or warnings on the consumer goods in connection with its keeping, use, or consumption; (c) the compliance of reasonable safety standards published by a standards institute; and (d) the existence of reasonable means (taken into account the cost, likelihood and extent of any improvement) to make the consumer goods safer (section 4).

According to section 2 of Consumer Goods Safety Regulation (Chapter 456A of the Laws of Hong Kong), where consumer goods on their packages are marked with, or where any labels affixed to or any documents enclosed in their packages contain, any warning or caution regarding the safe keeping, use, consumption, or disposal, such warning or caution shall be in both the English and the Chinese languages. The warnings and cautions must be legible and be placed in a conspicuous position on (a) the consumer goods; (b) any package of the consumer goods; (c) a label securely affixed to the package; or (d) a document enclosed in the package, as the case may require.

Unless a due diligence defence can be successfully established, any person who fails to comply with the general safety requirement under the Consumer Goods Safety Ordinance and sells unsafe consumer goods commits a criminal offence. The person is liable to a fine of HK\$100,000 and an imprisonment of one year on first conviction, and a fine of HK\$500,000 and two years' imprisonment on subsequent conviction (section 26). In addition, the Customs and Excise Department may serve a prohibition notice on the convicted person, prohibiting him from supplying the unsafe goods for a specified period not exceeding six months (section 8) and/or a recall notice requiring the immediate withdrawal of the consumer goods that are believed to be unsafe and may cause serious injury (section 9). Those unsafe goods may also be seized and destroyed by the Customs and Excise Department and/or other authorised officers (section 19 and section 31).

### *Trade Descriptions Ordinance (Chapter 362 of the Laws of Hong Kong)*

The Trade Descriptions Ordinance regulates advertising and promotion practices in Hong Kong. It prohibits false trade descriptions, false, misleading or incomplete information, false marks and misstatements in respect of goods provided in the course of trade or suppliers of such goods.

A trade description (including indication of quantity, composition, an fitness for purpose, performance, physical characteristics and place of origin with respect to any goods) which is either (a) false to a material degree; or (b) misleading, that is to say, likely to be taken for a trade description of a kind that would be false to a material degree, would be regarded as false trade description. Trivial errors or discrepancies in trade descriptions would not constitute an offence.

Under section 7 of Trade Descriptions Ordinance, any person who in the course of any trade or business applies a false description to any goods, or supplies any goods to which a false trade description is applied, or has in his possession for sale or for any purpose of trade or manufacture any goods to which a false trade description is applied, commits an offence. The Trade Descriptions Ordinance further prohibits any person from importing or exporting any goods to which a false description or false trade mark is applied (section 12).

## **APPLICABLE LAWS AND REGULATIONS**

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Certain specified unfair trade practices are also prohibited under the Trade Descriptions Ordinance. Examples include: misleading omissions (section 13E), aggressive commercial practices (section 13F), bait advertising (section 13G), bait and switch (section 13H), and wrongly accepting payment (section 13I).

Any person who commits an offence under sections 7, 12, 13E, 13F, 13G, 13H, 13I of the Trade Descriptions Ordinance shall be liable, on conviction on indictment, to a fine of HK\$500,000 and five years’ imprisonment, and on summary conviction, to a fine of HK\$100,000 and an imprisonment of one year. The regulators may in some instances accept a written undertaking from businesses and individuals not to continue or repeat the unfair trade practices in exchange of which the regulators will not commence or continue an investigation relating to that matter (section 30L and section 30M).

### *Trade Marks Ordinance (Chapter 559 of the Laws of Hong Kong)*

The Trade Marks Ordinance regulates the registration of trademarks and the use of registered trademarks. The trademark registration system of Hong Kong provides territorial protection; to obtain protection in Hong Kong, trademarks must be registered with the Trade Marks Registry of the Intellectual Property Department in accordance with the Trade Marks Ordinance and the Trade Marks Rules (Chapter 559A of the Laws of Hong Kong).

According to section 10 of the Trade Marks Ordinance, a registered trademark is a property right acquired through due registration under such ordinance. By virtue of section 14 of the Trade Marks Ordinance, the owner of a registered trademark is conferred exclusive rights in the trademark. The rights of the owner in respect of the registered trademark come into existence from the date of the filing of the application of registration of the trademark.

Unless otherwise exempted, any use of the trademark (or other infringement acts as stipulated in section 18 of the Trade Marks Ordinance) by third parties without the consent of the owner constitutes an infringement of the trademark. In the event of infringement by third parties, the owner of the registered trademark is entitled to remedies such as infringement proceedings provided for in section 23 and section 25 of the Trade Marks Ordinance.

Trademarks which are not registered under the Trade Marks Ordinance and the Trade Marks Rules may still obtain protection by the common law action of passing off, which requires proof of the owner’s reputation in the unregistered trademark and that use of the trademark by third parties will cause the owner damage.

### *Competition Ordinance (Chapter 619 of the Laws of Hong Kong)*

The Competition Ordinance aims to: (a) prohibit conduct that prevents, restricts, or distorts competition in Hong Kong; (b) prohibits mergers that substantially lessen competition in Hong Kong; and (c) provides for incidental and connected matters. There are three competition rules under the Competition Ordinance, namely, the First Conduct Rule, the Second Conduct Rule, and the Merger Rule.



## **APPLICABLE LAWS AND REGULATIONS**

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The First Conduct Rule prohibits anti-competitive agreements and concerted practices and decisions. According to the First Conduct Rule, an undertaking must not: (a) make or give effect to an agreement; (b) engage in a concerted practice; or (c) as a member of an association of undertakings, make or give effect to a decision of the association, if the object or effect of the agreement, concerted practice or decision is to prevent, restrict or distort competition in Hong Kong.

The Second Conduct Rule prohibits anti-competitive conduct by a party with substantial market power. According to the Second Conduct Rule, an undertaking that has a substantial degree of market power in a market must not abuse that power by engaging in conduct that has as its object or effect the prevention, restriction or distortion of competition in Hong Kong. What amounts to a substantial degree of market power is a question of fact; factors that may be taken into consideration include: (a) market share of the undertaking; (b) the undertaking’s power to make pricing and other decisions; and (c) any barriers to entry to competitors into the relevant market (section 21). Conduct may be regarded as abusive under the Second Conduct Rule if it involves: (a) predatory behaviour towards competitors; or (b) limitation of production, markets or technical development to the prejudice of consumers.

The Merger Rule states that an undertaking must not, directly or indirectly, carry out a merger that has, or is likely to have, the effect of substantially lessening competition in Hong Kong. The Merger Rule only applies to mergers involving carrier licence holders within the meaning of the Telecommunications Ordinance (Chapter 106 of the Laws of Hong Kong).

Upon the breach of the rules stipulated under the Competition Ordinance, the Competition Tribunal may make orders including: (a) imposing a pecuniary penalty; (b) disqualifying a person from acting as a director of a company or taking part in the management of a company; (c) prohibiting an entity from making or giving effect to an agreement; (d) terminating or modifying an agreement; and (e) requiring the person to compensate any person who has suffered loss or damage.

Notwithstanding the penalties stated in the foregoing paragraph, if the Competition Commission has reasonable cause to believe that (a) a contravention of the First Conduct Rule has occurred; and (b) the contravention does not involve serious anti-competition conduct, the Competition Commission must first issue a warning notice to the undertaking before commencing proceedings in the Competition Tribunal (section 82). “Serious anti-competition conduct” means any conduct that consists of any of the following or any combination of the following: (i) fixing, maintaining, increasing, or controlling the price for the supply of goods or services; (ii) allocating sales, territories, customers or markets for the production or supply of goods and services; (iii) fixing, maintaining, controlling, preventing, limiting or eliminating the production or supply of goods or services, and (iv) bid-rigging practices (section 2(1)).

However, under section 67 of the Competition Ordinance, where a contravention of the First Conduct Rule has occurred and the contravention involves serious anti-competitive conduct, or a contravention of the Second Conduct Rule has occurred, the Competition Commission, may, instead of bringing proceedings in the Competition Tribunal in the first instance, issue an infringement notice to the person against whom it proposes to bring proceedings, offering not to bring those proceedings on the condition that the person makes a commitment to comply with the requirements of the infringement notice.

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## APPLICABLE LAWS AND REGULATIONS

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### Laws and regulations relating to paint and coating products

#### *Dangerous Goods Ordinance (Chapter 295 of the Laws of Hong Kong)*

The Dangerous Goods Ordinance regulates the usage, storage, manufacturing, and conveyance of the dangerous goods. The Dangerous Goods Ordinance applies to all explosives, compressed gases, petroleum and other substances giving off inflammable vapours, substances giving off poisonous gas or vapour, corrosive substances, substances which become dangerous by interaction with water or air, and substances liable to spontaneous combustion or of a readily combustible nature.

Section 5 of the Dangerous Goods Ordinance provides that the Chief Executive in Council may by regulation provide for the label to be attached to any drum, tin, case, or other package containing dangerous goods and the notices to be affixed to any premises containing dangerous goods. Pursuant to section 6 of the Dangerous Goods Ordinance, no person shall manufacture, store, convey, or use any dangerous goods in excess of the exempted quantity (as stipulated under the Dangerous Goods (General) Regulations (Chapter 295B of the Laws of Hong Kong)) in any premises or places without a licence issued by the director of the Fire Services Department. Any person who contravenes the licensing provisions is guilty of an offence and is liable to a fine of HK\$25,000 and to imprisonment for six months.

The Dangerous Goods (Application and Exemption) Ordinance (Chapter 295A of the Laws of Hong Kong) classifies paints, lacquers and varnishes, and paint thinners as Category 5 dangerous goods (substances giving off inflammable vapour). Under regulation 99 of the Dangerous Goods (General) Regulation, no person shall store or convey any container containing any Category 5 dangerous substance unless the container is enclosed in specified protective or outer packing which bears the prescribed labels. Contravention of this regulation constitutes a summary offence and shall subject the person to a fine of HK\$5,000 and imprisonment for two months.

#### *Air Pollution Control Ordinance (Chapter 311 of the Laws of Hong Kong)*

The Air Pollution Control Ordinance is the principal legislation in Hong Kong for managing air quality. The Air Pollution Control (Volatile Organic Compounds) Regulation (Chapter 311W of the Laws of Hong Kong), a subsidiary regulation of the Air Pollution Control Ordinance, imposes limitation on VOC content of, amongst other things, 51 types of architectural paint and coating products, to reduce the emissions of VOC to the atmosphere. The applicable maximum limits of VOC content of the regulated architectural paint and coating products are prescribed in Schedule 1 of the Air Pollution Control (Volatile Organic Compounds) Regulation.

The Air Pollution Control (Volatile Organic Compounds) Regulation applies to importers or manufacturers of the specified regulated products. An importer means a person by whom a regulated product is brought into Hong Kong, which includes a person who at or immediately after the time a regulated product is brought into Hong Kong, is in possession of or entitled to the custody or control of the product, whether as owner, consignee, agent, or broker.



## **APPLICABLE LAWS AND REGULATIONS**

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Under the Air Pollution Control (Volatile Organic Compounds) Regulation, importers or manufactures of the regulated architectural paint and coating products: (a) shall not import or manufacture a regulated architectural paint and coating products that has a VOC content in excess of the prescribed limit; (b) shall disclose specified information relating to the regulated architectural paint and coating products in the Material Safety Data Sheets, trade catalogues, packaging, or containers of any regulated architectural paint and coating products; (c) shall make notifications to the Environmental Protection Department prior to the local sale or use of the regulated architectural paint and coating products; (d) shall report to Environmental Protection Department the annual sales amount and other requested information of the regulated architectural paint and coating products; (e) shall keep records for at least three years of the sales amount and other information reported to the Environmental Protection Department.

Failure to comply with the statutory VOC content limits constitutes an offence and the person is liable on conviction to a fine of HK\$200,000 and to imprisonment for six months. Contravention of the disclosure, reporting, notification, and keeping of records requirements will subject the convicted person to a fine of HK\$50,000 and three months’ imprisonment.

### **Laws and regulations relating to employee’s obligations**

#### *Employment Ordinance (Chapter 57 of the Laws of Hong Kong)*

The Employment Ordinance is the main piece of Hong Kong legislation governing conditions of employment in Hong Kong. It provides for, amongst other things, the payment of wages, the restrictions on wages deductions, the granting of statutory holidays, and the termination of employment contract. In addition to these basic protections, employees who are employed under a continuous contract are further entitled to benefits such as rest days, paid annual leave, sickness allowance, severance payment, and long service payment.

#### *Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong)*

The Mandatory Provident Fund Schemes Ordinance provides for, inter alia, the establishment of non-governmental mandatory provident funds schemes (the “**MPF Scheme**”) for members of the workforce for the purpose of accruing financial benefits on retirement.

Unless otherwise exempted, employers are required to enroll their employees who are at least 18 but under 65 years of age and employed for not less than 60 days in a MPF Scheme. Both the employers and the employees are each required to contribute 5% of the employees’ relevant income to the MPF Scheme, subject to the minimum and maximum relevant income levels, which are HK\$7,100 per month and HK\$30,000 per month respectively.

An employer who, without reasonable excuse, fails to comply with the contribution requirement commits an offence and is liable to a fine of HK\$100,000 and an imprisonment of six months on the first conviction, and a fine of HK\$200,000 and twelve months’ imprisonment on each subsequent conviction.

## **APPLICABLE LAWS AND REGULATIONS**

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### *Minimum Wage Ordinance (Chapter 608 of the Laws of Hong Kong)*

The Minimum Wage Ordinance stipulates that an employee is entitled to be paid wages no less than the statutory minimum wage rate during the wage period. Currently, the statutory minimum hourly wage rate is HK\$32.5. Any employment contract that purports to extinguish or reduce any right, benefit, or protection conferred on the employee by the Minimum Wage Ordinance is void. Failure to comply with the statutory minimum wage rate requirement constitutes an offence under the Employment Ordinance.

The Minimum Wage Ordinance applies to all employees being engaged under a contract of employment under the Employment Ordinance, except those employed as domestic workers in, or in connection with, a household and who dwell in that household free of charge, student interns, and work experience students during a period of exempt student employment.

### *Occupational Safety and Health Ordinance (Chapter 509 of the Laws of Hong Kong)*

The Occupational Safety and Health Ordinance aims to enhance safety and health protection to employees in workplaces, both industrial and non-industrial, by imposing a statutory duty on the employers to ensure the workplaces are reasonably safe.

Section 6 of the Occupational Safety and Health Ordinance provides that, every employer must, so far as reasonably practicable, ensure the safety and health of their employees in their workplaces. Safety measures include: (a) provide and maintain reasonably safe plant and work systems; (b) make arrangements in connection with the safe use, handling, storage or transport of articles or substances; (c) provide all necessary safety related information, instruction, training and supervision; (d) provide and maintain safe access to and egress from the workplaces; and (e) provide and maintain a safe and healthy work environment.

Failure to comply with the above statutory duty constitutes an offence and the employer is liable on conviction to a fine of HK\$200,000. An employer who fails to do so intentionally, knowingly, or recklessly is liable to a fine of HK\$200,000 and to imprisonment for six months upon conviction.

In addition to the penalties mentioned in the foregoing paragraph, the Commissioner of Labour may issue an improvement notice requiring the employer to remedy the contravention within a specified period or to refrain from continuing or repeating the contravention, and/or a suspension notice if there is any condition on the premises which may create an imminent risk of death or serious bodily injury. Contravention of such notices without reasonable excuse constitutes an offence and is punishable by a fine of HK\$200,000 and HK\$500,000, respectively, and imprisonment of up to twelve months.

### *Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong)*

The Employees' Compensation Ordinance establishes a no-fault, non-contributory employee compensation system for work injuries and lays down the rights and obligations of employees and employers respectively in respect of accidents arising out of and in the course of employment, or in respect of prescribed occupational diseases suffered by the employees. It applies equally to full-time and part-time employees who are employed under service contracts or apprenticeship. Employees who are injured while working outside Hong Kong are also covered if they are employed in Hong Kong by an employer carrying on business in Hong Kong.

## **APPLICABLE LAWS AND REGULATIONS**

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If an employee sustains an injury or dies as a result of an accident arising out of and in the course of his employment, his employer is generally liable to pay compensation under the Employees' Compensation Ordinance. An accident is deemed to arise out of and in the course of an employment even if the employee was acting in contravention of any statutory or other regulation applicable to his employment, or of any orders given by or on behalf of his employer, or that he was acting without instructions from his employer, if such act was done by the employer for the purposes of and in connection with his employer's trade or business. Notwithstanding the no-fault compensation system, the court will disallow award if the employee deliberately aggravated the injury or the injury is attributable to the serious and wilful misconduct of that employee.

Pursuant to section 40 of the Employees' Compensation Ordinance, all employers are required to take out insurance policies to cover their liabilities both under the Employers' Compensation Ordinance and at common law for injuries sustained by their employees in the course of their employments for an amount not less than the applicable prescribed amount. Currently, the applicable amount is HK\$100 million per event where the number of employees in relation to whom the policy is in force does not exceed 200, and the applicable amount is HK\$200 million per event where the number of employees in relation to whom the policy is in force exceeds 200. Failure to comply with the compulsory insurance requirement constitutes an offence and is punishable by a fine of HK\$100,000 and imprisonment of up to two years.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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### OVERVIEW

Our Company was incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on 19 September 2016. As part of the Reorganisation, our Company became the holding company of our Group. Further information of our corporate structure and the Reorganisation is set forth in the paragraphs under “Reorganisation” below.

Prior to the Spin-Off and the [REDACTED], the Paint Business was one of the business segments of the CNT Group. Following completion of the Spin-Off and the [REDACTED], the Remaining Businesses, comprising the Investment Property Business, the Trading Business and the Other Business, will be the principal business activities of the Remaining Group.

### OUR BUSINESS DEVELOPMENT

Our business was founded in Hong Kong in 1932 with all our production facilities in Hong Kong during the period between 1930s and 1980s. Throughout the previous decades of business operations alongside the development of the manufacturing industries in Hong Kong, our brands of “*Flower* (菊花牌)” and “*Giraffe* (長頸鹿牌)” have been recognised as renowned brands of paint and coating products in Hong Kong. Since 1970s, with the economic open-door policy implemented in the PRC, we gradually relocated our production facilities to the PRC. As of the date of this [REDACTED], all our production facilities are situated at four strategic locations in the PRC, namely Shajing Production Plant, Ezhou Production Plant, Xuzhou Production Plant and Xinfeng Production Plant. We have our headquarters in Hong Kong supporting the sales and marketing activities in Hong Kong and the coordination of the production activities in the PRC. The following sets forth a summary of our business development.

#### Commencement and early development of our business

Our business can be traced back to 1932 when the late Mr. LAM Kwan established China Paint Manufacturing Company in Hong Kong to run a paint manufacturing business. In 1946, China Paint (1932) was incorporated as a public company to take over the business of China Paint Manufacturing Company.

The growth in the construction industry and the manufacturing industries of toy, electronics and electrical appliance in Hong Kong and other Asian countries throughout the 1970s facilitated the rapid expansion of the business of China Paint (1932).

The implementation of the economic open door policy in the PRC in 1978 marked the beginning of Hong Kong manufacturers, principally in the toy, electronics and electrical appliance manufacturing industries, relocating their production facilities to the PRC. This development not only led to the growth of the construction and manufacturing industries in the PRC, but also created a steady demand for paint and coating products in the PRC domestic market.

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## **HISTORY, DEVELOPMENT AND REORGANISATION**

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China Paint (1932) recognised the need to expand production capacity in Hong Kong. In 1986, China Paint (1932) commenced the construction in two phases of its production facilities and headquarters in Tui Min Hoi, Sai Kung, Kowloon, Hong Kong. The first phase, comprising production facilities with a total gross floor area of approximately 100,000 sq. ft., was completed in 1988. Upon completion of the second phase in 1990, the headquarters of China Paint (1932) moved into the new headquarters which together with the first phase comprise a total gross floor area of approximately 162,000 sq. ft.. The premises are duly licenced to store and manufacture paint products under the Dangerous Goods Ordinance. The premises will not form part of our properties as they are currently leased by the Remaining Group to Independent Third Parties. We currently lease certain areas of the premises, further information on which is set forth in the section headed “Continuing Connected Transactions – Non-exempt continuing connected transactions” in this [REDACTED].

To facilitate the [REDACTED] of CNT on the Stock Exchange, CNT became the ultimate holding company of China Paint (1932) and its subsidiaries in April 1991. The Paint Business was the core business at the time of listing of CNT on the Stock Exchange.

As set forth in this section, the Paint Business was the original business of CNT when it was listed on the Main Board in May 1991. Throughout the last close to three decades of business operations, the Paint Business recorded steady growth in terms of revenue and profitability. Our Directors consider that one of the principal reasons for such growth was the continuous economic development in the PRC as a result of its open-door economic policy, the increase in the urban population in the PRC and the continuous improvements in their living standards. With the rapid development of the PRC residential and commercial property markets, the demand for wood coating products with trusted brands continued to increase. The relocation of our production facilities initially to Shenzhen and then to other cities in Central and Southern China, at which we enjoyed low labour cost, also facilitated the continuous improvements in the profitability of the Paint Business in the PRC, particularly with the well-recognised brands originated in Hong Kong.

The demand for our paint and coating products was affected by, amongst other factors, the prosperity of the real property market in the PRC as well as our strategies. The revenue of the Paint Business experienced decreases in 2012 because of the PRC Government’s policy to restraint the rapid real property price rises and in 2015 mainly due to our profit margin maintaining pricing policy as further described in the section headed “Financial Information – Sustainability of our business in light of the deteriorating performance during the year ended 31 December 2015” in this [REDACTED].

The profitability of the Paint Business was also affected by the prices of our raw materials which were driven by the demand and supply balance of solvent, resin and titanium dioxide. There was significant increase in the prices of these raw materials in 2010 to 2012 and followed by continuous decreases for a period of four years to 2016. The changes in the cost of raw materials affected our gross profit margin and our overall profitability.

In light of the above, our Directors consider that our business in the past was affected by the cyclical fluctuations in the demand level of paint and coating products as a result of economic development as well as the raw material prices. Our Directors believe that these factors will continue to affect our performance, but to a lesser extent, primarily due to the product and market diversification strategies as set forth in the section headed “Business – Our business strategies” in this [REDACTED].

Although the financial performance of our Group deteriorated in 2015, our financial performance rebounded in 2016 because of the business initiatives implemented by us, further information on which is set forth in the section headed “Financial information – Sustainability of our business in light of the deteriorating performance during the year ended 31 December 2015 – Reasons for the substantial decrease in our revenue in 2015” and “– Improved performance for the year ended 31 December 2016” in this [REDACTED].

## HISTORY, DEVELOPMENT AND REORGANISATION

Following the relocation of our production facilities to the PRC in 1980s, our headquarters in Hong Kong and our administrative offices have been moved to CNT Tower in Wanchai since April 1999. Part of the premises in Sai Kung were used as the production workshop of the Paint Business. As of the date of this [REDACTED], we leased from the Remaining Group the premises in Sai Kung as the transshipment hub for our paint and coating products delivered from our production facilities in the PRC to our customers in Hong Kong, further information on which is set forth in the section headed “Continuing Connected Transactions” in this [REDACTED].

### Business milestones

The following sets forth the business milestones of our business since the inception of business in 1932:

Year	Business milestones
1932	The late Mr. LAM Kwan established China Paint Manufacturing Company in Hong Kong. China Paint Manufacturing Company established “ <i>Flower (菊花牌)</i> ” brand and engaged in the production and sale of paint products including enamel, paints and pigments and varnishes, etc..
1988	China Paint (1932) constructed the first phase of the factory building in Sai Kung for relocation of the production facilities.
1991	China Paint (1932) established China Paint Shenzhen. The new production plant, with the total area of 60,000 sq. m. has the annual production capacity of 130,000 tonnes.  China Paint (1932) became the major subsidiary of CNT, which has been listed on the Stock Exchange from May 1991.
1992	China Paint (1932) and an Independent Third Party established Hubei Giraffe in Ezhou City, Hubei Province, the PRC with the production facilities occupying a total area over 20,000 sq. m.
2000	China Paint (1932) entered into technical cooperation with Resene Paints, incorporating new technology of producing water-based products including Enamacryl, Enamacryl Metallics and Lustacryl.
2004	China Paint (1932) established Shanghai Giraffe for the purpose of constructing a production base with the total area of approximately 30,000 sq. m.
2006	“ <i>Giraffe (長頸鹿牌)</i> ” and “ <i>Flower (菊花牌)</i> ” of China Paint Shenzhen became the first selected group in the “Government Green Purchase System” in the PRC.  “ <i>Flower (菊花牌)</i> ” of China Paint (1932) was awarded as “ <i>Hong Kong Top Brand</i> ”.

## HISTORY, DEVELOPMENT AND REORGANISATION

Year	Business milestones
2007	<p>China Paint (1932) was renamed from “The China Paint Manufacturing Company (1946) Limited” to “The China Paint Manufacturing Company (1932) Limited”.</p> <p>China Paint (1932) was selected as one of the exterior architectural paint and coating suppliers for the 2008 Beijing Olympic Games.</p> <p>“Flower (菊花牌)” of China Paint (1932) was awarded as “Hong Kong Top Brand”.</p>
2008	<p>“Flower Anti-Formaldehyde Odour-Less Interior Emulsion Paint (FPA Series)” of China Paint (1932) was accredited with “Eco-product Certification” (ECS) by Hong Kong Green Council (環保促進會), a non-profit making environmental association in Hong Kong, fulfilling the requirements of “ISO Guide 65” and “System 5 of ISO Guide 67”.</p> <p>“Flower (菊花牌)” of China Paint (1932) was awarded as “Hong Kong Top Brand”.</p>
2009	<p>China Paint (1932) commenced the construction of the Xinfeng Production Plant which commenced trial operation in 2013.</p> <p>China Paint Shenzhen was awarded the title of “High and New Technology Enterprise”, which represents that China Paint Shenzhen has attached great importance to its research and development and highly emphasised its research and development for new technology, product and technique.</p> <p>“Flower (菊花牌)” of China Paint (1932) was awarded as “Hong Kong Brands Award”.</p> <p>“Flower (菊花牌)” of China Paint (1932) was awarded as “Hong Kong Top Brand”.</p>
2010	<p>China Paint (1932) was awarded the “Prime Award for the Best Brand Enterprise in Greater China” (盛世大中華企業品牌年獎), which highlights its recognition to its products and services.</p> <p>“Flower (菊花牌)” of China Paint (1932) was awarded as “Hong Kong Top Brand”.</p>



## HISTORY, DEVELOPMENT AND REORGANISATION

Year	Business milestones
2011	<p>“Flower (菊花牌)” of China Paint Shenzhen was awarded the title of “Green, Environment-friendly and Energy-saving Building Materials in China” (中國綠色、環保、節能建材產品).</p> <p>China Paint Shenzhen was rated “Grade AAA” in the corporate credit rating, which implies that the capital strength and credit of China Paint Shenzhen has been highly recognised by authoritative institutions.</p> <p>Wood coating of “Giraffe (長頸鹿牌)” of China Paint Shenzhen has been awarded “Guangdong Province Top Brand (Industrial Category) Product” (工業類廣東省名牌產品) for three consecutive times, which highlights the quality and credit of China Paint Shenzhen has been recognised by the industry and society.</p> <p>“Flower (菊花牌)” of China Paint (1932) was awarded as “Hong Kong Top Brand”.</p>
2012	<p>China Paint Shenzhen obtained Grade AAAA “Good Standardising Practice” Certificate (「標準化良好行為」AAAA級證書) issued by Administration of Quality and Technology Supervision of Guangdong Province, which confirms that the standard system built by China Paint Shenzhen is reasonable in its structure and has been operated effectively.</p> <p>“Flower (菊花牌)” of China Paint (1932) was awarded as “Hong Kong Top Brand”.</p>
2013	<p>“Flower (菊花牌)” of China Paint (1932) was awarded as “Hong Kong Top Brand”.</p> <p>China Paint Shenzhen established an online shop on Tmall (天貓) for online sales.</p> <p>China Paint Shenzhen expanded its product portfolio to the market of water-proof coating, and launched water-proof slurry in the market.</p> <p>China Paint Shenzhen was awarded various titles including “Top 10 of Chinese Local Architectural Coating Brands” (中國建築塗料行業十大民族品牌), “Top 10 Outstanding Enterprises in Guangdong Coatings Industry” (廣東塗料十大優秀企業), and “The Coatings Flagship Enterprise in Guangdong” (廣東塗料旗艦企業).</p>
2014	<p>“Flower (菊花牌)” of China Paint (1932) was awarded as “Hong Kong Top Brand”.</p>



## HISTORY, DEVELOPMENT AND REORGANISATION

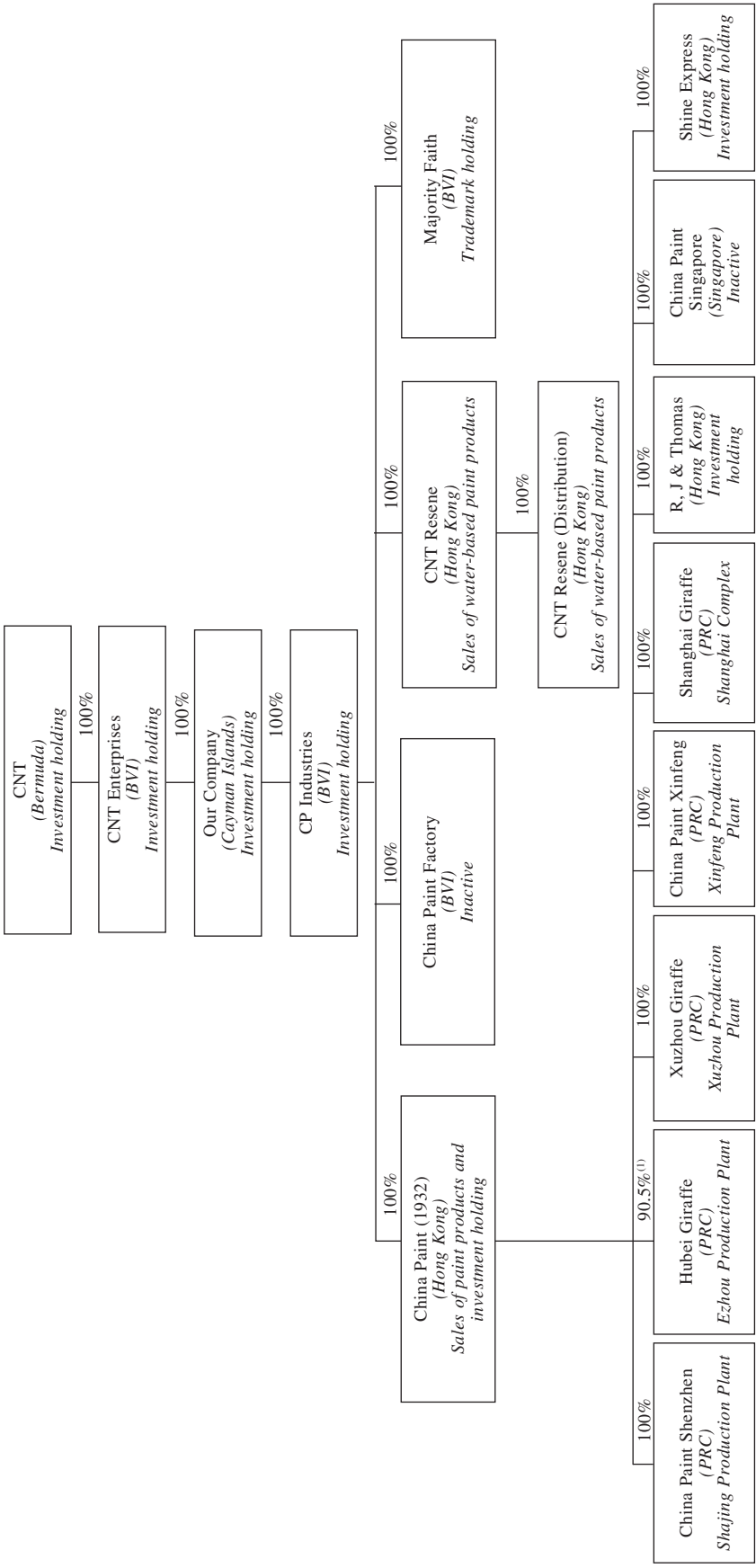
Year	Business milestones
2015	<p>“Flower (菊花牌)” of China Paint Shenzhen was awarded as “Shenzhen Famous Brand” (深圳知名品牌).</p> <p>“Giraffe (長頸鹿牌)” of China Paint Shenzhen was awarded as “China’s Top 10 Waterproof Coatings Brand in China” (中國十大防水塗料品牌).</p> <p>“Flower (菊花牌)” of China Paint (1932) was awarded as “Hong Kong Top Brand”.</p> <p>China Paint Shenzhen was awarded as “Most Influential Enterprises within Hundred Years in China Coating Industry 2015” (2015年中國塗料工業百年影響力企業).</p> <p>“Giraffe (長頸鹿牌)” of China Paint Shenzhen was awarded as “Top Brand in China Wood Coatings Industry Award 2015” (2015中國木器塗料名牌獎).</p> <p>CNT Resene (Distribution) launched the brand of “Resene”, a water-based and environmental-friendly architectural paint and coating product in Hong Kong. “Resene” is a renowned brand in New Zealand.</p> <p>CNT Resene launched the brand of “ZICERA”, a water-based and environmental-friendly architectural paint and coating product in Hong Kong.</p>
2016	<p>“Giraffe (長頸鹿牌)” of China Paint Shenzhen was awarded as the “Guangdong Province Top Brand Product” (廣東省名牌產品).</p> <p>“Flower (菊花牌)” of China Paint (1932) was awarded as “Hong Kong Top Brand”.</p> <p>China Paint Shenzhen started the brand promotion at mobile platform and registered a service account at WeChat for the provision of news about our business and launching promotion.</p> <p>China Paint Shenzhen established an online store on JD.com (京東) for online sales in the PRC.</p> <p>China Paint (1932) entered into a licence agreement with Resene Paints in respect of the granting of the use of its trademarks to the Group in 2016.</p>
2017	<p>“Flower (菊花牌)” of China Paint (1932) was awarded as “Hong Kong Top Brand”.</p>

HISTORY, DEVELOPMENT AND REORGANISATION

OUR CORPORATE STRUCTURE IMMEDIATELY BEFORE COMPLETION OF THE SPIN-OFF AND THE [REDACTED]

Our corporate and shareholding structure

The following diagram illustrates the shareholding structure and the corporate structure of our Group following completion of the Reorganisation and immediately before completion of the Spin-Off and the [REDACTED].



Note:

<sup>(1)</sup> The remaining equity interest of 9.5% was held by an Independent Third Party.

## **HISTORY, DEVELOPMENT AND REORGANISATION**

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### **CNT as our holding company prior to the Spin-Off and the [REDACTED]**

CNT is a company with all of its shares listed on the Main Board since 21 May 1991. Prime Surplus Limited and Chinaculture.com Limited were substantial shareholders of CNT as of the Latest Practicable Date. Further information on the substantial shareholders of CNT is set forth in the section headed “Controlling Shareholders and Substantial Shareholders” in this [REDACTED].

Our Group had been operating under CNT during the Track Record Period and prior to the Spin-Off and the [REDACTED]. CNT is currently engaged in the Investment Property Business, the Trading Business and the Other Business. Further information on the Reorganisation is set forth in the paragraphs under “Reorganisation” below.

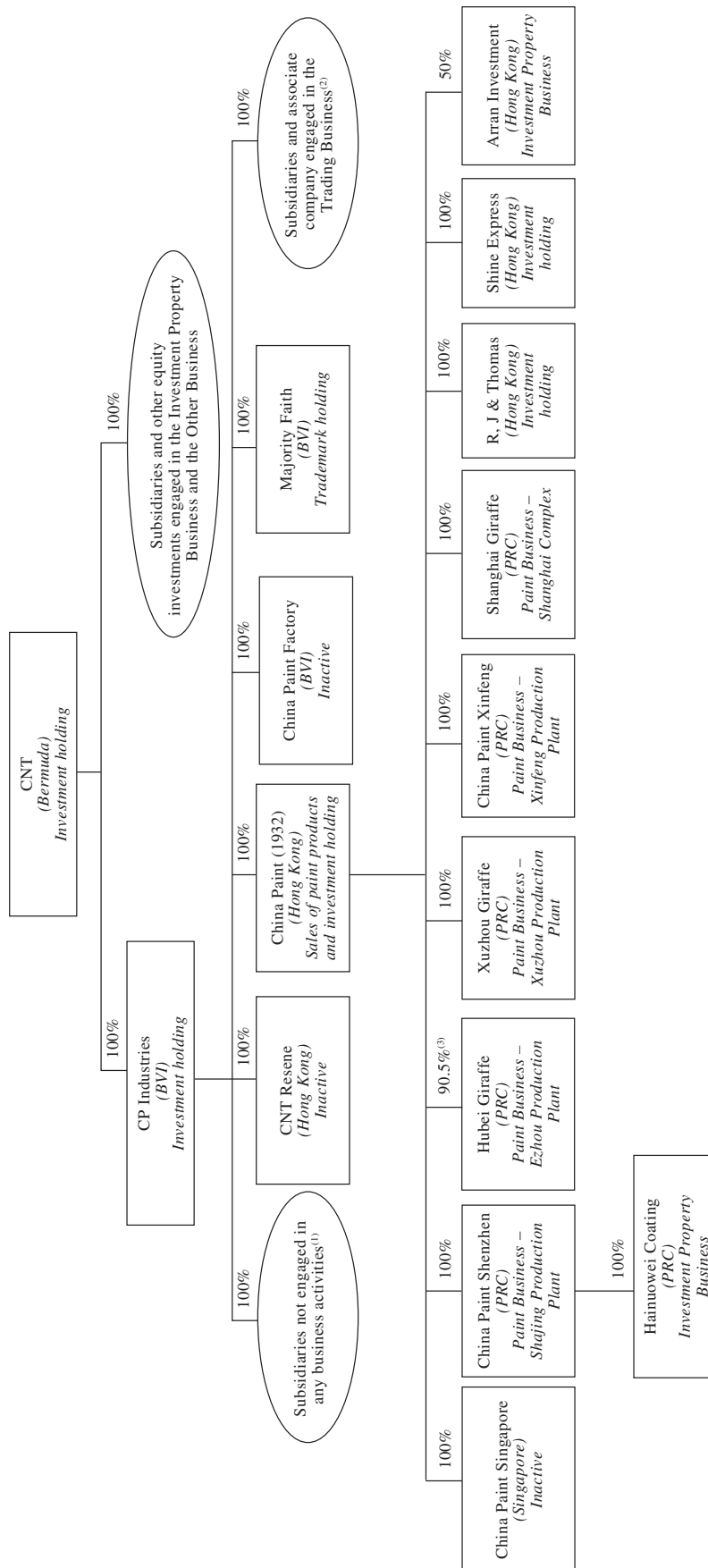
### **REORGANISATION**

#### **Introduction**

The purpose of the Reorganisation is to streamline the corporate structure of the Paint Business for the purpose of the Spin-Off and the [REDACTED], further information on which is set forth in the section headed “Spin-Off and [REDACTED]” in this [REDACTED]. The principal steps of the Reorganisation also include the incorporation of the Company as the holding company of our Group.

## HISTORY, DEVELOPMENT AND REORGANISATION

The following diagram illustrates the shareholding structure and the corporate structure of the Paint Business under the CNT Group as of 1 January 2013, being the commencement date of the Track Record Period, prior to completion of the Reorganisation:



Notes:

- (1) These subsidiaries included CNT (Malaysia) Limited, CNT (Singapore) Limited, CNT (1932) Limited, The China Paint Manufacturing Company (1946) Limited and Wise Crest Enterprises Limited.
- (2) These subsidiaries and associate company included CNT Iron And Steel Limited, CNT Tin Plate Limited and CNT Iron And Steel Trading Company Limited.
- (3) The remaining equity interest of 9.5% was held by an Independent Third Party.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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### Detailed steps of the Reorganisation

#### *Incorporation of our Company and our Company became the holding company of our Group*

On 19 September 2016, our Company was incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability with an authorised share capital of HK\$380,000 divided into 3,800,000 Shares of par value of HK\$0.10 each. On the same day, one share of HK\$0.10 was allotted and issued to the initial subscriber at par value.

On 19 September 2016, the initial subscriber of our Company transferred one Share to CNT Enterprises for the consideration of HK\$0.10. On 11 November 2016, the authorised share capital of our Company was increased from HK\$380,000 divided into 3,800,000 Shares to HK\$[REDACTED] divided into [REDACTED] Shares by the creation of an additional [REDACTED] Shares.

In addition, on [REDACTED], all shares of CP Industries, being the holding company of the Paint Business prior to completion of the Reorganisation, have been transferred from CNT to our Company for the consideration of [REDACTED] Shares allotted and issued by our Company to CNT Enterprises and as a result, CNT Enterprises held 100 Shares in issue. The name of CP Industries has been changed from “CNT Industries (BVI) Limited” to “CP Industries (BVI) Limited” on 30 June 2016.

#### *Transfer of the shareholding in the companies carrying on the Trading Business*

Prior to completion of the Reorganisation, the subsidiaries of CNT carrying on the Trading Business were held by CP Industries. For the purpose of facilitating the Spin-Off and the [REDACTED], all shares of CNT Iron And Steel Limited (formerly known as Dalway Investments Limited), a company incorporated in the BVI on 7 December 1993 and the holding company of the companies carrying on the Trading Business, have been transferred from CP Industries to CNT for the consideration of HK\$10,521,563 on 31 December 2015. The amount of consideration was based on the net asset value of CNT Iron And Steel Limited as of 31 December 2015 and was settled through the amount due to and due from between our Group and the Remaining Group. Further information on the amount due to and due from between our Group and the Remaining Group is set forth in the section headed “Financial Information – Principal components of our current assets and current liabilities – Amount due to and due from the Remaining Group” in this [REDACTED].

#### *Transfer of shares of the inactive companies to the Remaining Group*

On 31 December 2015, all shares of CNT (Malaysia) Limited, CNT (Singapore) Limited, CNT (1932) Limited and The China Paint Manufacturing Company (1946) Limited have been transferred from CP Industries to CNT (BVI) Limited (formerly known as CPM Industries (BVI) Limited), a company incorporated in the BVI and a wholly-owned subsidiary of CNT, for such amount of cash consideration representing the respective par value of the shares transferred. The amount of consideration was settled in full on 31 December 2015.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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The purpose of the transfers is to streamline the corporate structure of our Group. These companies were inactive throughout the Track Record Period and are inactive as of the date in this [REDACTED] and the references to “China Paint” in their corporate names have been changed, except for the name of “The China Paint Manufacturing Company (1946) Limited” which the directors of CNT believe that the name of such company has its historical meaning on our Group.

### *Transfer of equity interest in Hainuowei Coating to the Remaining Group*

On 31 October 2016, all equity interest of Hainuowei Coating has been transferred from China Paint Shenzhen to 深圳北海裕聯投資諮詢有限公司 (formerly known as 深圳北海泛波投資諮詢有限公司), a wholly-owned subsidiary of CNT, for cash consideration of RMB5,000,000. The amount of consideration was based on the amount of registered capital of Hainuowei Coating and was settled in full before [REDACTED] as part of the settlement of the amount due to and from the Remaining Group. Hainuowei Coating has not conducted any business activities, but holds investment properties in Beijing, Guangzhou, Shenzhen and Shanghai. Our Directors consider that the transfer was part of the Reorganisation for delineation of business between our Group and the Remaining Group.

### *Transfer of shares of Arran Investment to the Remaining Group*

Prior to completion of the Reorganisation, China Paint (1932) was interested in 50% of the issued share capital of Arran Investment and the remaining 50% was held by Independent Third Parties. As Arran Investment was not engaged in the Paint Business during the Track Record Period and is engaged in the Investment Property Business with its main assets including certain shop premises in Hong Kong, the shares in Arran Investment held by China Paint (1932) have been transferred to Fan Ball Development Limited 泛波發展有限公司, a wholly-owned subsidiary of CNT, for cash consideration of HK\$2,020,998 on 17 August 2016. The amount of the consideration was based on the latest available net assets value of Arran Investment as of 31 July 2016 and was settled in full on 17 August 2016 as part of the settlement of the amount due to and due from the Remaining Group.

### **Change of names of the subsidiaries in the Remaining Group**

During the period between June 2016 and July 2016, the names of the subsidiaries in the Remaining Group (other than those in the process of deregistration or winding up) containing the words of “China Paint” have been changed to other names without any reference to such words for the purpose of the Spin-Off and the [REDACTED], except for the name of “The China Paint Manufacturing Company (1946) Limited” which the directors of CNT believe that the name of such company has its historical meaning on our Group.

## **HISTORY, DEVELOPMENT AND REORGANISATION**

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### **OUR CORPORATE HISTORY**

#### **Our Company**

Our Company was incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on 19 September 2016. Further information on our Company is set forth in the paragraphs under “A. Further information about our Company – 2. Changes in share capital of our Company” in Appendix IV to this [REDACTED]. Our Company does not carry on any business activities. For the purpose of the Spin-Off and the [REDACTED], our Company has become the holding company of the Group, following completion of the Reorganisation.

As of the Latest Practicable Date, our Group comprised our Company and 14 subsidiaries established in the BVI, Hong Kong, the PRC and Singapore. Members of our Group commenced business from the respective dates of their incorporation.

#### **Our subsidiaries**

The following sets forth the corporate history of members of our Group. Certain members of the Group have been incorporated for close to 70 years and hence, the following is a summary of the corporate history of those companies highlighting the corporate development of those companies which are considered important by our Directors.

##### *CP Industries*

On 7 December 1993, Lamell Limited was incorporated in the BVI as a limited liability company with an authorised share capital of US\$50,000 divided into 50,000 shares with a par value of US\$1.00 each. On 31 December 1993, one share was allotted and issued to CNT.

The name of Lamell Limited was changed to “CNT Industries (BVI) Limited” on 2 February 1994. Since 30 June 2016, the name of the company has been changed to “CP Industries (BVI) Limited” as part of the Reorganisation.

On 17 November 1994, written resolutions of the sole shareholder were passed to increase the authorised share capital from US\$50,000 to US\$4,000,000 by creating 3,950,000 additional shares of a par value of US\$1.00 each. On 5 December 1994, a further of 1,635,511 shares were allotted and issued to CNT.

On [REDACTED], the 1,635,512 shares of CP Industries have been transferred from CNT to our Company for the consideration of 99 Shares to be allotted and issued by our Company to CNT Enterprises.

CP Industries is a wholly-owned subsidiary of our Company and an investment holding company.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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### *China Paint (1932)*

On 3 June 1946, The China Paint Manufacturing Company (1946) Limited was incorporated in Hong Kong as a limited liability company. The name of the company has been changed to “The China Paint Manufacturing Company (1932) Limited 中華製漆 (一九三二) 有限公司” from 18 October 2007.

On 20 January 2016, CNT Nominees Limited, a wholly-owned subsidiary of CNT, transferred one nominee ordinary share in China Paint (1932) to CP Industries as part of the Reorganisation.

As of the Latest Practicable Date, China Paint (1932) had an issued share capital of HK\$1,961,300, comprising 35,226 non-voting deferred shares and 4,000 ordinary shares. CNT held all the issued non-voting deferred shares and CP Industries held all the issued ordinary shares of China Paint (1932).

China Paint (1932) is a wholly-owned subsidiary of our Company and is principally engaged in the sales of paint products and investment holding.

### *China Paint Factory*

China Paint Factory is a company with limited liability incorporated in the BVI on 24 September 1991 with an authorised share capital of US\$50,000 divided into 50,000 shares with a par value of US\$1.00 each. On 18 October 1991, one share was allotted and issued to CNT and was subsequently transferred to CP Industries on 5 December 1994.

China Paint Factory is a wholly-owned subsidiary of our Company and does not engage in any business activities as of the date of this [REDACTED].

### *China Paint Shenzhen*

On 21 October 1991, 中華製漆 (深圳) 有限公司 (The China Paint Co. (Shenzhen) Ltd.\*) was established in the PRC as a company with limited liability with an initial registered capital of HK\$50,000,000, all of which was contributed by China Paint (1932). On 29 September 2005, the registered capital of China Paint Shenzhen was increased to HK\$70,000,000. China Paint Shenzhen is a wholly-owned subsidiary of our Company.

The approved scope of business of China Paint Shenzhen includes the exploration, product development, production and dealing of various paints, coatings, thinners, mixed solvent-extracted oils and related technology consulting services. Additional business: wholesale of paint brushes, paint rollers, construction materials and decoration materials (excluding franchised, controlled and monopolised commodities and restricted items). Additional business: non-business transportation of dangerous goods (Type 3) (Name of dangerous goods: nitrocellulose enamel; nitrocellulose lacquer thinner; polyester resin varnish; polyester paint thinner; epoxy enamel; amino baking varnish; polyester resin insulating paint; alkyd varnish). China Paint Shenzhen is principally engaged in the production and sales of paint products at our Shajing Production Plant. China Paint Shenzhen has 13 branch companies currently and/or representative offices in 11 strategic locations in the PRC for sales promotion and coordination activities.

The name of the company has been changed to 中華製漆 (深圳) 有限公司 (The China Paint Manufacturing (Shenzhen) Co., Ltd.\*) on 22 March 1996.



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## HISTORY, DEVELOPMENT AND REORGANISATION

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### *Hubei Giraffe*

On 11 June 1992, 湖北中鄂製漆有限公司 (Hubei Zhonghe Paint Mfg Co., Ltd\*) was established in the PRC as a company with limited liability with an initial registered capital of RMB20,000,000, of which China Paint (1932) contributed RMB10,000,000 (representing 50% of the registered capital) and an Independent Third Party contributed RMB10,000,000 (representing 50% of the registered capital). RMB6,000,000 out of the amount of RMB10,000,000 in the registered capital of Hubei Giraffe contributed by the Independent Third Party was actually contributed by three other Independent Third Parties.

Pursuant to the equity interests transfer agreement dated 24 October 1996, each of the three Independent Third Parties transferred 10% equity interest in Hubei Giraffe held in trust by the Independent Third Party to China Paint (1932) for a consideration of RMB2,300,000. As a result of the above transfer, Hubei Giraffe was owned by China Paint (1932) as to 81% and the Independent Third Party as to 19%.

Pursuant to the shareholders' agreement dated 24 October 1996 entered into between China Paint (1932) and the Independent Third Party, the registered capital of Hubei Giraffe was increased to RMB40,000,000. The additional registered capital was contributed by China Paint (1932). As a result of the increase in registered capital, Hubei Giraffe was owned by China Paint (1932) as to 90.5% and the Independent Third Party as to 9.5%.

The name of the company has been changed to 湖北長頸鹿製漆有限公司 (Hubei Giraffe Paint Mfg. Co., Ltd.\*) on 29 August 2007.

Hubei Giraffe is a non wholly-owned subsidiary of our Company.

The approved scope of business of Hubei Giraffe includes the production and sale of paint products (free of resin) (licenced business project only be carried out after getting the approval by relevant authorities). Hubei Giraffe is principally engaged in the production and sales of paint products at our Ezhou Production Plant.

### *Xuzhou Giraffe*

On 9 August 2004, 北海溶劑(徐州)有限公司 (CNT Solvents Co., (Xuzhou) Ltd.\*) was established in the PRC as a company with limited liability with an initial registered capital of US\$2,000,000, all of which was contributed by China Paint (1932). Xuzhou Giraffe is a wholly-owned subsidiary of our Company.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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The approved scope of business of Xuzhou Giraffe includes the production of dangerous chemical products (within the scope of operation specified on the licence); the exploration, product development, production and processing of solvents, coatings and their raw materials, as well as the sale of self-produced products, the processing and sale of chemical materials, construction materials, detergents for construction materials and the provision of relevant after-sale services (any project that needs to be approved by law only be carried out after getting the approval by relevant authorities). Xuzhou Giraffe is permitted to engage in the production and sale of solvents and paint products at Xuzhou Production Plant and its production activities have been suspended since the end of May 2016 as part of our business strategy to reallocate our production capacity and pending for the grant of the work safety licences for the production of solvent-based paint products.

The name of the company has been changed to 長頸鹿製漆(徐州)有限公司 (Giraffe Paint Mfg. Co., (Xuzhou) Ltd.\*) on 7 January 2008.

### *China Paint Xinfeng*

China Paint Xinfeng is a company with limited liability established in the PRC on 14 September 2007 with an initial registered capital of US\$3,000,000, all of which was contributed by China Paint (1932). The registered capital of China Paint Xinfeng was increased to US\$8,000,000 and US\$13,000,000 on 1 September 2011 and 4 December 2015 respectively. China Paint Xinfeng is a wholly-owned subsidiary of our Company.

The approved scope of business of China Paint Xinfeng includes the exploration, product development, production and sale of coatings, paints, solvent materials and packaging materials, and coating-related business which includes logistic and warehousing business (any project that needs to be approved by law only be carried out after getting the approval by relevant authorities). China Paint Xinfeng is principally engaged in the production and sales of paint products at our Xinfeng Production Plant.

### *Shanghai Giraffe*

On 13 April 2004, 精華製漆(上海)有限公司 (Jinghua Paint Manufacturing Co., (Shanghai) Ltd.\*) was established in the PRC as a company with limited liability with an initial registered capital of US\$900,000, all of which was contributed by China Paint (1932). On 10 October 2007, the registered capital was increased to US\$4,000,000. Shanghai Giraffe is a wholly-owned subsidiary of our Company.

The approved scope of business of Shanghai Giraffe includes the wholesale of chemical products and materials (the operational licences for hazardous chemicals required for hazardous chemical products), and construction and decoration materials (excluding steel and cement), and the provision of relevant ancillary services (excluding any goods subject to the administration of state-run trade, and application for quota or licence according to the relevant state provisions is required for any goods subject to quota control or licensing administration) (any project that needs to be approved by law only be carried out after getting the approval by relevant authorities). Shanghai Giraffe is principally engaged in trading of our paint and coating products.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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The name of the company has been changed to “長頸鹿製漆 (上海) 有限公司 (Giraffe Paint Mfg. Co., (Shanghai) Ltd.\*)” on 9 July 2007.

### *R, J & Thomas*

On 23 December 1977, Winwell Management Limited 永威管理有限公司 was incorporated in Hong Kong with an initial authorised share capital of HK\$50,000 divided into 500 shares with a par value of HK\$100.00 each. The company name has been changed to “R, J & Thomas Secretaries Limited 滙智經理秘書有限公司” on 1 May 1979. On 20 January 2016, CNT Nominees Limited, a wholly-owned subsidiary of CNT, transferred one nominee share in R, J & Thomas to China Paint (1932) as part of the Reorganisation. As of the Latest Practicable Date, R, J & Thomas had an issued capital of HK\$30,000, all of which was held by China Paint (1932).

R, J & Thomas is a wholly-owned subsidiary of our Company and an investment holding company.

### *China Paint Singapore*

China Paint Singapore is a company with limited liability incorporated in Singapore on 28 May 2009 with a share capital of S\$2.00. Upon incorporation, two shares were allotted and issued to the initial subscribers at S\$1.00 each and were subsequently transferred to China Paint (1932) on 29 June 2009 for nominal consideration.

China Paint Singapore is a wholly-owned subsidiary of our Company and is an inactive company.

### *Shine Express*

On 23 June 1993, Shine Express was incorporated in Hong Kong as a limited liability company with an initial authorised share capital of HK\$10,000 divided into 10,000 shares with a par value of HK\$1.00 each. On 20 January 2016, CNT Nominees Limited, a wholly-owned subsidiary of CNT, transferred one nominee share in Shine Express to China Paint (1932) as part of the Reorganisation. As of the Latest Practicable Date, Shine Express had an issued capital of HK\$2.00 held by China Paint (1932).

Shine Express is a wholly-owned subsidiary of our Company and an investment holding company.

### *Majority Faith*

On 16 January 1991, Majority Faith Corporation was incorporated in the BVI as a limited liability company with an authorised share capital of US\$50,000 divided into 50,000 shares of a single class each with a par value of US\$1.00. On 26 March 1991, one share was allotted and issued to the bearer and was subsequently exchanged to registered share in name of CNT on 10 April 1991, and then transferred to CP Industries on 5 December 1994.

The name of the company has been changed to “Majority Faith Corporation 眾信公司” on 4 February 2013.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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Majority Faith is a wholly-owned subsidiary of our Company and is principally engaged in holding certain trademarks of the Group.

### *CNT Resene*

On 23 June 2003, New Hong Kong Petro Chemicals Company Limited 新香港石化有限公司 was incorporated in Hong Kong as a limited liability company with an initial authorised share capital of HK\$10,000 divided into 10,000 shares with a par value of HK\$1.00 each. Upon its incorporation, one share was allotted and issued to each of Smart Secretarial Limited and Smart Registrations Limited, the initial subscribers, respectively.

On 21 July 2006, one share in CNT Resene was transferred from Smart Secretarial Limited to CP Industries and one share in CNT Resene was transferred from Smart Registrations Limited to CNT Nominees Limited, a wholly-owned subsidiary of CNT.

The name of the company has been changed to “CNT Resene Limited” on 14 October 2014 to reflect the new business undertakings of the company.

On 20 January 2016, one nominee share in CNT Resene was transferred from CNT Nominees Limited, a wholly-owned subsidiary of CNT, to CP Industries as part of the Reorganisation. CP Industries is the sole shareholder of CNT Resene.

CNT Resene is a wholly-owned subsidiary of our Company and is principally engaged in the sales of water-based paint products in Hong Kong.

### *CNT Resene (Distribution)*

On 6 February 2015, CNT Resene (Distribution) was incorporated in Hong Kong as a limited liability company. Upon its incorporation, one share was allotted and issued to CNT Resene for cash consideration of HK\$1.00. CNT Resene is the sole shareholder of CNT Resene (Distribution).

CNT Resene (Distribution) is a wholly-owned subsidiary of our Company and is principally engaged in the sales of water-based paint products.

### **Our former subsidiaries**

As part of the Reorganisation, members of our Group have disposed the shares or the equity interest in a number of subsidiaries and associate companies which are either inactive or engaging in the Trading Business or the Other Business. These companies include the following:

- (a) CNT Iron And Steel Limited, together with its subsidiaries and associate company, namely CNT Tin Plate Limited, CNT Iron And Steel Trading Company Limited and 北海鋼鐵(深圳)有限公司, because they are engaged in the Trading Business;
- (b) CNT (Malaysia) Limited, CNT (Singapore) Limited, CNT (1932) Limited and The China Paint Manufacturing Company (1946) Limited because all of these companies were inactive throughout the Track Record Period and remain inactive as of the date of this [REDACTED];

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## HISTORY, DEVELOPMENT AND REORGANISATION

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- (c) Hainuowei Coating because it has not conducted any business activities but holds investment properties in Beijing, Guangzhou, Shenzhen and Shanghai; and
- (d) Arran Investment because it was not engaged in the Paint Business during the Track Record Period and is engaged in the Investment Property Business as of the date of this [REDACTED].

In addition, Wise Crest Enterprises Limited, a company incorporated in the BVI with limited liability, was held by CP Industries from 4 July 2008 to 1 November 2015. The company was struck off on 1 November 2015 because of non-payment of BVI annual licence fees and registered office and registered agent fees. Wise Crest Enterprises Limited did not carry on any business activities during the Track Record Period.

### *CNT Iron And Steel Limited*

On 7 December 1993, Dalway Investments Limited was incorporated in the BVI as a limited liability company with an authorised share capital of US\$50,000 divided into 50,000 shares with a par value of US\$1.00 each. On 31 December 1993, one share was allotted and issued to CP Industries.

The name of the company has been changed to “CNT Iron And Steel Limited” on 2 February 1994.

On 7 February 1994, resolutions in writing of the sole shareholder were passed to increase the authorised share capital from US\$50,000 to US\$4,000,000 by creating 3,950,000 additional shares of US\$1.00 each. On 5 December 1994, 1,566,803 shares were allotted and issued to CP Industries.

On 31 December 2015, the 1,566,804 shares of CNT Iron And Steel Limited were transferred from CP Industries to CNT for the total amount of consideration of HK\$10,521,563.

As of the Latest Practicable Date, CNT Iron And Steel Limited is not a member of our Group.

### *CNT Tin Plate Limited*

On 16 June 1994, City Rich Investments Limited 迅益投資有限公司 was incorporated in Hong Kong as a limited liability company with an initial authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each.

The name of the company has been changed to “CNT Tin Plate Limited 北海馬口鐵有限公司” on 13 September 1994.

As of the Latest Practicable Date, CNT Iron And Steel Limited is one of the shareholders of CNT Tin Plate Limited representing 50% of the issued share capital of CNT Tin Plate Limited.

As of the Latest Practicable Date, CNT Tin Plate Limited is not a member of our Group.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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### *CNT Iron And Steel Trading Company Limited*

On 27 August 1992, Waying Trading Limited 滙盈貿易有限公司 was incorporated in Hong Kong as a limited liability company with an initial authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each.

The name of the company has been changed to “CNT Iron And Steel Trading Company Limited 北海鋼鐵貿易有限公司” on 27 April 1995.

On 20 January 2016, CNT Nominees Limited, a wholly-owned subsidiary of CNT, transferred one nominee share in CNT Iron And Steel Trading Company Limited to CNT Iron And Steel Limited as part of the Reorganisation.

As of the Latest Practicable Date, CNT Iron And Steel Limited is the sole shareholder of CNT Iron And Steel Trading Company Limited.

As of the Latest Practicable Date, CNT Iron And Steel Trading Company Limited is not a member of our Group.

### *北海鋼鐵(深圳)有限公司*

北海鋼鐵(深圳)有限公司 is a limited liability company established on 3 June 2013 in the PRC with a registered capital of RMB10,000,000, all of which was contributed by CNT Iron And Steel Trading Company Limited.

As of the Latest Practicable Date, 北海鋼鐵(深圳)有限公司 is not a member of our Group.

### *CNT (Malaysia) Limited*

On 3 June 2009, The China Paint Manufacturing Company (Malaysia) Limited 中華製漆(馬來西亞)有限公司 was incorporated in Hong Kong as a limited liability company with an initial authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each.

On 11 June 2009, CP Industries became the sole shareholder of CNT (Malaysia) Limited by acquiring one share of CNT (Malaysia) Limited from the subscriber. On 31 December 2015, one share in CNT (Malaysia) Limited was transferred from CP Industries to CNT (BVI) Limited, a wholly-owned subsidiary of CNT, for such amount of consideration representing the par value of the share transferred.

The name of the company has been changed to “CNT (Malaysia) Limited 北海(馬來西亞)有限公司” on 19 July 2016 as part of the Reorganisation.

As of the Latest Practicable Date, CNT (Malaysia) Limited is not a member of our Group.

### *CNT (Singapore) Limited*

On 3 June 2009, The China Paint Manufacturing Company (Singapore) Limited 中華製漆(新加坡)有限公司 was incorporated in Hong Kong as a limited liability company with an initial authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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On 11 June 2009, CP Industries became the sole shareholder of CNT (Singapore) Limited by acquiring one share of CNT (Singapore) Limited from the subscriber. On 31 December 2015, one share in CNT (Singapore) Limited was transferred from CP Industries to CNT (BVI) Limited, a wholly-owned subsidiary of CNT, for such amount of consideration representing the par value of the share transferred.

The name of the company has been changed to “CNT (Singapore) Limited 北海（新加坡）有限公司” on 19 July 2016 as part of the Reorganisation.

As of the Latest Practicable Date, CNT (Singapore) Limited is not a member of our Group.

### *CNT (1932) Limited*

On 25 July 2006, Jinghua Paint Manufacturing Company (Guangzhou) Limited 精華制漆（廣州）有限公司 was incorporated in Hong Kong with an initial authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each.

The name of Jinghua Paint Manufacturing Company (Guangzhou) Limited 精華制漆（廣州）有限公司 was changed to “China Coatings (1932) Limited 中華塗料(1932)有限公司” on 15 July 2009. The name of the company has been changed to “CNT (1932) Limited 北海(1932)有限公司” on 19 July 2016 as part of the Reorganisation.

On 31 July 2006, CP Industries became the sole shareholder of CNT (1932) Limited by acquiring one share of CNT (1932) Limited from the subscriber. On 31 December 2015, one share in CNT (1932) Limited was transferred from CP Industries to CNT (BVI) Limited, a wholly-owned subsidiary of CNT, for such amount of consideration representing the par value of the share transferred.

As of the Latest Practicable Date, CNT (1932) Limited is not a member of our Group.

### *The China Paint Manufacturing Company (1946) Limited*

On 26 September 2006, The China Paint Manufacturing Company (1932) Limited 中華製漆（一九三二）有限公司 was incorporated in Hong Kong as a limited liability company with an initial authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each.

The name of the company has been changed to “The China Paint Manufacturing Company (1946) Limited 中華製漆（一九四六）有限公司” on 18 October 2007.

On 2 October 2007, CP Industries became the sole shareholder of The China Paint Manufacturing Company (1946) Limited by acquiring two shares (representing 100% of the issued share capital) of The China Paint Manufacturing Company (1946) Limited from the late Dr. TSUI Tsin Tong and Mr. TSUI Ho Chuen, Philip, our executive Director and managing Director. On 31 December 2015, two shares in The China Paint Manufacturing Company (1946) Limited were transferred from CP Industries to CNT (BVI) Limited, a wholly-owned subsidiary of CNT, for such amount of consideration representing the par value of the shares transferred.

As of the Latest Practicable Date, The China Paint Manufacturing Company (1946) Limited is not a member of our Group.



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## HISTORY, DEVELOPMENT AND REORGANISATION

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### *Hainuowei Coating*

On 9 April 2010, Hainuowei Coating was established in the PRC as a company with limited liability with a registered capital of RMB5,000,000, 80% of which was contributed by Mr. LIN Shu and 20% of which was contributed by Mr. ZHAO Delin. Mr. LIN Shu is one of our senior management team. On 31 December 2010, Mr. ZHAO Delin transferred his equity interests in Hainuowei Coating to Mr. ZHANG Hui. On 14 January 2011, both Mr. LIN Shu and Mr. ZHANG Hui transferred their equity interests in Hainuowei Coating to China Paint Shenzhen.

On 31 October 2016, China Paint Shenzhen transferred all equity interests in Hainuowei Coating to 深圳北海裕聯投資諮詢有限公司 (formerly known as 深圳北海泛波投資諮詢有限公司).

As of the Latest Practicable Date, Hainuowei Coating is not a member of our Group.

### *Arran Investment*

On 5 May 1962, Arran Investment was incorporated in Hong Kong as a limited liability company with an initial authorised share capital of HK\$2,000,000 divided into two founder shares with a par value of HK\$100.00 each and 19,998 ordinary shares with a par value of HK\$100.00 each. Before 17 August 2016, China Paint (1932) held one founder share and 9,999 ordinary shares (representing 50% of the issued share capital) of Arran Investment. On 17 August 2016, China Paint (1932) transferred one founder share and 9,999 ordinary shares of Arran Investment to Fan Ball Development Limited, a wholly-owned subsidiary of CNT, for cash consideration of HK\$2,020,998. The amount of the consideration was based on the latest available net assets value of Arran Investment as of 31 July 2016 and was settled in full on 17 August 2016 as part of the settlement of the amount due to and due from the Remaining Group. Further information on the amount due to and due from between our Group and the Remaining Group is set forth in the section headed “Financial Information – Principal components of our current assets and current liabilities – Amount due to and due from the Remaining Group” in this [REDACTED]. There was no gain or loss on disposal arising from the disposal.

As of the Latest Practicable Date, Arran Investment is not a member of our Group.

### *Wise Crest Enterprises Limited*

On 11 April 2008, Wise Crest Enterprises Limited 智峰企業有限公司 was incorporated in the BVI as a limited liability company authorised to issue a maximum of 50,000 shares of a single class each with a par value of US\$1.00. On 4 July 2008, one share was issued and allotted to CP Industries.

From 1 November 2015, Wise Crest Enterprises Limited has been struck off from the BVI Government Register as a result of non-payment of BVI annual licence fees and registered office and registered agent fees.

\* For identification purpose only

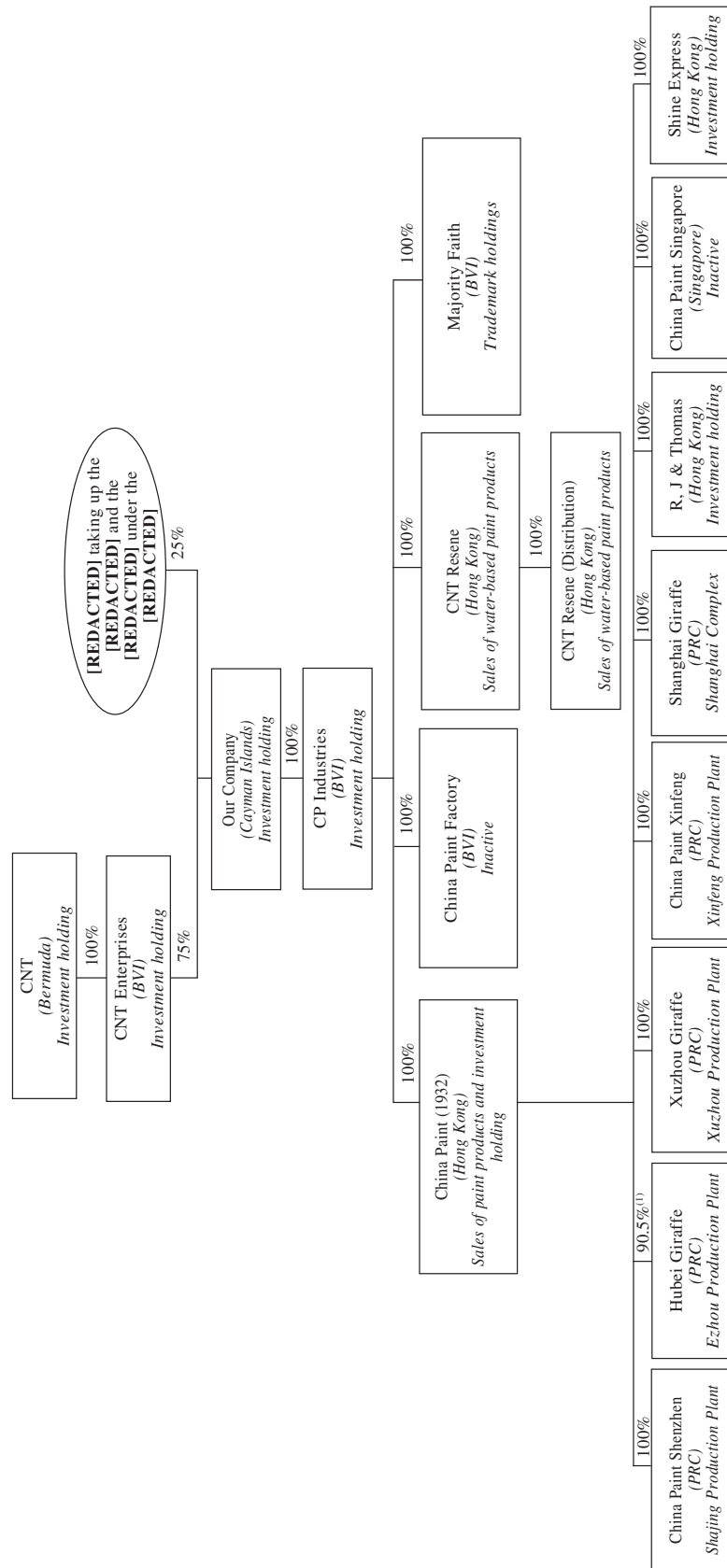


## HISTORY, DEVELOPMENT AND REORGANISATION

The shareholding structure and the corporate structure of our Group following completion of the Reorganisation, and immediately after the [REDACTED] and Capitalisation Issue the (assuming that all CNT Qualifying Shareholders take up their respective [REDACTED] under the [REDACTED] in full, and without taking into account any Shares which may be issued pursuant to the exercise of the [REDACTED]) is set forth below:

### OUR SHAREHOLDING AND CORPORATE STRUCTURE AFTER COMPLETION OF THE REORGANISATION AND THE [REDACTED]

The following diagram illustrates the shareholding and the corporate structure of our Group following completion of the Reorganisation, the [REDACTED] and the Capitalisation Issue (without taking into consideration the Shares that may be issued pursuant to the exercise of the [REDACTED] Option):

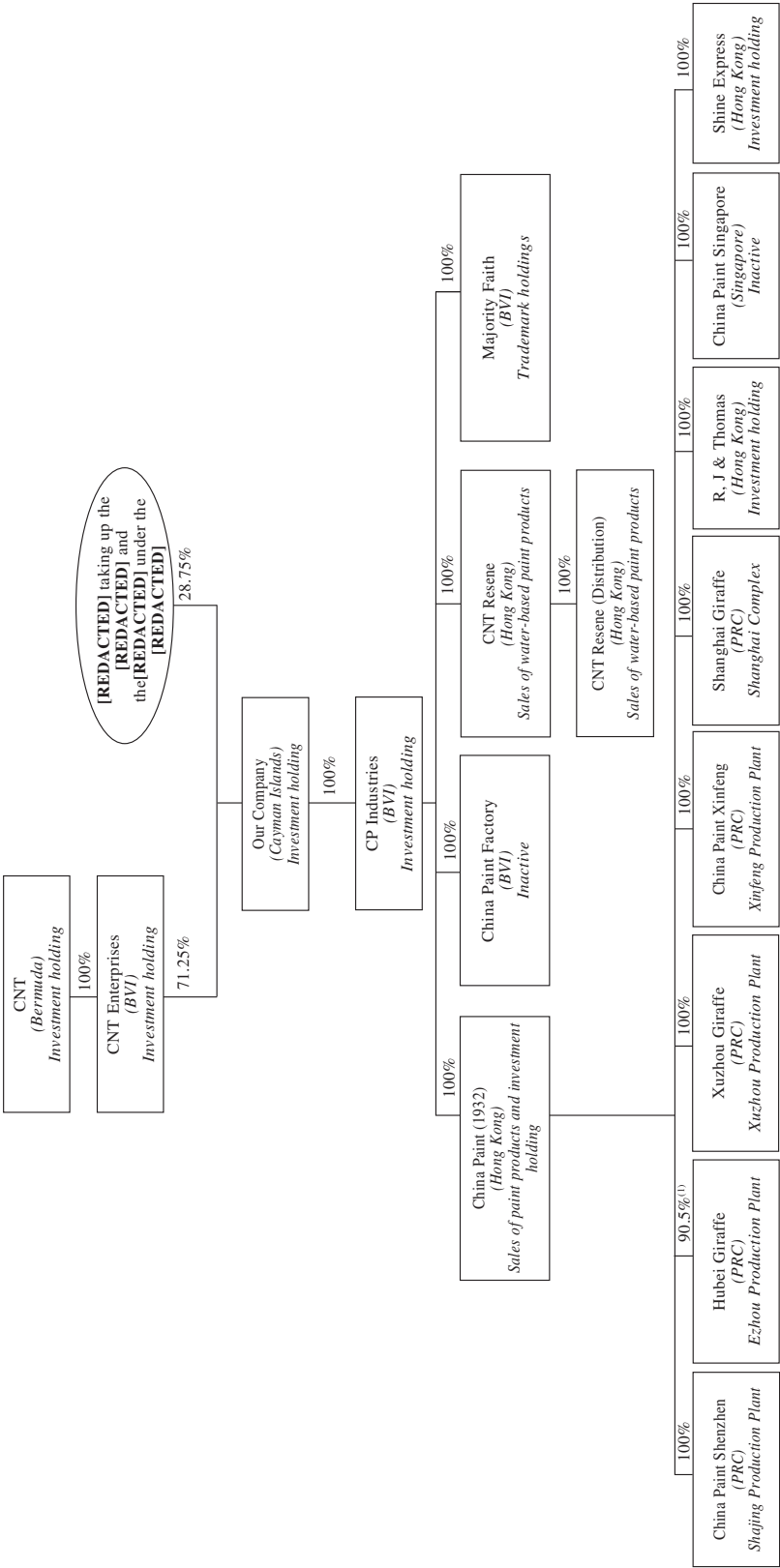


Note:

(1) The remaining equity interest of 9.5% is held by an Independent Third Party.

HISTORY, DEVELOPMENT AND REORGANISATION

The following diagram illustrates the shareholding and the corporate structure of our Group following completion of the Reorganisation, the [REDACTED] and the Capitalisation Issue and assuming that the [REDACTED] is exercised in full:



Note:

<sup>(1)</sup> The remaining equity interest of 9.5% is held by an Independent Third Party.

## **SPIN-OFF AND [REDACTED]**

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### **BACKGROUND INFORMATION**

In November 2014, CNT submitted an application for the spin-off and the separate [REDACTED] of our business on the Main Board, but such application was rejected by the Stock Exchange on 15 June 2015 because of the following two grounds:

- (a) the fair value gains of the investment property of the Remaining Group represented a significant portion of the operating profit of the Remaining Group to the extent that the Remaining Group would have been loss making for the two years ended 31 December 2013 on an aggregate basis if the amount of the fair value gains, together with the market rental adjustment for the property leased by our Group, were excluded for calculation of the profit test under Rule 8.05(1) of the Listing Rules; and
- (b) the Remaining Group was not independent from our Group as more than a half of the rental income of the Remaining Group during each of the three years ended 31 December 2014 was received from our Group.

In April 2016, CNT submitted a new application for the Spin-Off and the [REDACTED], and the Stock Exchange confirmed in June 2016 that the CNT Group may proceed with the Spin-Off and the [REDACTED].

The above two grounds have been satisfactorily addressed in the application for the Spin-Off and the [REDACTED] submitted by CNT in April 2016. During the Track Record Period, the Remaining Group would not have been loss making even though the amount of the fair value gain were excluded for calculation of the profit test under Rule 8.05(1) of the Listing Rules. There was no market rental adjustment charged to our profit or loss during the Track Record Period. In addition, the percentage of the rental income received by the Remaining Businesses from us decreased from 51.2% in 2014 to 13.4% in 2016 of the total rental income of the Remaining Businesses.

Prior to the Spin-Off and the [REDACTED], the CNT Group had four business segments, namely the Paint Business, the Investment Property Business, the Trading Business and the Other Business. The Paint Business is one of the distinctive business segments of the CNT Group and has the longest operating history. The Remaining Businesses, which form part of the core business of the CNT Group, have been growing steadily. The Remaining Businesses are independent from the Paint Business and have different business development directions as compared with the Paint Business.

## **SPIN-OFF AND [REDACTED]**

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### **PURPOSE OF THE SPIN-OFF**

The principal purpose of the Spin-Off and the [REDACTED] is to create separate [REDACTED] platforms on the Stock Exchange for the Paint Business and the Remaining Businesses so that these business activities may raise equity and debt financing independently according to their respective business needs. The market positions and the valuation of the Paint Business and the Remaining Businesses are distinctively different. Prior to the Spin-Off and the [REDACTED], the directors of CNT received from time to time feedbacks from the CNT Shareholders and prospective investors that the positioning of the CNT Group is unclear and that it would be difficult to appraise the value of the CNT Group as a whole with such diverse business activities. Investors who have interest in the Paint Business as one of the well-recognised paint manufacturing businesses in the industrial sector may not at the same time have interest in the Remaining Businesses. Likewise, investors who prefer to invest in the Remaining Businesses may not have interest in businesses in the manufacturing sector. The situation limited the efforts of the CNT Group in broadening the investor base of CNT Group. By implementing the Spin-Off and the [REDACTED], the value of each of the Paint Business and the Remaining Businesses would not rely on each other and can be fully reflected in the respective trading prices of our Shares and the CNT Shares.

### **BENEFITS OF THE [REDACTED]**

The directors of CNT and our Directors are of the view that the Spin-Off and the [REDACTED] will be beneficial to our Company for the following reasons:

- (a) the operating results of our business are sufficient to warrant a separate [REDACTED] on the Stock Exchange, and the proposed structure of the Spin-Off separates our business and the Remaining Businesses. Such segregation enables investors and financiers to appraise the strategies, functioning exposure, risks and returns of our business and the Remaining Businesses independently. The Spin-Off and the [REDACTED] will create an investment opportunity which would enable investors to have a better understanding of both our business and the Remaining Businesses as separate legal entities rather than a conglomerate of diversified business activities. Our business and the Remaining Businesses can then be valued on a standalone basis, which can release the true intrinsic value of the respective businesses;
- (b) the Spin-Off and the [REDACTED] will allow both our Company and CNT to target their respective shareholder bases more effectively, which would in turn improve capital raising on a competitive basis and have better capital allocation to enhance growth within each company;
- (c) the Spin-Off and the [REDACTED] will increase the operational and financial transparency of our business and the Remaining Businesses and can provide investors and the market with greater clarity on the businesses and financial status of the respective businesses;
- (d) the Spin-Off and the [REDACTED] will lead to a more direct alignment of the responsibilities and accountability of the management of both our business and the Remaining Businesses with their respective operating and financial performance. Following completion of the Spin-Off and the [REDACTED], our Company will become a separately [REDACTED] entity with our own management team and structure focusing on our business, and hence improve our ability to recruit, motivate and retain key management personnel as well as to enhance our management incentives. As the respective businesses have different requirements and strategies, a clear and transparent separation of the management structure will enhance the decision-making process and their responsiveness to any market changes;

## **SPIN-OFF AND [REDACTED]**

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- (e) the Spin-Off will enable each of our Company and CNT to have its own [REDACTED] platform to directly and independently access both the debt and equity capital markets; and
- (f) the Spin-Off and the [REDACTED] will deliver greater shareholder value to both our Company and CNT on their respective merits and increase operational and financial transparency through which investors would be able to appraise and assess the performance and potential of each of our business and the Remaining Businesses, as (i) our Company will enjoy enhanced flexibility to grow our business free of actual or perceived constraints as a wholly-owned subsidiary; (ii) our Company will enjoy increased ability to make acquisitions by using our Shares as acquisition currency; and (iii) CNT will be able to enjoy increased shareholders’ value through sharing the economic benefits from the development of our business by remaining as a holding company of our Company.

In accordance with the requirements of Practice Note 15 of the Listing Rules, CNT will give due regard to the interests of its shareholders by providing CNT Qualifying Shareholders with an [REDACTED] to our Shares by way of the [REDACTED]. Further information on the [REDACTED] is set forth in the section headed “Structure and Conditions of the [REDACTED]” in this [REDACTED].

## BUSINESS

### OVERVIEW

We are a manufacturer of industrial and architectural paint and coating products under our established brands of, among others, “*Flower (菊花牌)*”, “*Giraffe (長頸鹿牌)*” and “*Toy Brand (玩具牌)*”. Our business was established in Hong Kong in 1932, and we are one of the well-recognised paint and coating manufacturers in Hong Kong and the PRC. Wood painting products, including lacquers, polyurethane coatings and baking enamels, are our principal paint and coating products. According to *Frost & Sullivan*, we ranked the sixth and the fifteenth in the retailing wood coating market and the wood coating market in the PRC in terms of revenue in 2016, respectively, with a market share of 5.9% and 1.6%<sup>(1)</sup>.

Our brands of “*Flower (菊花牌)*”, “*Giraffe (長頸鹿牌)*” and “*Toy Brand (玩具牌)*” are renowned brands of paint and coating products in Hong Kong and the PRC. “*Flower (菊花牌)*” was awarded as Top Brand in China Architectural Coatings Industry Award 2015 (二零一五年中國建築塗料名牌獎) and Shenzhen Famous Brand (深圳知名品牌) in 2015. “*Flower (菊花牌)*” is also recognised as the Hong Kong Top Brand (香港名牌) for twelve consecutive years from 2006 to 2017. “*Giraffe (長頸鹿牌)*” was recognised as the Top Brand in China Wood Coatings Industry Award 2015 (二零一五年中國木器塗料名牌獎). With our operating history of more than 80 years, renowned brands and high product quality, we have established our market position in selected segments of the paint and coating market in Hong Kong and the PRC and have the competitive strengths amongst other domestic and international branded paint and coating products in our target markets.

According to *Frost & Sullivan*, the paint and coating market in the PRC is fragmented. The 10 largest manufacturers had a market share of less than 15.0% and the largest manufacturer had a market share of 3.4% in terms of revenue in 2016. The wood coating market in the PRC, which represented 5.4% of the paint and coating market in the PRC in terms of revenue in 2016, is more concentrated, and the 10 largest manufacturers had a total market share of 59.7% and the largest manufacturer had a market share of 7.7% in terms of revenue in 2016. In 2016, sales of paint and coating products to customers in retailing wood coating market accounted for 27.5% of the revenue generated from the sales of wood coating products. The prices of retailing wood coating products are generally higher than those for industrial use.

Our paint and coating products may be used for different applications and can be solvent-based or water-based. During the Track Record Period, our revenue generated from the sales of solvent-based paint and coating products represented 56.4%, 55.6% and 56.8% of our revenue generated from the sales of industrial and architectural paint and coating products, respectively. The production of solvent-based paint and coating products in the PRC is subject to tightening regulatory requirements. The following sets forth a brief description of the three principal categories of our paint and coating products:

- *Industrial paint and coating products* – These paint and coating products are generally used in a wide range of applications, such as furniture painting, manufacturing and surface finishing for different kinds of materials, and are being used by manufacturers, renovation contractors for property and infrastructure projects and household users.
- *Architectural paint and coating products* – These paint and coating products are generally used in property development and infrastructure projects.
- *General paint and coating and ancillary products* – These products include thinner, enamels and anti-mold agents and solvent agents.

We also supply customised industrial and architectural paint and coating products upon the request by our customers.

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(1) According to *Frost & Sullivan*, the wood coating market in the PRC can be divided into retailing wood coating market and manufacturing wood coating market. Retailing wood coating products are sold to household users for on-site decoration and maintenance and manufacturing wood coating products are sold to wooden furniture factories.

## BUSINESS

17 We have established business relationships with our customers which include distributors, manufacturers, renovation contractors for property and infrastructure projects and household users in Hong Kong and the PRC. During the Track Record Period, the distributors were amongst our five largest customers and they are engaged in wholesale and retail business in Hong Kong and the PRC. In addition to our sales to distributors, we also sell our paint and coating products directly to renovation contractors for property and infrastructure projects and household users, and these sales are conducted by China Paint (1932), CNT Resene and CNT Resene (Distribution) in Hong Kong and China Paint Shenzhen and its showroom and branch companies established at different locations in the PRC.

Our administrative headquarters are in Hong Kong. During the Track Record Period, we had four production plants, namely Shajing Production Plant, Ezhou Production Plant, Xuzhou Production Plant and Xinfeng Production Plant. During the year ended 31 December 2016, our total designed annual production capacity of industrial paint and coating products, architectural paint and coating products and general paint and coating and ancillary products was 26,801.7 tonnes, 12,872.6 tonnes and 16,857.2 tonnes, respectively.

According to *Frost & Sullivan*, the demand for paint and coating products in the downstream markets in the PRC, such as construction and renovation business, will continue to increase. The sales value of paint and coating products in the PRC and Hong Kong is expected to increase at a CAGR of 5.7% and 0.4%, respectively, during the five-year period from 2017 to 2021. The forecasted growth in the PRC is attributable to steady growth of downstream industries including building and construction, furniture and automotive industry, increasing application of protective and environmental-friendly coatings and continuous expansion of manufacturing industries in the PRC. However, the sales value of retailing wood coating market decreased at a CAGR of 6.8% from 2010 to 2016 primarily because of the slowdown in the real estate market in the PRC and the changing consumers’ preference in using factory-made furniture. The sales value of retailing wood coating market is expected to continue to decrease at a CAGR of 0.8% during the five-year period from 2017 to 2021.

### OUR COMPETITIVE STRENGTHS

Our Directors believe that we draw on a number of competitive strengths to support our business growth. These strengths are as follows:

**We are an established paint and coating manufacturer offering a full range of paint and coating products.**

According to *Frost & Sullivan*, we ranked the sixth and fifteenth in the retailing wood coating market and the wood coating market in the PRC in terms of revenue in 2016, with a market share of 5.9% and 1.6%, respectively.

Our brands of “*Flower* (菊花牌)”, “*Giraffe* (長頸鹿牌)” and “*Toy Brand* (玩具牌)” are renowned brands of paint and coating products in Hong Kong and the PRC. “*Flower* (菊花牌)” is recognised as Top Brand in China Architectural Coatings Industry Award 2015 (二零一五年中國建築塗料名牌獎) and Shenzhen Famous Brand (深圳知名品牌) in 2015. “*Flower* (菊花牌)” is also recognised as the Hong Kong Top Brand (香港名牌) for twelve consecutive years from 2006 to 2017. “*Giraffe* (長頸鹿牌)” is recognised as the Top Brand in China Wood Coatings Industry Award 2015 (二零一五年中國木器塗料名牌獎).



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## BUSINESS

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With more than 80 years of operating history, we have established our position in selected segments of the paint and coating market in Hong Kong and the PRC. We believe that our history, our ability to produce quality paint and coating products, our portfolio of paint and coating products as well as our product development capability can only be cultivated over time and such qualities have contributed to our desirable brand image and represent the key competitive strength that set us apart from our competitors.

We offer a full range of industrial paints and architectural paints under our brand names of “Flower (菊花牌)”, “Giraffe (長頸鹿牌)”, “Toy Brand (玩具牌)”, “Sea Rover (海諾威)” and “Blue Rocket (藍箭牌)”. During the Track Record Period we produced and sold around 3,250 paint and coating products in different packages and of different specifications.

**We have established business relationship with distributors and customers which operate a distribution network in Hong Kong and the PRC.**

We have established business relationship with our customer comprising distributors, manufacturers, renovation contractors for property and infrastructure projects and household users in Hong Kong and the PRC. We have also maintained long-term business relationships with many of our largest customers. As of 31 December 2016, we had established business relationship with our five largest customers who have been conducting business with us for an average of 11.2 years.

As of 31 December 2016, we had 1,304 customers, of which we had appointed 465 distributors in Hong Kong and the PRC. Our customers comprise distributors, manufacturers, renovation contractors for property and infrastructure projects and household users in Hong Kong and the PRC. The distributors consist of wholesale and retail distributors in Hong Kong and the PRC. The distributors have formed an extensive distribution network in Hong Kong and the PRC. In addition to our sales to distributors, we also sell our paint and coating products directly to renovation contractors for property and infrastructure projects and household users, and these sales are conducted by China Paint (1932), CNT Resene and CNT Resene (Distribution) in Hong Kong and China Paint Shenzhen and its showroom and branch companies established at different locations in the PRC. Further information on our sales channels is set forth in the paragraphs under “Sales and sales channels” below.

In order to strengthen our relationship with our customers, we have our dedicated sales teams at different locations who visit distributors on a regular basis for feedbacks on our paint and coating products. Our customer service and marketing teams work closely and proactively work with our production teams for improvement of the quality and specifications of our products.

**We have strong product development capability.**

Our product portfolio comprises a full range of industrial and architectural paint and coating products. We also supply customised paint and coating products in different formulas for our customers. Our product portfolio, together with our strong product development capability and accredited product development and testing centre in Shenzhen, enable us to develop and produce a full range of paint and coating products. Our technology department have an average of seven years of experience in the paint and coating industry. Our technology department collaborate closely with our sales and marketing teams in analysing the industry trend and customer feedbacks on the desired features and technical specifications of our products. As of the Latest Practicable Date, our technology teams had 107 full-time personnel, including 9 management personnels, 15 senior engineers, 30 engineers and 49 technicians and quality controllers.

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## BUSINESS

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According to *Frost & Sullivan*, one of the principal trends in the paint and coating market in the PRC will be the increasing use of water-based paint and coating products with different coating functions, such as water-proof, thermal insulation, anti-corrosion and fire-protection, catering for different customers’ requirements. We have developed a wide range of water-based paint and coating products and they are ready to be launched to the market. Our Directors believe that we are well positioned to capitalise this market need and industry trend.

### **Our production facilities are strategically situated at different locations in the PRC.**

Our production facilities are strategically located in Shenzhen, Ezhou, Xuzhou and Xinfeng in the PRC to gain access to customers in major PRC provinces. The production activities of our Xuzhou Production Plant are currently suspended as part of our business strategy to reallocate our production capacity and pending the grant of the work safety licences for the production of solvent-based paint products since the end of May 2016. During the year ended 31 December 2016, our total designed annual production capacity of industrial paint and coating products, architectural paint and coating products and general paint and coating and ancillary products was 26,801.7 tonnes, 12,872.6 tonnes and 16,857.2 tonnes, respectively.

The geographical proximity enables us to save transportation time and cost for delivery of our products to our customers and allows us to respond promptly to the market demand. Additionally, our production facilities have convenient access to highway for transportation of our paint and coating products to our customers in the PRC.

### **We operate in an improving industry trends and increasing demand for environmentally friendly paint and coating products.**

According to *Frost & Sullivan*, the sales value of paint and coating products in the PRC is expected to increase at a CAGR of 5.7% during the five-year period from 2017 to 2021 and the sales value would reach RMB574.6 billion in 2021. We believe that we have the experience, resources and competitive strengths to capitalise the growth of the paint and coating market in the PRC to further expand our market share.

There is increasing government support for the use of environmental-friendly paint and coating products in the PRC. Production of environmental-friendly paint and coating products are encouraged in the *Guidance Catalogue for Upgrade of Industrial Structure* issued by National Development and Reform Commission in China in February 2013. The favourable government policies facilitate the development of environmental-friendly paint and coating products and the growth of the industry. According to *Frost & Sullivan*, there would be increase in the applications of protective coatings. With the increasing awareness of the importance of protective coatings and the improvement in the production technology for protective functions, such as water-proof, thermal insulation, anti-corrosion and fire-protection, protective coatings are expected to have different applications in the future. We plan to upgrade and expand our production facilities by increasing the production capacity of water-based paint and coating products to capture the anticipated increase in demand for paint and coating products.

## BUSINESS

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### **We have an experienced management team with proven track record.**

We believe our success has been, to a large extent, contributed by our experienced and stable management team with extensive experience and knowledge in paint and coating industry and a proven track record in the industry.

Our management team comprises experienced industrialists with a proven track record in the paint and coating industry. Our senior management team members have an average of 26 years of experience in paint and coating industry. Our production facilities are operated by senior engineers and technicians with extensive experience in the paint and coating industry. Mr. TSUI Ho Chuen, Philip, our executive Director and managing Director, has 32 years of experience in the paint and coating industry in the PRC and Hong Kong, with extensive knowledge on business management, marketing and strategic planning. We believe that our experienced management team is a key to our success and will continue to contribute to our growth in the future.

### **OUR BUSINESS STRATEGIES**

We aim to further strengthen our position as a leading paint and coating manufacturer in the PRC and Hong Kong by pursuing the following strategies:

#### **Strengthen our market position in the PRC.**

We recognise the need to strengthen the management of the distributors and further increase the numbers of distributors in selected regions in the PRC, such as Eastern China, Central China, Southwestern China and Northwestern China. We also recognise that additional support would be required from the existing distributors in Southern China and Hong Kong in order to continue the growth momentum. Further information on the business initiatives to increase the number of distributors is set forth in the paragraphs under “Distributors” below. In this connection, we plan to increase the number of distributors in our target markets and enhance the distributorship structure in order to provide additional incentives to achieve the sales targets. We will also devote resources on promoting the image of selected brands of “*Flower* (菊花牌)”, “*Resene*” and “*Giraffe* (長頸鹿牌)”, renovating selected shops in the distribution network and enhancing our sales and marketing activities targeting high growth and environmental-friendly paint and coating products.

#### **Expand our paint and coating product portfolio for selected market segments in selected geographical markets in the PRC.**

Historically, we focused on solvent-based retailing wood paint and coating products and we have established a strong brand recognition and market position in the sales of these paint and coating products to customers in retailing wood coating market in the PRC. Further information on our market position is set forth in the paragraphs under “Our competitive strengths” above. According to *Frost & Sullivan*, we ranked the sixth and the fifteenth in the retailing wood coating market and the wood coating market in the PRC in terms of revenue in 2016, with a market share of 5.9% and 1.6%, respectively.

## **BUSINESS**

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We plan to expand into the market of water-based wood paint and coating products. We believe our brands position us well to expand into this market. Water-based paint and coating products are increasingly used in the PRC, and it is one of the policy goals of the PRC Government to make the paint and coating market in the PRC to be more environmental-friendly. With this policy goal, the PRC Government supports the development of water-based paint and coating products. We expect that water-based paint and coating products will be increasingly used for industrial and architectural painting and coating applications.

We also plan to increase our market share by managing our product offerings to align with the latest industry trends and the demand of customers. For example, the PRC Government supports the development of water-based paint and coating products and the decreasing demand from customers in the retailing wood coating market with the increase in the demand for products from manufacturing wood coating markets.

During the Track Record Period, sales of paint and coating products in Southern China accounted for a high percentage of our revenue in the PRC. We currently have limited business presence in other regions in the PRC, such as Eastern China and Central China. Further expansion of our geographical coverage in the PRC will be a key direction for our future growth, and we focus our efforts and implementing strategies on increasing our market share in such regions in the future. We believe our dedication to improvement in quality and production development, together with our renowned brand names, differentiate us from our competitors which can help us to increase our market share in the targeted markets. We intend to expand our market share by enhancing brand recognition through promotion of our brands and products, and also by increasing the number of distributors at different regions in the PRC.

### **Expand our production capacity for water-based paint and coating products.**

We plan to expand our production capacity for water-based paint and coating products, such as water-borne wood coating and paints for kids. We also plan to construct and upgrade the production facilities at our Xinfeng Production Plant for the production of water-based and solvent-based paint and coating products. In 2016, we have launched 12 new water-based paint and coating products and one non-paint wall cleaning products in Hong Kong and the PRC. Further information on such plans is set forth in the section headed “Future Plans and Use of Net Proceeds from the [REDACTED] – Future plans” in this [REDACTED]. Our expansion plans and the planned increase in production capacity have been formulated after taking into consideration the growth potential in selected markets and various factors affecting the demand for these products, such as the implementation of the Recent Regulations and the increasingly stringent requirements adopted by different regions in the PRC for the sales, delivery and storage of solvent-based paint and coating products. Our planned capital expenditures in 2017 and 2018 are HK\$9.8 million and HK\$68.7 million, respectively, which will be used in the expansion of our production capacity of water-based paint and coating products at our Xinfeng Production Plant. We expect that our expansion plans on the production facilities at our Xinfeng Production Plant will be completed in the third quarter of 2018. Such capital expenditure will be funded from the [REDACTED] as to both HK\$9.8 million and HK\$68.7 million in 2017 and 2018, respectively.

## BUSINESS

Our Directors believe that our expansion plans for our production facilities could bring us the following benefits:

- the expanded capacity will be used for satisfying the current increasing demand and help us capture the long-term demand growth in the coatings industry;
- our production plant will be construed with quality standards with advanced production machinery and instruments, while there will also be upgrade to our existing production facilities resulting in cost savings through maximising the production efficiency; and
- the increase in our operational scale could also bring us additional benefits from economies of scale.

## OUR PRODUCTS

Our products may be broadly divided into industrial paint and coating products, architectural paint and coating products and general paint and coating and ancillary products.





## BUSINESS

The following sets forth further information on each category of these products:

### Industrial paint and coating products

We produce and sell both solvent-based and water-based industrial paint and coating products under the brand names of “*Flower (菊花牌)*”, “*Giraffe (长颈鹿牌)*”, “*Toy Brand (玩具牌)*”, “*Sea Rover (海诺威)*” and “*Blue Rocket (蓝箭牌)*” for our customers for different applications in different industries. Our industrial paint and coating products include wood coatings, coatings for machines and equipment, and anti-corrosive paints for equipment, fleets and infrastructure facilities. We offer a wide range of industrial paint and coating products comprising polyurethane coatings, baking enamels, ultraviolet curing paints, lacquers, furniture paints, automotive coatings, paints for plastic, polyester auto-body putty, light industrial paint and coating products and anti-corrosive paints. Industrial paint and coating can be applied onto different kinds of surface materials, including wood, metal and plastic, for different applications. End users of our industrial paint and coating products include manufacturers of various products ranging from consumer electronics, machinery and mechanical equipment, toys, electrical appliances, furniture to marine and automotive products, household users and renovation contractors for property and infrastructure projects.

Brands	Product categories	Applications	Solvent-based/ water-based	Target end users/ customers	Number of products offered during the year ended 31 December 2016
“Giraffe (长颈鹿牌)”, “Flower (菊花牌)”, “Toy Brand (玩具牌)”	Lacquers or Nitrocellulose coating	Wooden surface paint and coating	Solvent-based	Manufacturers of furniture and household users	51
“Giraffe (长颈鹿牌)”, “Flower (菊花牌)”, “Toy Brand (玩具牌)”	Polyurethane coating	Wooden surface paint and coating	Solvent-based	Household users and renovation contractors	71
“Toy Brand (玩具牌)”, “Giraffe (长颈鹿牌)”, “Flower (菊花牌)”	Baking enamel	Wooden surface paint and coating	Solvent-based and water-based	Manufacturers of toys, electrical appliances and electronics products	11
“Giraffe (长颈鹿牌)”, “丹尼斯牌”	Polyester auto-body putty	Automobile and furniture maintenance	Solvent-based	Automotive repairers	–
“Giraffe (长颈鹿牌)”	Coating for forklift truck	Automobile coating	Solvent-based	Forklift manufacturers and garage	7



## BUSINESS

Brands	Product categories	Applications	Solvent-based/ water-based	Target end users/ customers	Number of products offered during the year ended 31 December 2016
“Toy Brand (玩具牌)”, “Giraffe (長頸鹿牌)”, “Flower (菊花牌)”, “ZICERA”	Plastic paint	Light industrial paint and coating for manufacturing purpose	Solvent-based and water-based	Manufacturers of toys, electrical appliances and electronics products	26
“Giraffe (長頸鹿牌)”, “Flower (菊花牌)”, “Toy Brand (玩具牌)”, “Resene”, “ZICERA”	Water-based wood coating	Wooden surface paint and coating	Water-based	Household users and renovation contractors	14*
“Giraffe (長頸鹿牌)”, “Toy Brand (玩具牌)”	Ultraviolet curing paint	Wooden surface paint and coating	Solvent-based	Manufacturers of furniture and equipment	7
“Giraffe (長頸鹿牌)”, “Sea Rover”, “Toy Brand (玩具牌)”, “Blue Rocket (藍箭牌)”	Mechanical coating	Coating for machines and equipment	Solvent-based	Machinery and mechanical equipment manufacturers	10
“Sea Rover (海諾威)”	Anti-corrosive paint for marine application	Protective paint for ships and equipment, port facilities and infrastructure	Solvent-based	Shipyards operators, renovation contractors	1
“Blue Rocket (藍箭牌)”, “Flower (菊花牌)”, “Sea Rover (海諾威)”	Anti-corrosive paint	Anti-corrosive paint for mechanical equipment, steel structures and facilities, for example, roads and bridges, petrochemical and engineering facilities	Solvent-based	Renovation contractors	11

\* Seven water-based wood coating products were launched during the year ended 31 December 2016.



## BUSINESS

### Architectural paint and coating products

We produce and sell both solvent-based and water-based architectural paint and coating products which are marketed under the brand names of “*Flower (菊花牌)*”, “*Golden Flower (金菊花)*”, “*Giraffe (长颈鹿牌)*”, “*Resene*” and “*ZICERA*”. Our architectural paint and coating products include coatings for wall, floor, interior and exterior parts of buildings comprising emulsion paints, fluorocarbon coatings, epoxy paints and exterior top coatings. Our architectural paint and coating products primarily focus on the commercial and residential construction and maintenance markets. End users of our architectural paint and coating products include renovation contractors, contractors for property and infrastructure projects and household users.

Brands	Product categories	Applications	Solvent-based/ water-based	Target end users/ customers	Number of products offered during the year ended 31 December 2016
“ <i>Giraffe (长颈鹿牌)</i> ”, “ <i>Flower (菊花牌)</i> ”, “ <i>Golden Flower (金菊花)</i> ”, “ <i>Resene</i> ”, “ <i>ZICERA</i> ”, “ <i>中漆牌</i> ”	Emulsion paint	Interior or exterior wall surface paint and coating	Water-based and solvent-based	Renovation contractors for property and infrastructure projects and household users	213 <sup>#</sup>
“ <i>Giraffe (长颈鹿牌)</i> ”, “ <i>Flower (菊花牌)</i> ”, “ <i>Resene</i> ”, “ <i>Toy Brand (玩具牌)</i> ”	Epoxy paint	Floor coating	Solvent-based and water-based	Renovation contractors for property and infrastructure projects	19
“ <i>Giraffe (长颈鹿牌)</i> ”, “ <i>Flower (菊花牌)</i> ”	Fluorocarbon coating	Interior or exterior wall and floor surface paint and coating	Solvent-based and water-based	Renovation contractors for property and infrastructure projects	17
“ <i>Giraffe (长颈鹿牌)</i> ”, “ <i>Flower (菊花牌)</i> ”	Exterior topcoat	Interior or exterior wall surface paint and coating	Solvent-based and water-based	Renovation contractors for property and infrastructure projects	6

<sup>#</sup> Five wall paint products were launched during the year ended 31 December 2016.



## BUSINESS

The series of paint and coating products under the brand of “*Resene*” are jointly developed with Resene Paints Limited (“**Resene Paints**”), an Independent Third Party pursuant to the Exclusive Agency Agreement. The following sets forth the principal terms of the Exclusive Agency Agreement:

### Major terms and conditions

Date.....	16 February 2015
Term.....	10 years from the date of the Exclusive Agency Agreement and will be automatically renewed for five years unless either party gives notice in writing three months prior to the expiration of the original term.
Appointment .....	CNT Resene (Distribution) is appointed as the exclusive agent and an authorised representative for the sale and distribution of the “ <i>Resene</i> ” architectural paints in the PRC, Hong Kong and Macau.
Supply .....	Resene Paints shall provide CNT Resene (Distribution) sufficient supply of the required paints timely. In the event of withdrawal or stop manufacturing of any items, Resene Paints shall notify CNT Resene (Distribution) in writing three months in advance.
Prices, Terms of Sale and Payment ...	The prices, delivery schedules and the terms of conditions of each purchase order shall be subject to the detailed terms and conditions to be agreed. Payment of the purchase orders must be made in full within two months after the bill of lading is issued.
Intellectual property rights .....	CNT Resene (Distribution) is granted the right to use the trade names, marks, trademarks and logos of Resene Paints. All trademarks applied to the “ <i>Resene</i> ” products cannot be altered or removed. All right, title or interest to any of the Resene trademarks belongs to Resene Paints.
Confidentiality .....	CNT Resene (Distribution) shall not use or disclose any confidential information unless it is required by law or the applicable laws and regulations. It will not constitute a breach of confidentiality if such information (1) is in public domain; (2) is from a source other than Resene Paints; and (3) is independently developed by CNT Resene (Distribution).

## **BUSINESS**

Protective clauses. . . . . CNT Resene (Distribution) is allowed to sell or promote other lines or products including paint products as long as the sale of such lines or products does not involve direct competition or conflicts with the mutually agreed Resene products.

CNT Resene (Distribution) is allowed to dispose of the remaining inventory after termination or expiration of this agreement.

Termination. . . . . The agreement can be terminated if (1) CNT Resene (Distribution) fails to meet the agreed annual sales volume requirement; (2) Resene Paints fails to provide adequate stock of the mutually agreed Resene products to CNT Resene (Distribution) pursuant to timely order; (3) either party becomes insolvent or bankrupt or files a voluntary petition in bankruptcy; (4) either party fails to cure any breach of a material covenant, commitment or obligation under this agreement and (5) either party is convicted or pleads to a crime or an act of fraud that materially impacts on its performance or its fiduciary duties.

Our Directors confirm that compliance tests will be conducted before launching the products in Hong Kong and the PRC for any modifications required for full compliance with the applicable local standards. Our Directors also confirm that all requirements and other terms and conditions of the Exclusive Agency Agreement have been duly complied with during the Track Record Period and up to the Latest Practicable Date, while the agreed annual sales volume is subject to change from time to time with the mutual agreement between the parties. The licensor will be responsible for undertaking the modification works according to the terms of the Exclusive Agency Agreement.

During the two years ended 31 December 2016, sales of paint and coating products under “*Resene*” amounted to HK\$0.8 million and HK\$4.5 million, respectively. During the two years ended 31 December 2016, sales of paint and coating products under “*ZICERA*” amounted to HK\$0.2 million and HK\$0.4 million, respectively.

## BUSINESS

### General paint and coating and ancillary products

We produce and sell general paint and coating and ancillary products under the brand names of “Flower (菊花牌)”, “Toy Brand (玩具牌)”, “Sea Rover (海諾威)”, “丹尼斯”, “Resene”, “Giraffe (長頸鹿牌)”, and “ZICERA”, and some of which can be used for both architectural and industrial purposes, such as thinner, enamels, anti-mold agents and solvent agents. The following sets forth categories of our general paint and coating and ancillary products:

Brands	Product categories	Applications	Solvent-based/ water-based	Target end users/ customers	Number of products offered during the year ended 31 December 2016
“Giraffe (長頸鹿牌)”	Thinner	General purposes	Solvent-based	Household use, renovation contractors, household users	60
“Flower (菊花牌)”, “Giraffe (長頸鹿牌)”, “ZICERA”, “Resene”, “Toy Brand (玩具牌)”	Enamel	Wall surface and metal surface for different household and industrial applications	Solvent-based/ water-based	Manufacturers and renovation contractors	10
“Flower (菊花牌)”	Anti-mold agent	Applying onto wall surface and wooden surface for different household and industrial applications	Water-based	Manufacturers and renovation contractors	1
“Giraffe (長頸鹿牌)”, “丹尼斯”, “Sea Rover (海諾威)”, “Flower (菊花牌)”, “Toy Brand (玩具牌)”	Solvent agent	Applying onto wall surface and wooden surface for different household and industrial applications	Solvent-based	Manufacturers and renovation contractors	1



## BUSINESS

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### Solvent-based and water-based paint and coating products

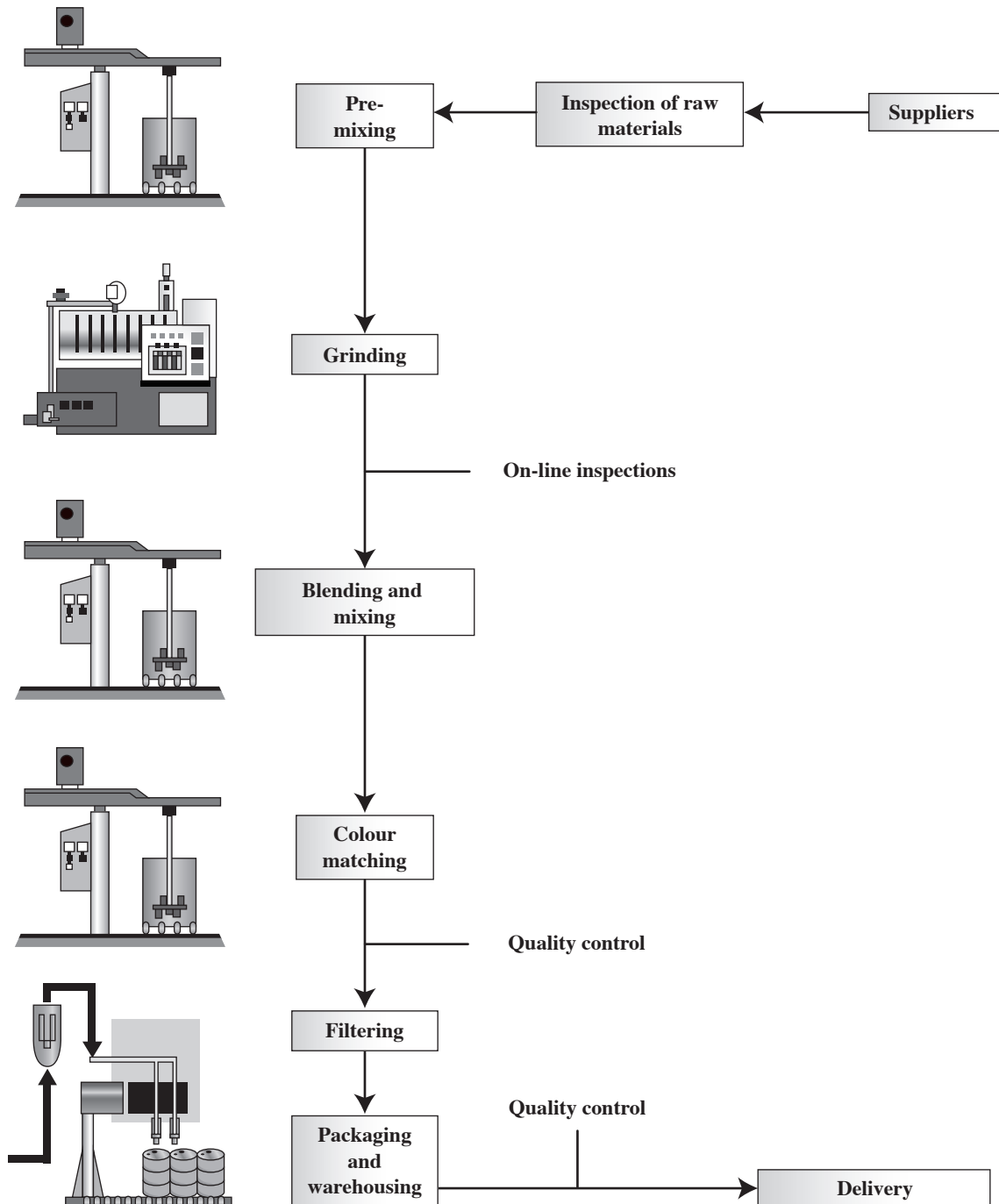
Liquid coatings can be categorised into solvent-based and water-based coatings, with different characteristics and functionality. Solvent-based and water-based paint and coating products have different properties which allow them to have their respective unique advantages in different kinds of coating application. Water-based coatings refer to coatings that use water as primary thinning agent while solvent-based coatings use organic solvent as thinning agent. Currently, solvent-based coatings enjoy advantages in resistance, appearance, drying rate, cost, sensitivity to environmental conditions and market acceptance while water-based coatings are more environmentally friendly and safer and receiving favourable government support. Further information is set forth in the section headed “Industry Overview” in this [REDACTED].

According to *Frost & Sullivan*, currently, solvent-based wood coating products are still the mainstream of wood coating products, accounting for over 90% of all wood coating products in the PRC and around 60% in Europe and North America. Despite the global trend of increasing use of water-based coating products, the demand for solvent-based wood coating products continues to increase in the PRC, Europe and North America. In developed countries and territories, the trend is still gradual due to the technical disadvantages of water-based coatings.

## BUSINESS

### PRODUCTION PROCESS

The following illustrates the production process for our industrial and architectural paint and coating products. The production process of solvent-based and water-based paint and coating products are generally the same, except for certain additional steps for further grinding of the raw materials for solvent-based paint and coating products. Although the production facilities for the water-based and the solvent-based paint are essentially built on the same production process, these production facilities are not used interchangeably because of the special features of the water-based and the solvent-based paint and coating products. The production facilities are also supported by different sewage treatment and safety systems.



## BUSINESS

We would need approximately two working days for the production of our products. We monitor closely the level of inventory of our finished products. We will only maintain the standard paint and coating products as our inventory and will not make custom-made paint and coating products unless they are ordered by our customers. The following illustrates the time required for the principal steps in the production process of our paint and coating products:

<b>Production process</b>	<b>Solvent-based paint and coating products</b>	<b>Water-based paint and coating products</b>	<b>Thinner (part of the general paint and coating and ancillary products)</b>
Procurement of raw materials from suppliers	2 days	2 days	2 days
↓			
Inspection of raw materials	4 hours	4 hours	4 hours
↓			
Pre-mixing	2 hours	2 hours	1 hour
↓			
Grinding	6 hours	N/A	N/A
↓			
Blending and mixing	1 hour	1 hour	N/A
↓			
Colour matching	2 hours	1 hour	N/A
↓			
Inspection of final products	4 hours	2 hours	1 hour
↓			
Filtering and packaging	2 hours	2 hours	2 hours

### Procurement of raw materials from suppliers

Principal raw materials used in the production of paint and coating products include resin, solvent, pigment, fillers and additives. Solvents are used in the production of solvent-based liquid coatings but not water-based liquid coatings.

Further information on procurement of raw materials is set forth in the paragraphs under “Procurement and raw materials” below.



## **BUSINESS**

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### **Inspection of raw materials**

Upon delivery, the incoming materials will be inspected pursuant to the quality control specifications. Raw materials will only be stored in particular locations after they have passed the relevant quality control tests. Solvents that have passed the quality control tests will be transported from tanker-vehicles and loaded and pumped onto on-site storage vessels.

### **Pre-mixing**

Raw materials used in our production are selected and weighed pursuant to the product codes by our technology department for each batch of coating product to be produced. Raw materials are then loaded to the premixing machines. A combination of water, pigments, latex extenders and additive compounds are used for preparing water-based coatings, whilst principal raw materials used in preparing solvent-based coatings include resins, solvents, pigments and additive compounds. After loading, the raw materials are premixed by high speed disperser which serves to break them down into finer parts for further processing.

Pre-mixing for water-based paint and coating products involves two steps. The first step involves the mixing of all raw materials, dispersing agents, and wetting agents thoroughly at high speed. The second step involves addition of polymers, glycols, freeze thaw agents and pre-mixing at low speed.

For solvent-based paint and coating products, raw materials are weighed and fed to the mixing tank at room temperature to produce an evenly mixed mill base.

### **Grinding**

After pre-mixing, the mill base produced is transferred to the sand mill, or high speed disperser for mechanical grinding, in order to achieve the required level of fineness and homogenising. For solvent-based coatings, the premixed materials are to be broken down further by grinding equipment such as sand mill in order to achieve the required level of fineness. To obtain the proper degree of dispersion, high speed dispersion equipment and sand mill are used in the production of water-based coatings.

### **Blending and mixing**

The mixture is then transferred to a blending tank. Additional ingredients, such as resins, solvents and additives, will be added when the slurry mixture attains the right degree of dispersion. Latex, additives and water are added for production of water-based coatings.

### **Colour matching**

Colour paste is added to the paint to reach the required colour standard of a particular batch of finished product. Colour matching generally has to be carried out under normal daylight conditions in order to achieve the required colour. A daylight simulating machine is used to simulate a light source comparable to that of normal daylight.

## **BUSINESS**

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### **Filtering**

After blending, the mixture is filtered through a filtration equipment to remove non-dispersed pigments and any entrained solids. Paints are filtered and filled into tin cans when colour matching is completed.

### **Packaging and warehousing**

Samples of finished paint products will be thoroughly inspected pursuant to the quality control requirements and the product specifications in respect of colour, density, fineness of grind, dispersion level, level of dryness, texture, resistance, adhesion and flexibility.

After passing the quality control tests, the batch of paint products produced will be poured into labelled cans or buckets, packed, and moved to the warehouse for finished products pending for delivery. Solvent-based paint and coating products are transferred to the warehouse for dangerous goods pending the delivery to the customers.

## **PRODUCTION FACILITIES**

### **Production facilities and utilisation rates**

During the Track Record Period, we had four production facilities located in Shenzhen, Ezhou, Xuzhou and Xinfeng. Our production facilities are all situated close to highways which provide logistical advantages to our operations. We generally source raw material from suppliers which are closely located to our production facilities to minimise transportation cost and facilitate convenient delivery. As of 31 December 2016, our production facilities occupied a total site area of 385,413.5 sq. m. with an aggregate gross floor area of 76,004.0 sq. m., excluding buildings under construction. Our designed annual production capacity increased from 44,940.1 tonnes as of 31 December 2014 to 56,531.5 tonnes as of 31 December 2016.

All of our production facilities are designed to comply with the national quality control standards of the PRC. We have also maintained ISO 9001 for all of our production facilities.

## BUSINESS

The following map shows the location of our production facilities, branch companies and administrative headquarters as of the Latest Practicable Date:



## BUSINESS

The following sets forth further information on our production facilities as of the Latest Practicable Date:

Location of our production facilities	site area	Aggregate gross floor area	Utilisation rates for the year ended 31 December 2016	Principal products produced as of the Latest Practicable Date
	(sq. m.)	(sq. m.)	%	
Shajing Production Plant. . . . .	58,786.0	36,276.1	78.4	Water-based paint and coating products, wood coatings, anti-corrosive paint and coating products, nitrocellulose paint and coating products, thinner, industrial paint and coating products and solvent agents.
Ezhou Production Plant. . . . .	29,325.6	19,092.3	93.6	Water-based paint and coating products, wood paint and coating products, nitrocellulose paint and coating products, thinner and coatings, industrial paint and coating products and polyester autobody putty.
Xuzhou Production Plant <sup>(1)</sup> . . .	36,729.8	3,661.4	10.2	Business operations have been suspended.
Xinfeng Production Plant . . . .	260,572.1	16,974.2	110.1	Wood paint and coating products, nitrocellulose coatings and solvent agents.
<b>Total</b>	<u>385,413.5</u>	<u>76,004.0</u>		

*Note:*

- <sup>(1)</sup> The production activities of our Xuzhou Production Plant have been suspended since the end of May 2016 as part of our business strategy to reallocate our production capacity and pending the grant of the work safety licences for the production of solvent-based paint and coating products. We expect that the environmental assessment report would be completed during the first half of 2017. If our Xuzhou Production Plant were in commercial operation, it would have produced and sold solvent-based paint and coating products for Eastern and Central China markets.

## BUSINESS

The Shanghai Complex has not been used by us for our production requirements. The following sets forth (i) the designed annual production capacity of our production facilities; (ii) our actual production volume; and (iii) the utilisation rate of our production facilities for the Track Record Period:

	Designed annual production capacity <sup>(1)</sup> <i>tonnes</i>	Actual production volume <i>tonnes</i>	Utilisation rate <sup>(2)</sup> %
<b>Year ended 31 December 2014</b>			
Industrial paint and coating products			
Solvent-based .....	20,226.1	17,541.1	86.7
Water-based .....	79.6	86.8	109.0
	20,305.7	17,627.9	86.8
Architectural paint and coating products			
Solvent-based .....	420.8	779.3	185.2
Water-based .....	12,451.8	14,896.7	119.6
	12,872.6	15,676.0	121.8
General paint and coating and ancillary products .....	11,761.8	15,874.5	135.0
<b>Total</b>	44,940.1	49,178.4	109.4
<b>Year ended 31 December 2015</b>			
Industrial paint and coating products			
Solvent-based .....	26,722.1	13,390.8	50.1
Water-based .....	79.6	72.8	91.5
	26,801.7	13,463.6	50.2
Architectural paint and coating products			
Solvent-based .....	420.8	854.1	203.0
Water-based .....	12,451.8	9,256.3	74.3
	12,872.6	10,110.4	78.5
General paint and coating and ancillary products .....	16,857.2	14,403.2	85.4
<b>Total</b>	56,531.5	37,977.2	67.2
<b>Year ended 31 December 2016</b>			
Industrial paint and coating products			
Solvent-based .....	26,722.1	18,194.8	68.1
Water-based .....	79.6	218.0	273.9
	26,801.7	18,412.8	68.7
Architectural paint and coating products			
Solvent-based .....	420.8	638.6	151.8
Water-based .....	12,451.8	11,344.5	91.1
	12,872.6	11,983.1	93.1
General paint and coating and ancillary products .....	16,857.2	14,887.0	88.3
<b>Total</b>	56,531.5	45,282.9	80.1

Notes:

- (1) The designed production capacity for the year is based on 230 working days in a year with six working hours per day and two hours per day for maintenance.
- (2) The percentage of the actual production volume against the designed annual production capacity during the Track Record Period.

## **BUSINESS**

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Our production lines would be suspended for up to two hours each day for maintenance and repairs and change of product types. The production facilities at Xuzhou Production Plant have suspended commercial production since the end of May 2016 as part of our business strategy to reallocate our production capacity and pending the grant of the work safety licences for the production of solvent-based paint and coating products. We expect that the environmental assessment report would be completed during the first half of 2017. If our Xuzhou Production Plant were in commercial operation, it would have produced and sold solvent-based paint and coating products for Eastern and Central China markets. During the Track Record Period, we did not experience any material damage or prolonged suspension of production plants due to any material accidents or production facilities or equipment failure.

## BUSINESS

Our production facilities are not designed and used interchangeably for the water-based and the solvent-based paint and coating products because of their special features. The following sets forth (i) the designed annual production capacity; (ii) our actual production volume; and (iii) the utilisation rate of each of our production facilities during the Track Record Period:

	Shajing Production Plant			Ezho Production Plant			Xuzhou Production Plant <sup>(3)</sup>			Xinfeng Production Plant <sup>(4)</sup>		
	Designed annual production capacity <sup>(1)</sup> tonnes	Actual production volume tonnes	Utilisation rate <sup>(2)</sup> %	Designed annual production capacity <sup>(1)</sup> tonnes	Actual production volume tonnes	Utilisation rate <sup>(2)</sup> %	Designed annual production capacity <sup>(1)</sup> tonnes	Actual production volume tonnes	Utilisation rate <sup>(2)</sup> %	Designed annual production capacity <sup>(1)</sup> tonnes	Actual production volume tonnes	Utilisation rate <sup>(2)</sup> %
<b>Year ended 31 December 2014</b>												
Industrial paint and coating products.....	14,100.0	10,698.8	75.9	3,148.5	2,979.1	94.6	3,057.2	3,950.0	129.2			
Architectural paint and coating products...	9,688.0	11,585.2	119.6	3,184.6	4,090.8	128.5	–	–	–			
General paint and coating and ancillary products .....	8,152.6	12,080.2	148.2	1,061.5	1,355.4	127.7	2,547.7	2,438.9	95.7		N/A	
<b>Total</b>	<b>31,940.6</b>	<b>34,364.2</b>	<b>107.6</b>	<b>7,394.6</b>	<b>8,425.3</b>	<b>113.9</b>	<b>5,604.9</b>	<b>6,388.9</b>	<b>114.0</b>			
<b>Year ended 31 December 2015</b>												
Industrial paint and coating products.....	14,100.0	8,211.9	58.2	3,148.5	1,252.6	39.8	3,057.2	1,655.5	54.2	6,496.0	2,343.6	36.1
Architectural paint and coating products...	9,688.0	7,251.7	74.9	3,184.6	2,858.7	89.8	–	–	–	–	–	–
General paint and coating and ancillary products .....	8,152.6	6,656.6	81.7	1,061.5	1,069.8	100.8	2,547.7	1,190.8	46.7	5,095.4	5,486.0	107.7
<b>Total</b>	<b>31,940.6</b>	<b>22,120.2</b>	<b>69.3</b>	<b>7,394.6</b>	<b>5,181.1</b>	<b>70.1</b>	<b>5,604.9</b>	<b>2,846.3</b>	<b>50.8</b>	<b>11,591.4</b>	<b>7,829.6</b>	<b>67.5</b>
<b>Year ended 31 December 2016</b>												
Industrial paint and coating products.....	14,100.0	8,076.0	57.3	3,148.5	3,314.3	105.3	3,057.2	550.3	18.0	6,496.0	6,472.2	99.6
Architectural paint and coating products...	9,688.0	9,377.6	96.8	3,184.6	2,605.5	81.8	–	–	–	–	–	–
General paint and coating and ancillary products .....	8,152.6	7,576.3	92.9	1,061.5	998.3	94.0	2,547.7	22.2	0.9	5,095.4	6,290.2	123.4
<b>Total</b>	<b>31,940.6</b>	<b>25,029.9</b>	<b>78.4</b>	<b>7,394.6</b>	<b>6,918.1</b>	<b>93.6</b>	<b>5,604.9</b>	<b>572.5</b>	<b>10.2</b>	<b>11,591.4</b>	<b>12,762.4</b>	<b>110.1</b>

Notes:

- (1) The designed production capacity for the year is based on 230 working days in a year with six working hours per day and two hours per day for maintenance.
- (2) The percentage of actual production volume against the designed production capacity for the year.
- (3) Our Xuzhou Production Plant has ceased commercial production since the end of May 2016 pending the grant of work safety licences for the production of solvent-based paint and coating products. We expect that the environmental assessment report would be completed during the first half of 2017. If our Xuzhou Production Plant were in commercial operation, it would have produced and sold solvent-based paint and coating products for Eastern and Central China markets.
- (4) Xinfeng Production Plant commenced its trial production in June 2013 and commercial production in May 2015 respectively. As confirmed by Inspection Service Center of Production License, which is an affiliated institution of Quality and Technical Supervision Bureau of Guangdong Province and is responsible for publicity and implementing of policies of production license, on-site inspection for approval of production license and consulting services for enterprises regarding the same, due to the reform of production license system for industrial products, enterprises in paint and coating industry are not required to apply for National Production License for Industrial Products temporarily according to the regulatory practice in Guangdong Province.



## **BUSINESS**

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### **Shajing Production Plant**

Our production facilities operated by China Paint Shenzhen is located at Yabian Industrial Zone, Shajing Town, Bao'an District, Shenzhen City, the PRC. As of 31 December 2016, the production facilities occupied a total site area of 58,786.0 sq. m., which includes the factory premises, administrative offices and staff quarters of gross floor area of 36,276.1 sq. m.

Our Shajing Production Plant primarily produces water-based paint and coating products, wood coatings, anti-corrosive paint and coating products, nitrocellulose paint and coating products, thinner, industrial paint and coating products and solvent agents. Since 1993, we started the commercial production at our Shajing Production Plant. During the Track Record Period, we have continuously improved the plant and machinery and the production process used in our Shajing Production Plant. The designed annual production capacity of our Shajing Production Plant is 31,940.6 tonnes of paint and coating products in 2016.

The percentage of the production output from our Shajing Production Plant to our total production output for each of the Track Record Period amounted to 69.9%, 58.2% and 55.3%, respectively. In 2016, the designed annual production capacity of our Shajing Production Plant was 31,940.6 tonnes of paint and coating products. The utilisation rate of our Shajing Production Plant was 107.6%, 69.3% and 78.4% for each of the Track Record Period, respectively. The decrease in the utilisation rate in 2015 was due to the decreased demand for our paint and coating products and the commencement of commercial production activities at our Xinfeng Production Plant in May of 2015. We shifted some of the production activities to our Xinfeng Production Plant.

### **Ezhou Production Plant**

Our Ezhou Production Plant is located at Road No. 4, Gedian Economic and Technological Development Zone, Ezhou City, Hubei Province, the PRC. As of 31 December 2016, the production facility and staff quarters occupied a total site area of 29,325.6 sq. m. and a gross floor area of 19,092.3 sq. m.

Our Ezhou Production Plant produces water-based paint and coating products, wood paint and coating products, nitrocellulose paint and coating products, thinner and coatings, industrial paint and coating products and polyester autobody putty.

The percentage of the production output from our Ezhou Production Plant to our total production output for each of the Track Record Period amounted to 17.1%, 13.7% and 15.3%, respectively. In 2016, the designed annual production capacity of our Ezhou Production Plant was 7,394.6 tonnes of paint and coating products. The utilisation rate of our Ezhou Production Plant was 113.9%, 70.1% and 93.6% for each of the Track Record Period, respectively.

## **BUSINESS**

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### **Xuzhou Production Plant**

Our Xuzhou Production Plant is located at 22 Jinshui Road, Xuzhou Economic Development Zone, Jiangsu Province, the PRC. As of 31 December 2016, the production facility occupied a total site area of 36,729.8 sq. m. and a gross floor area of 3,661.4 sq. m.

Xuzhou Production Plant mainly produced autobody putty and nitrocellulose thinner. The designed annual production capacity of Xuzhou Production Plant was 5,604.9 tonnes. Our Xuzhou Production Plant was only licensed to produce nitrocellulose thinner and ancillary products such as autobody putty. Because of such limitation, we plan to modify and upgrade the production facility so that the production plant can produce a wide range of solvent-based paint and coating products. Our Directors believe that such modifications and upgrades require a suspension of the commercial production of our Xuzhou Production Plant pending the grant of the work safety licence. We can reallocate the production process to our Ezhou Production Plant which is not in full capacity. The capital expenditure on the modifications and upgrades is estimated to be HK\$2.0 million which is expected to be financed by our internally generated financial resources, of which we incurred HK\$0.1 million as of the Latest Practicable Date.

The percentage of the total production output from our Xuzhou Production Plant to our total production output for each of the Track Record Period amounted to 13.0%, 7.5%, and 1.2%, respectively. In 2016, the designed annual production capacity of Xuzhou Production Plant was 5,604.9 tonnes of paint and coating products. The utilisation rate at our Xuzhou Production Plant was 114.0%, 50.8% and 10.2%, during the Track Record Period, respectively. The decrease in the utilisation rate was primarily due to the decreased production volume of nitrocellulose thinner and the shift of the production activities to our Xinfeng Production Plant which is designed as our flagship production plant for the production of solvent-based and water-based paint and coating products. The commercial production of our Xuzhou Production Plant has been suspended since May 2016 pending the grant of work safety licences for the proposed production activities of solvent-based paint and coating products. We expect that the environmental assessment report would be completed during the first half of 2017. If our Xuzhou Production Plant were in commercial operation, it would have produced and sold solvent-based paint and coating products for Eastern and Central China markets.

The estimated annual production capacity upon completion of the modifications and upgrades would be 8,000 tonnes of different types of solvent-based paint and coating products. As our Xuzhou Production Plant is located in the Eastern China, the products can be delivered at low cost to customers in Eastern and Central China where our Directors believe that there will be sufficient demand for our solvent-based paint and coating products.

### **Xinfeng Production Plant**

Our Xinfeng Production Plant is located at 18, Jiuzu, Sanwei, Hengjiang Village, Fengcheng Sub-district Office, Xinfeng County, Shaoguan City, Guangdong Province, the PRC. As of 31 December 2016, the production facility occupied a total site area of 260,572.1 sq. m. and a gross floor area of 16,974.2 sq. m.

Xinfeng Production Plant is used for the production of solvent-based paint and coating products, such as wood paint and coating products, nitrocellulose coatings and solvent agent. Xinfeng Production Plant was under trial production during the period from June 2013 to May 2015.

## **BUSINESS**

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Our Directors consider that there will be sufficient product demand for increase in production capacity of Xuzhou Production Plant and Xinfeng Production Plant for the following reasons:

- Jiangsu Province and Guangdong Province, where the two plants locate, are among the largest three provinces in the PRC in terms of output of paints and coatings as a result of strong local demand;
- as the production capacity in Xuzhou Production Plant after the upgrade (8,000 tonnes) accounted for a small fragment of total output in Jiangsu Province (around 0.4%), the market in Jiangsu Province is large enough to absorb such additional production capacity; and
- the utilisation rate of Xinfeng Production Plant was at a high level in the year ended 31 December 2016, indicating strong market demand.

The percentage of the production output of our Xinfeng Production Plant to our total production output for the year ended 31 December 2015 and 31 December 2016 amounted to 20.6% and 28.2%, respectively. In 2016, the designed annual production capacity of Xinfeng Production Plant was 11,591.4 tonnes of paint and coating products. The utilisation rate at our Xinfeng Production Plant was 67.5% and 110.1%, respectively, for the two years ended 31 December 2016. The high utilisation rate in 2016 was primarily due to our strategic focus on producing limited range of thinner and solvent-based paint and coating products at our Xinfeng Production Plant. We intend to use net proceeds from the [REDACTED] of HK\$[REDACTED] to finance the construction of our Xinfeng Production Plant. Following completion of the construction, our Xinfeng Production Plant will have an annual production capacity of 11,591 tonnes of solvent-based and 20,000 tonnes of water-based paint and coating products. Further information is set forth in the section headed “Future Plans and Use of Net Proceeds from the [REDACTED] – Use of net proceeds from the [REDACTED]” in this [REDACTED].

## **BUSINESS**

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### **Utilisation rates of our production plants**

Our Directors confirm that utilisation rates of our production plants (other than our Xuzhou Production Plant which has been suspended since the end of May 2016) in 2016 were in the range between 78.4% and 110.1%, representing a significant improvement from the range between 67.5% and 70.1% in 2015. The improvement reflected that the decrease in the amount of revenue in 2015 was primarily due to short-term factors. With the adjustments in the product portfolios, average selling prices and the additional incentives to the distributors, our performance has been improved from the low level in 2015. The introduction of the Recent Regulations and other similar regulations in PRC cities has no material impact on the demand for our paint and coating products.

Our Directors further confirm that we plan to establish our Xinfeng Production Plant as our important production plant for all types of paint and coating products, with focus on the water-based paint and coating products, serving the customers in Southern China. Thus, our Xinfeng Production Plant has been designed to include all facilities not only for the current production requirements, but also the expected increase in the production volume of different kinds of water-based paint and coating products. On this basis, our Directors consider that it would be in our interest and it would provide us with additional flexibility to maintain additional capacity in terms of production facilities, product research and development facilities and warehouses for future expansion. In addition, certain areas within the Xinfeng Production Plant have been designated for the production of the solvent-based paint and coating products. Our Directors therefore believe that the expansion plan of the Xinfeng Production Plant is appropriate in light of our most recent business development.

### **Transportation**

All of our production facilities in the PRC are strategically located with convenient access to highways in the PRC.

We primarily rely on highway to deliver raw materials to our production facilities. Some of our imported raw materials are delivered to the port close to our production plants, where we arrange transportation of these raw materials to our production plants by highway.

The cost of delivery of our finished products, if required, is included in the purchase price that we charge to our customers. For sales to customers in the PRC and Hong Kong, some of our customers take delivery of our products at our production facilities. Generally, we will arrange with Independent Third Parties to deliver our products to the designated location as required by the customers.

## BUSINESS

### Plant and machinery

We have made significant investments in our production facilities. We purchased components from different suppliers for installation and assembly of production facilities. We also rely on our own expertise to support on-site maintenance for our production facilities. We select some of the suppliers of our plant and machinery through bidding process and we select the suppliers based on the bidding price, among other factors. During the Track Record Period, we have not experienced any material delay in sourcing, delivery or installation of our production facilities.

As of the Latest Practicable Date, we owned all the principal plant and machinery used in our production and did not have plan, other than those set forth in the section headed “Future Plans and Use of Net Proceeds from the [REDACTED]” in this [REDACTED], for material replacement of principal plant and machinery. Our principal plant and machinery generally have useful lives of around 10 years and such useful lives may be extended with appropriate repairs and maintenance. We believe that our production facilities are well maintained and are in good operating condition. We have implemented procedures and guidelines for the operation, management and maintenance of our production facilities. We carry out regular inspections to have assessment of the condition of our production facilities and conduct regular repair and maintenance. We estimate that the average remaining useful lives of our production facilities are in the range between 3.8 years and 8.9 years. During the Track Record Period, we did not experience any unexpected suspension of operations as a result of failure of our production facilities.

The following sets forth some of our production machinery and instrument and their respective usage in our production process:

#### *Production machinery*

- Vacuum dispenser . . . . . This machine is used to remove water and gases during the production process and can mix and disperse high viscosity products.
- Basket mill . . . . . This is a dispersion machine with high efficiency that requires less time than the normal sand mill for dispersion and reduces the time taken to change colours for different batches.
- High-speed dispersion mixer . . . . . This mixer is used in high-speed dispersion mixer. Its working principle is that the serrated circular scattered disk of high-speed disperser rotates at high speed in a container for solid-liquid dispersion, wetting, depolymerisation and stabilisation process.
- Disperse mixer . . . . . The machine comprises a rotating shaft with blades in a cylinder or tank mixing various raw materials, making them a mixture or producing the suitable degree of density.

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## BUSINESS

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Horizontal sand mill . . . . . The horizontal sand mill is used to transmit solid-liquid mixture which is pre-dispersed and moistened by a mixer into a cylinder through a feeding pump. Materials and the grinding media in the cylinder are blended by high-speed rotating disperser so that the collisions, friction and shear force among solid particles in the materials, and the grinding media will be produced more intensively for the purposes of accelerating the levigation of particles and dispersing the mixture. The grinding media will be separated through dynamic separator from the materials after being grinded and dispersed, and will flow out from the discharging pipe. Horizontal sand mill specially serves the purposes of dispersing and grinding products with high viscosity and fine granularity requirement.

Three-roll grinder . . . . . This machine is used to achieve the right level of grinding effect with surface mutual extrusion created by three horizontally positioned rolls rotating in opposite directions and different speeds relative to each other. Three-roll grinder is the most effective grinding and dispersing device for highly viscous materials.

### *Production instrument*

Colour computer system . . . . . This is a colour matching system which is used to detect composition of pigments during the development stage for colour matching.

Ultraviolet tester . . . . . This machine is used to evaluate the performance of finishes.

Atomic absorption . . . . . Atomic absorption spectrophotometer is used to test the contents of  
spectrophotometer toxic heavy metal elements contained in coating materials (toys) and relevant raw materials.

Ultraviolet weather resistant . . . . . This machine is used to test the weather resistant properties of  
tester resistant tester finishes.

## BUSINESS

### *Testing equipment*

- Automatic production control . . . . This system is used for achieving automatic control in the production process of feedings by using equipments such as on-site weighing instruments, operating panels, transmission pumps and pneumatic switch valves. The system comprises two sets of host computers. Operators can monitor and control the production process through the software installed in the host computers, and record all information regarding the production process, such as enquiries about and printing of the feeding records. The feeding control system is used for transmitting the raw materials from the storage tank area to the mixing tanks in different solvent workshops and paints workshops, and monitoring and controlling the production process. Each production tank is controlled by a corresponding feeding control panel which devises and maintains production formula specified for every type of products offered by using automatic product formula control programme. During the production process, the paint and coating products will be produced accordingly to the formulas entered into in the system. This will increase the production efficiency.
- Inductively coupled plasma mass . . Inductively coupled plasma mass spectrometer is mainly used in spectrometer trace metal elements analysis. Compared with inductively coupled plasma optical emission spectrometer, this equipment can provide extreme tests with lower limits.
- Inductively coupled plasma . . . . . Inductively coupled plasma optical emission spectrometer is used to optical emission spectrometer test the contents of toxic heavy metal elements contained in coating materials (toys) and relevant raw materials. The advantage of using this equipment is that it is able to test several elements which are awaiting to be tested in one sample at the same time.
- Gas chromatography mass . . . . . Gas chromatography mass spectrometer is used to test the contents of VOC and semi-VOC contained in coating materials (toys) and spectrometer relevant raw materials.



## BUSINESS

### SALES AND SALES CHANNELS

#### Revenue

The following sets forth an analysis of our revenue by the three principal types of our paint and coating products during the Track Record Period:

	Year ended 31 December					
	2014		2015		2016	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Industrial paint and coating products . . . . .	626,288	55.3	472,700	54.5	527,354	56.3
Architectural paint and coating products . . . . .	246,063	21.8	172,158	19.8	195,037	20.8
General paint and coating and ancillary products <sup>(1)</sup> . . . . .	258,954	22.9	223,139	25.7	215,059	22.9
<b>Total</b>	<b>1,131,305</b>	<b>100</b>	<b>867,997</b>	<b>100</b>	<b>937,450</b>	<b>100</b>

*Note:*

- (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.

During the Track Record Period, our paint and coating products sold for the retailing wood coating market amounted to HK\$501.6 million, HK\$405.4 million and HK\$417.9 million, respectively, representing 44.3%, 46.7% and 44.6% of our revenue.

#### *Industrial paint and coating products*

During the Track Record Period, revenue derived from our sales of industrial paint and coating products amounted to HK\$626.3 million, HK\$472.7 million and HK\$527.4 million, respectively, representing 55.3%, 54.5% and 56.3% of our revenue. Our production of industrial paint and coating products during the Track Record Period was 17,627.9 tonnes, 13,463.6 tonnes and 18,412.8 tonnes, respectively. As of 31 December 2016, our aggregate designed annual production capacity of industrial paint and coating products was 26,801.7 tonnes and the utilisation rate was 68.7%.

Wood coating constitutes a major product category of our industrial paint and coating products. According to *Frost & Sullivan*, we ranked sixth and fifteenth in the retailing wood coating market and the wood coating market in the PRC in terms of revenue in 2016 with a market share of 5.9% and 1.6%, respectively. During the Track Record Period, revenue derived from our sales of wood coatings amounted to HK\$505.0 million, HK\$415.0 million and HK\$435.2 million, respectively, representing 44.6%, 47.8% and 46.4% of our revenue.

## BUSINESS

### *Architectural paint and coating products*

During the Track Record Period, revenue derived from our sales of architectural paint and coating products amounted to HK\$246.1 million, HK\$172.2 million and HK\$195.0 million, respectively, representing 21.8%, 19.8% and 20.8% of our revenue. Our production of architectural paint and coating products during the Track Record Period was 15,676.0 tonnes, 10,110.4 tonnes and 11,983.1 tonnes, respectively.

### *General paint and coating and ancillary products*

Our general paint and coating and ancillary products consist primarily of thinner, enamels, solvent agent, anti-mold agent, colouring agent and other ancillary products for paint and coating purpose. During the years ended 31 December 2014, 2015 and 2016, revenue derived from our sales of general paint and coating and ancillary products amounted to HK\$259.0 million, HK\$223.1 million and HK\$215.1 million, respectively, representing 22.9%, 25.7% and 22.9% of our revenue. Our production of general paint and coating and ancillary products during the Track Record Period was 15,874.5 tonnes, 14,403.2 tonnes and 14,887.0 tonnes, respectively.

The following sets forth the average selling prices and the gross profit margins of the three principal types of our paint and coating products during the Track Record Period:

	Year ended 31 December					
	2014		2015		2016	
	<i>Average selling price</i>	<i>Gross profit margin</i>	<i>Average selling price</i>	<i>Gross profit margin</i>	<i>Average selling price</i>	<i>Gross profit margin</i>
	<i>HK\$'000/tonne</i>	<i>%</i>	<i>HK\$'000/tonne</i>	<i>%</i>	<i>HK\$'000/tonne</i>	<i>%</i>
Industrial paint and coating products . . . . .	33.9	36.5	34.7	39.6	28.7	38.7
Architectural paint and coating products . . . . .	15.8	32.5	15.9	31.5	16.4	36.5
General paint and coating and ancillary products <sup>(1)</sup> . . . . .	14.8	33.0	15.1	37.2	14.4	33.4

*Note:*

- (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.

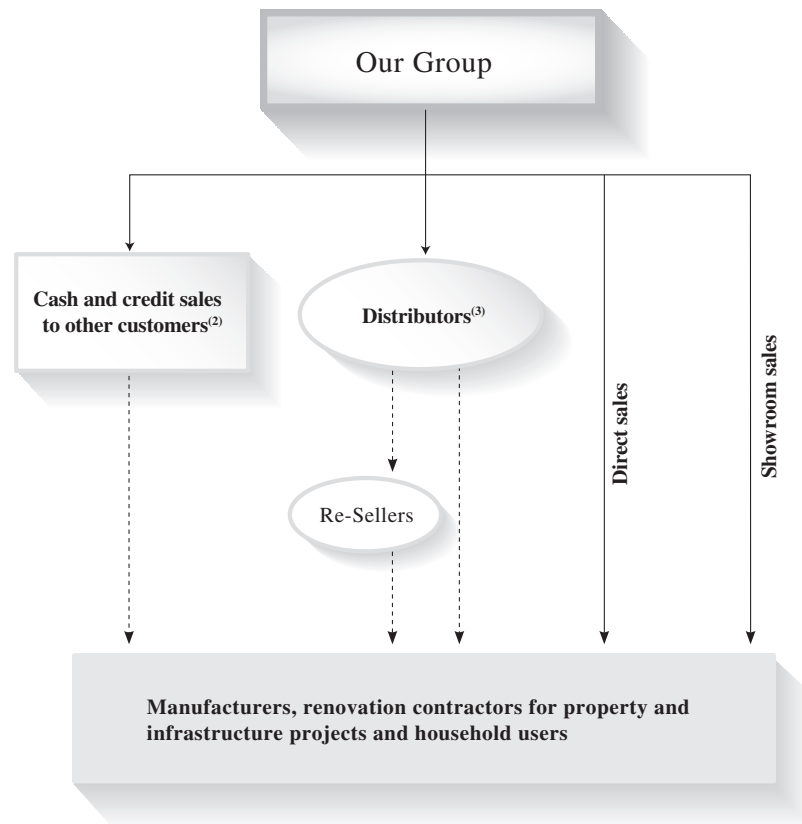
During the Track Record Period, revenue derived from our sales of solvent-based paint and coating products amounted to HK\$896.9 million, HK\$706.0 million and HK\$746.9 million, respectively, representing 79.3%, 81.3% and 79.7% of our revenue for the respective periods. During the Track Record Period, revenue derived from our sales of water-based paint and coating products amounted to HK\$234.4 million, HK\$162.0 million and HK\$190.6 million, respectively, representing 20.7%, 18.7% and 20.3% of the revenue.

## BUSINESS

### Sales channels

We have an established customer base for our industrial paint and coating products and architectural paint and coating products. “Giraffe (長頸鹿牌)” and “Flower (菊花牌)” are well established brand names in Hong Kong and the PRC. Our paint and coating products are primarily sold to customers in Hong Kong and the PRC. As of 31 December 2016, our five largest customers have been conducting business with us for a period ranging from seven years to 20 years. All of our customers are Independent Third Parties and most of them are distributors.

The following diagram illustrates our sales channels in Hong Kong and the PRC:



#### Notes:

- (1) The solid lines represent the sales conducted by us and the transactions recognised by us as sales. The dotted lines represent the on-sales transactions conducted by the distributors and re-sellers.
- (2) These customers will re-sell our paint and coating products to their own customers. We do not consider them as distributors because the amount of sales to them does not satisfy the quantitative requirements for entering into an annual distribution agreement with each of them. As of the Latest Practicable Date, we had 260 customers with whom we had ongoing business with them during the last 12 months. These customers may be categorised as distributors with annual distribution agreement when they have achieved the quantitative requirements and our internal assessment of their credit worthiness.
- (3) As of 31 December 2016, we had appointed 465 distributors in Hong Kong and the PRC. A summary of the material terms between the distributors in the PRC and us is set forth in the paragraphs under “Distributors – Principal terms of the annual distribution agreements” below. We have requested the distributors in the PRC to follow our recommended price for each paint and coating product in each sales region. A list of the suggested retail prices will be distributed to them. The terms of trade are different amongst the distributors in the PRC considering the length of business history, the sales volume, the location and the credit worthiness of each distributor. The terms of trade between the distributors in the PRC and resellers and determined by them without our involvement.

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The following sets forth a breakdown of our revenue generated through different sales channels for the Track Record Period:

	Year ended 31 December					
	2014		2015		2016	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
<b>Distributors</b>						
Distributors – PRC . . . . .	685,956	60.6	578,766	66.7	618,807	66.0
Distributors – Hong Kong . . . . .	81,208	7.2	50,202	5.8	65,691	7.0
	<u>767,164</u>	<u>67.8</u>	<u>628,968</u>	<u>72.5</u>	<u>684,498</u>	<u>73.0</u>
<b>Direct sales . . . . .</b>	223,973	19.8	169,903	19.6	206,911	22.1
<b>Cash and credit sales to other customers . . . . .</b>	139,052	12.3	68,616	7.9	45,373	4.8
<b>Showroom sales . . . . .</b>	1,116	0.1	510	*	668	0.1
<b>Total</b>	<u>1,131,305</u>	<u>100</u>	<u>867,997</u>	<u>100</u>	<u>937,450</u>	<u>100</u>

\* Value insignificant

Through the appointment of distributors, which are Independent Third Parties, we have established a nationwide sales and distribution network for our paint and coating products in the PRC and Hong Kong. In addition to the distributors, we have also established a diverse customer base comprising manufacturers and renovation contractors for property and infrastructure projects in Hong Kong and PRC. The distributors consist of wholesale distributors and distributors in retail business. Wholesale distributors sell and distribute our products to their own customers or resellers. Distributors in retail business consist of specialised paint shops, hardware stores and building material shops in Hong Kong and the PRC. We also sell our paint and coating products through our 10 branch companies established in different locations in the PRC and our showroom in Shenzhen. Further information on the distributors is set forth in the paragraphs under “Distributors” below.

In addition to our sales to distributors, we also sell our paint and coating products directly to manufacturers, renovation contractors for property and infrastructure projects and household users through direct sales, sales of our branch companies to other wholesale customers established in the PRC and our showroom in Shenzhen. We also have direct sales to hardware stores, building material shops and paint specialist shops in Hong Kong and the PRC. During the Track Record Period, our showroom sales were minimal. During the Track Record Period, direct sales accounted for 19.8%, 19.6% and 22.1%, respectively, of our revenue. During the Track Record Period, our sales through sales orders issued by our branch companies accounted for 12.3%, 7.9% and 4.8%, respectively, of our revenue.

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## BUSINESS

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### Branding and marketing

We believe that strong brand recognition and marketing efforts have been instrumental to the success of our business and we place strong emphasis on marketing and promotion of our brands and products. Our brands of “*Flower* (菊花牌)”, “*Giraffe* (長頸鹿牌)” and “*Toy Brand* (玩具牌)” enjoy strong brand recognition in both Hong Kong and the PRC and have received a number of awards over the years as renowned brand names in Hong Kong and the PRC. Further information is set forth in the section headed “Business – Our awards and recognitions” in this [REDACTED]. Our sales and marketing team is responsible for formulating the overall marketing and branding strategies. We undertake various promotional activities to improve sales and enhance brand recognition of our products.

As of 31 December 2016, we had 241 sales and marketing staff who are dedicated to the promotion of our products to potential and existing customers. We advertise our products and promote our brands through different media, such as billboards and internet signage, advertising platforms on public transports, television commercials and in-store advertisements. In addition, we use our own websites to publicise new products and promote our brands. We promote our products through product exhibitions through which we could explain and introduce the features, and application of our products to our existing and potential customers. We also regularly conduct customer surveys on the requirements and needs of customers, which are taken into consideration when we formulate our production, sales and research strategies to develop products to meet the demands. Our sales and marketing staff have regular contact with the distributors and regularly visit our customers to see if the customers are satisfied with our products so that we can be kept informed of the current market and product developments and the needs and technical specifications required by our customers. Such feedback is significant to our formulation of the relevant production and sales strategies and will be communicated to the technology department.

During the Track Record Period, we incurred marketing and promotion expenses of HK\$42.1 million, HK\$34.9 million and HK\$27.7 million, respectively, representing 24.8%, 22.3% and 18.7% of our selling and distribution expenses. We will continue to focus on other marketing and promotional activities to increase the visibility and awareness of our brands.

### Pricing

We review and adjust our products prices from time to time based on these factors and other general market conditions. Our pricing strategy is determined with reference to five principal factors: (1) the market supply and demand, (2) our production costs and capacity, (3) the targeted gross profit margin of our products and (4) the prices of similar products offered by the competitors of the Group; and (5) the acceptable price ranges of our products by our customers/distributors.

Prior to the substantial decrease in our revenue in 2015, our pricing policy focused on maintaining high gross profit margin because of our well-recognised brands. Such pricing strategy resulted in losing market share when our competitors reduced the selling prices of their products for price competition. We currently adopt a flexible pricing strategy with focus on demand and supply dynamics and price incentives, rather than a fixed gross profit margin on the sales of our products. In addition, one of our strategies is to provide additional discount to the distributors as the incentives to those distributors which can meet the sales targets set forth in the distribution agreement. Our Directors believe that the increased discounts will provide further incentives to the distributors for the promotion of our paint and coating products and thus, increase the sales of our products and our market share.

## **BUSINESS**

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With the well-recognised brands, our Director considers that our pricing strategy should focus on the medium to high-end customers. In summary, we have implemented an improved pricing strategy with focus on demand and supply dynamics and price incentives, instead of making reference to certain profit margins in addition to the cost of our products.

The amount of sales rebates is subject to adjustments from time to time taking into consideration the purchase volume and the length of business history with us. During the Track Record Period, the amount of sales rebates paid to the distributors of our Group amounted to HK\$35.0 million, HK\$28.1 million and HK\$24.4 million, respectively. The volume discounts given to the distributors in the PRC were up to 10% and in Hong Kong were in the range between 10% and 20% during the Track Record Period.

We provide recommended retail prices for our paint and coating products to the distributors. We have requested the distributors to follow our recommended price for each product in each sales region. During the Track Record Period, the recommended retail prices for our paint and coating products were in the range between HK\$23.9 per kilogram and HK\$141.27 per kilogram depending on the nature of our paint and coating products, the packaging size and the applications or features of the relevant products.

In order to monitor whether our products are being sold pursuant to our recommended retail price, our sales personnel have frequent visits to the distributors and their retail channels. Further information is set forth in the paragraphs under “Distributors” below.

Since April 2016, we have also established a dedicated “Price Monitoring Team” comprising five and senior management and staff members from our sales department, purchase functions, sales administration, and marketing and finance department. The team is responsible for collecting the updated information on the latest selling prices and new products of our competitors.

### **Seasonality**

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

## BUSINESS

### OUR CUSTOMERS

Our customers are principally engaged in the distribution business of paint and coating products and they sell the products to re-sellers or end users in manufacturing, construction and renovation businesses and industries. As of 31 December 2016, we had over 1,000 customers. The following sets forth the industries in which our customers were engaged during the Track Record Period:

	Year ended 31 December		
	2014	2015	2016
	<i>No. of customers</i>	<i>No. of customers</i>	<i>No. of customers</i>
Distributors and customers of our branch companies	874	823	707
Construction industry . . . . .	82	67	126
General manufacturing industry . . . . .	91	78	95
Toy manufacturing industry . . . . .	22	22	31
Electronics appliance manufacturing industry . . . . .	26	21	18
Metal and moulding industry . . . . .	8	9	23
Other industries <sup>(2)</sup> . . . . .	238	331	304
<b>Total</b>	<b>1,341</b>	<b>1,351</b>	<b>1,304</b>

*Notes:*

<sup>(1)</sup> The information above is based on information provided by our customers.

<sup>(2)</sup> Other industries include apparel manufacturing, plant and machinery factories and garage.

Our customers include distributors, manufacturers and renovation contractors for property and infrastructure projects. Further information on the distributors is set forth in the paragraphs under “Distributors” below. In addition to our sales to distributors, we have also established a diverse customer base comprising manufacturers and renovation contractors for property and infrastructure projects. Customers of our industrial paint and coating products include manufacturers of various products ranging from customer electronics, machinery and mechanical equipment, toys, electrical appliances, furniture to marine and automotive products and household users. Customers of our architectural paint and coating products include renovation contractors for property and infrastructure projects. As of 31 December 2016, we had 1,304 customers, of which 465 distributors were engaged in wholesale and retail businesses.



## BUSINESS

Our customers are primarily located in Hong Kong and the PRC. During the Track Record Period, our revenue generated from sales to customers located in the PRC accounted for 91.9%, 92.8% and 91.5% of our revenue, respectively, with a majority of our revenue generated from the sales in Southern China and Eastern China.

The following sets forth our revenue by customers in different geographical locations for the Track Record Period:

	Year ended 31 December					
	2014		2015		2016	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
<b>PRC</b>						
Southern China . . . . .	593,818	52.5	555,427	63.9	565,248	60.3
Eastern China . . . . .	225,271	19.9	129,466	14.9	148,116	15.8
Central China . . . . .	104,370	9.2	54,629	6.3	69,810	7.4
Southwestern China. . . . .	63,805	5.6	32,691	3.8	37,389	4.0
Northern China <sup>(1)</sup> . . . . .	26,922	2.4	20,500	2.4	24,911	2.7
Northwestern China. . . . .	19,172	1.7	7,537	0.9	7,060	0.8
Northeastern China <sup>(2)</sup> . . . . .	6,342	0.6	5,138	0.6	4,683	0.5
	<u>1,039,700</u>	<u>91.9</u>	<u>805,388</u>	<u>92.8</u>	<u>857,217</u>	<u>91.5</u>
Hong Kong . . . . .	91,360	8.1	62,557	7.2	80,233	8.5
Singapore . . . . .	<u>245</u>	<u>*</u>	<u>52</u>	<u>*</u>	<u>*</u>	<u>*</u>
<b>Total</b>	<u><u>1,131,305</u></u>	<u><u>100</u></u>	<u><u>867,997</u></u>	<u><u>100</u></u>	<u><u>937,450</u></u>	<u><u>100</u></u>

\* Value insignificant

*Notes:*

<sup>(1)</sup> Northern China refers to Beijing, Tianjin, Hebei Province, Shanxi Province and Inner Mongolia.

<sup>(2)</sup> Northeastern China refers to Liaoning Province, Jilin Province and Heilongjiang Province.

## BUSINESS

All of our direct sales are conducted by our sales and marketing teams without the involvement of distributors. We provide support to our direct sales customers primarily in the form of product information and technical support.

The following sets forth further information on our five largest customers during the Track Record Period:

### Year ended 31 December 2014

Name of customer	Types of products sold to our customer	Principal business of our customer	Principal business location	Total sales during the year (HK\$'000)	% of total revenue during the year	Length of relationship with us (Years)
Customer C.....	Polyurethane wood coating (polyurethane), super enamel (polyurethane), thinner, water-based wood coating, emulsion macromer oil-based exterior top coatings, epoxy paint, polyester auto-body putty, colouring agent, lacquer, enamel.	Distributor	Foshan	26,476.8	2.3	20
Customer F.....	Thinner for emulsion paints (thinner), oil-based exterior top coatings.	Construction industry	Foshan	24,910.2	2.2	19
Customer B.....	Polyurethane wood coating (polyurethane), thinner, water-based wood coating, emulsion polyester auto-body putty, colouring agent, lacquer, enamel.	Distributor	Shenzhen	24,375.8	2.2	8
Customer D.....	Polyurethane wood coating (polyurethane), thinner, water-based wood coating, emulsion epoxy paint, polyester auto-body putty, lacquer, enamel.	Distributor	Shenzhen	24,102.3	2.1	7
Customer G.....	Polyurethane wood coating (polyurethane), thinner, water-based wood coating, emulsion polyester auto-body putty, lacquer, enamel.	Distributor	Shantou	20,484.4	1.8	13

## BUSINESS

### Year ended 31 December 2015

Name of customer	Types of products sold to our customer	Principal business of our customer	Principal business location	Total sales during the year <i>(HK\$'000)</i>	% of total revenue during the year	Length of relationship with us <i>(Years)</i>
Customer C. ....	Polyurethane wood coating (polyurethane), super enamel (polyurethane), thinner, water-based wood coating, emulsion macromer oil-based exterior top coatings, epoxy paint, polyester auto-body putty, colouring agent, lacquer, enamel.	Distributor	Foshan	37,326.3	4.3	20
Customer G. ....	Polyurethane wood coating (polyurethane), thinner, water-based wood coating, emulsion polyester auto-body putty, lacquer, enamel.	Distributor	Shantou	24,441.7	2.8	13
Customer D. ....	Polyurethane wood coating (polyurethane), thinner, water-based wood coating, emulsion paint, polyester auto-body putty, lacquer, enamel.	Distributor	Shenzhen	22,566.3	2.6	7
Customer H. ....	Polyurethane wood coating (polyurethane), thinner, water-based wood coating, colouring agent for emulsion paint, lacquer, enamel.	Distributor	Jieyang	17,189.8	2.0	12
Customer B. ....	Polyurethane wood coating (polyurethane), thinner, water-based wood coating, emulsion polyester auto-body putty, colouring agent, lacquer, enamel.	Distributor	Shenzhen	17,168.7	2.0	8

## BUSINESS

### Year ended 31 December 2016

Name of customer	Types of products sold to our customer	Principal business of our customer	Principal business location	Total sales during the year (HK\$'000)	% of total revenue during the year	Length of relationship with us (Years)
Customer C.....	Polyurethane wood coating (polyurethane), super enamel (polyurethane), thinner, water-based wood coating, emulsion macromer oil-based exterior top coatings, epoxy paint, polyester auto-body putty, colouring agent, lacquer, enamel.	Distributor	Foshan	38,597.2	4.1	20
Customer G.....	Polyurethane wood coating (polyurethane) thinner, water-based wood coating, emulsion polyester auto-body putty, lacquer, enamel.	Distributor	Shantou	37,995.3	4.1	13
Customer D.....	Polyurethane wood coating (polyurethane) thinner, water-based wood coating, emulsion paint, polyester auto-body putty, lacquer, enamel.	Distributor	Shenzhen	24,314.2	2.6	7
Customer I.....	Polyurethane wood coating (polyurethane), enamel, thinner, water-based wood coating, emulsion polyester auto-body putty, emulsion paint, colouring agent.	Distributor	Guangzhou	24,263.8	2.6	8
Customer B.....	Polyurethane wood coating (polyurethane), thinner, water-based wood coating, emulsion polyester auto-body putty, colouring agent, lacquer, enamel.	Distributor	Shenzhen	19,213.0	2.0	8

During the Track Record Period, sales to our five largest customers accounted for 10.6%, 13.7% and 15.4% of our revenue, respectively, and sales to our largest customer accounted for 2.3%, 4.3% and 4.1% of our revenue, respectively. All of the above five largest customers are independent third parties and none of our Directors, their respective associates or any Shareholders who own more than five per cent. of our issued share capital, to the knowledge of our directors, had any interest in any of the above five largest customers during the Track Record Period.

No single customer accounted for more than five per cent. of our revenue for each of the Track Record Period. As such, we have no exposure to the customer concentration risk.

## **BUSINESS**

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We generally offer our customers credit period of 30 days. Payments are settled by bank acceptance bills and cash. We make assessment on the credibility of our customers and their order volume to decide on the credit period to be offered. In addition, we may provide credit period of up to 150 days from the end of the months during which the invoice was issued for certain long-term customers under exceptional circumstances. Further information on the extension of the credit period during the Track Record Period is set forth in the section headed “Financial Information – Principal components of our current assets and current liabilities – Trade and bills receivables” in this [REDACTED]. We may require upfront payment before delivery for certain of our customers and new customers.

Our sales are denominated predominantly in RMB or HK dollars.

### **DISTRIBUTORS**

#### **Background information**

Our distribution network in the PRC and Hong Kong is comprised of distributors, all of them are Independent Third Parties. As of 31 December 2016, we appointed 112 new distributors in Hong Kong and the PRC for the sales and distribution of our paint and coating products. Distributors are our customers, and we recognise our sales when the sales to distributors are completed. As of 31 December 2016, we had an average of 11.2 years’ business relationship with our five largest distributors which are also our five largest customers (other than one of the five largest customers in the year ended 31 December 2014).

## BUSINESS

As of 31 December 2016, we appointed 465 distributors which established a nationwide distribution network in the PRC and Hong Kong. The map below illustrates the geographical coverage of our sales and distribution network in the PRC as of 31 December 2016:



Distributors consist of wholesale distributors and retail distributors in Hong Kong and the PRC. Wholesale distributors sell and distribute our products to their own customers or resellers. For sales of our industrial paint and coating products, our wholesale distributors focus to sell and distribute our products to retailers in wood coating market and would not re-sell our products to customers in manufacturing wood coating market because of the price difference. Distributors in retail business consist of specialised paint shops, hardware stores and building material shops in Hong Kong and the PRC. We believe that cooperating with distributors is a cost-effective means to reach the diverse customer base nation-wide in the PRC and Hong Kong and can also help us in expanding new geographic markets. Our Directors confirm that the distribution model is consistent with the industry practice in the paint and coating industry. During the Track Record Period, sales to distributors accounted for 67.8%, 72.5% and 73.0%, respectively, of our revenue, with sales to our five largest distributors which are our customers during each period together accounting for 10.2%, 13.7% and 15.4%, respectively, of our revenue. Sales to our largest distributor during of the Track Record Period accounted for 2.3%, 4.3% and 4.1%, respectively, of our revenue.

## BUSINESS

The following sets forth the number of the distributors to whom we sold our products during the Track Record Period:

	Year ended 31 December		
	2014	2015	2016
Number of distributors as of 1 January .....	610	515	578
Number of new appointments .....	33	191	112
Number of expiration of appointments .....	(128)	(128)	(225)
Number of distributors as of 31 December			
– in PRC .....	333	357	387
– in Hong Kong .....	182	221	78
<b>Total</b>	<b>515</b>	<b>578</b>	<b>465</b>

During the Track Record Period, the decrease in the number of the distributors reflected our efforts to reduce the number of our under-performing distributors and to appoint new distributors for the continued expansion of our distribution network and penetration into our existing and target markets in the PRC and Hong Kong. During the Track Record Period, we appointed 33, 191 and 112 new distributors, respectively. Most of these distributors are located in the regions of Eastern China and Southern China. As of the Latest Practicable Date, we had 431 distributors in the PRC and Hong Kong. We have renewed the annual distribution agreements in 2017 with 229 distributors in the PRC, and these distributors generated 87.0% of the total revenue of our sales to distributors in the PRC. During the Track Record Period, we entered into annual distribution agreements with 272, 300 and 283 distributors in the PRC and they contributed our revenue of HK\$624.7 million, HK\$537.3 million and HK\$551.4 million, respectively. The primary reason for not entering into the annual distribution agreements with all distributors is primarily due to the insignificant amount of sales involved with some of the distributors. We have not entered into any distribution agreement with the distributors in Hong Kong because most of them are engaging in retail business in Hong Kong.

The non-renewal of the appointment of our distribution agreements during the Track Record Period was due to their failure to meet the minimum sales amounts as set forth in the relevant distribution agreement. As set forth in the paragraphs under “Relationship with distributors” below, the ownership of our products are transferred to distributors upon delivery and acceptance. We are under no obligation to assist the distributors to dispose any of their unsold products upon the non-renewal of the distribution agreements. During the Track Record Period, the amount of revenue generated from the non-renewal distributors amounted to HK\$26.1 million, HK\$12.2 million and HK\$39.8 million, respectively. Our Directors confirm that those non-renewal distributors would not be allowed to return the unsold paint and coating products to us. Due to the non-renewal of the business relationship, we are not able to monitor their inventory level immediately after the date of non-renewal. In any event, our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, we did not buy-back any products that had been sold to the distributors upon non-renewal of the annual distribution agreements. We have not entered into any distribution agreement with the distributors in Hong Kong because this is not the industry practice for those distributors to enter into such distribution agreement.



## **BUSINESS**

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### **Management of distributors**

We intend to maintain high standards in the selection of distributors to enhance our business operations and reputations. When seeking to appoint new distributors, we take into account criteria including the coverage of their distribution network, business performance in the past, financial ability, the length of business operations, quality of service, ability to attract new customers and potential to open new markets as well as the possession of the requisite legal qualifications, necessary approvals and permits to engage in distribution of the products. We have designated geographical region for the distributors. We do not have contractual relationships with the resellers of the distributors.

We normally enter into annual distribution agreements with the distributors in the PRC. We manage distributors through such annual distribution agreements. The annual distribution agreements is generally for a term of one year, and we will renew the annual distribution agreements following the discussion with each of the distributors taking into consideration the business history of the distributor, its sales achievement and the strategic benefit it may have on our business. The terms of trade are different amongst the distributors considering the length of business history, the sales volume, the location and the credit worthiness of each of the distributors. The range of sales amounts set forth in the distribution agreement was between HK\$0.1 million and HK\$43.7 million and the average sale amounts was HK\$2.6 million in 2014, between HK\$0.1 million and HK\$38.2 million and the average sale amounts was HK\$2.2 million in 2015, and between HK\$0.1 million and HK\$40.2 million and the average sale amounts was HK\$2.2 million in 2016.

The distributors are our customers and we conduct monthly visits and inspection of the stores of the distributors and the warehouses of the distributors in accordance with the terms and conditions of the distribution agreements.

We closely monitor the performance of the distributors. We conduct monthly visits and inspections of major distributors to monitor their sales, sales prices, marketing activities, storage conditions, logistics facilities, staff quality, quality control and inventory levels. We do not have any restriction on policy in relation to sales and other aspects of business operations that may be implemented by the distributors, primarily due to the fact that we have implemented our own monitoring system on the distributor's performance. Based on the information obtained from our distributors, we understand that they use similar systems to ensure that their re-sellers would not accumulate paint and coating products. In particular, they would only provide a shorter period of time for their re-sellers' settlement than the credit period granted by us to the distributors. We assess on a regular basis the reasonableness of the amount of sales to distributors taking into consideration the previous business history, the amount of our sales in the region and the other distributors as well as the payment history of the distributors. We believe that our policy of not accepting product returns from our distributors save for defects in quality of products, together with our measures and the measures adopted by our distributors, help our sales reflect the genuine market demand of our products and avoid the risk of channel stuffing by our distributors. During the Track Record Period and up to the Latest Practicable Date, we are not aware of any risks or occurrence of channel-stuffing of our products.

We provide incentive to the distributors by providing sales rebates when the distributors achieve or exceed the minimum order amount set forth in the distribution agreements, which are negotiated and determined based on various factors such as the general market conditions and historical sales or past performance of the distributors. If a distributor achieves or exceeds its minimum purchase amount, we will grant the sales rebate by providing certain discount for such distributor's purchases in the next year. Such sales rebates are deducted from our revenue for each of the relevant periods.

## **BUSINESS**

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During the Track Record Period, the amount of sales rebates paid to the distributors amounted to HK\$35.0 million, HK\$28.1 million and HK\$24.4 million, respectively. The volume discounts given to the distributors in the PRC were up to 10% and in Hong Kong were in the range between 10% and 20% during the Track Record Period.

### **Pricing arrangement with distributors**

Pricing and purchase volumes are determined by each purchase order placed by the distributors from time to time. We then arrange for delivery of products pursuant to the date agreed with the distributors. The distributors purchase from us at a standard price which is subject to our price adjustments from time to time. We review our prices from time to time with the assistance of our marketing department, finance and production departments taking into account various factors including the demand for our products, production costs, raw materials costs, historical sales amount and the prices of our competitors' products. In order to maintain our competitiveness and optimise our profit margin, we review our pricing strategies from time to time. We provide the distributors with recommended retail prices of our products which may vary with distributors in different sales region. We typically set our recommended retail prices according to the demand for our products, historical sales data and retail prices of products of our competitors. Our sales to the distributors are made on a payment-before-delivery basis or at the time of delivery or we may grant credit period ranging from 30 to 90 days from the end of the month in which the relevant invoice was issued. We generally do not accept product returns from the distributors save for defects in quality of products. Our agreements with distributors allow us to terminate for cause which will be triggered by events including, among others, the breach of contract by the distributors. Our agreements with distributors typically provide a minimum sales amount. A distributor's failure to meet the minimum sales target, for three consecutive months or 80% of the yearly minimum order requirement, which constitutes a breach of the distribution agreement, would give us the right to terminate such agreement.

Our distribution agreements also contain provisions on our sales return policy which typically allow return of defective products within seven days from the date of delivery. Our customer service teams will visit the distributors if there is any quality issue for rectification measures to be taken. If there exists a quality issue that cannot be remedied, the distributors may return the products to us within a stipulated period of time.

### **Inventory level maintained by distributors**

We monitor inventory levels of the distributors during our regular visits to them. We are not aware of any significant accumulation of excess inventory in our distribution network during the Track Record Period. We work closely with the distributors to actively manage our distribution network and to achieve our strategic objectives so that we are able to quickly address any issues. We typically designate a sales region to each wholesale distributor to avoid competition.

## **BUSINESS**

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In order to monitor the distributors' sales activities and inventory levels, as well as investigating how our products are sold to the customers, we visit the distributors regularly for inspection on their sales activities and their inventory. We also monitor whether the distributors have re-sold our products outside their designated areas. We ensure that our sales to distributors reflect genuine market demand and the distributors are complying with the terms and conditions of their distribution agreements. If there is any non-compliance incident, we request the distributor to cease such non-compliance activities within a specified period of time. We have the right to seek compensation from the distributors for breaches of their distribution agreements. We have the right to terminate the distribution agreements if breach is material. If the distributors fail to meet our requirements, we may terminate the distribution arrangements.

### **Relationship with distributors**

The distributors are our customers and we recognise our sales when the sales to distributors and completed. The ownership of the products, as well as all risks and rewards associated therewith, are transferred to the distributors upon delivery and acceptance by them. Our sales to the distributors are made on a payment-before-delivery basis or at the time of delivery or we may grant credit period ranging from 30 to 90 days from the end of the month in which the relevant invoice was issued. We formulate production plan based on the sales orders from the distributors and the historical sales and the projected future sales based on the anticipated monthly sales amount set forth in the distribution agreement. When the products are delivered to the distributors, they cannot be returned except for defective products.

To the best knowledge of our Directors, all the distributors are Independent Third Parties, and none of the distributors is wholly-owned or majority controlled by our current or ex-employees or operated under our brand during the Track Record Period. None of the distributors were our suppliers during the Track Record Period.

During the Track Record Period, we did not provide financing to any of the distributors except for the credit period granted by us to certain distributors on a case-by-case basis. The distributors are required to submit regular sales reports to us through which we monitor and evaluate their performance. Parameters that we may examine to evaluate the performance of the distributors include (a) the level of their monthly orders placed with us; (b) whether they can maintain consistent pricing in line with our recommended pricing policy; (c) the ability to meet the minimum purchase commitment and whether there are any significant discrepancies between expected purchase amount and actual purchase amount of such distributors for a given period of time; and (d) their capability to open up new markets and attract new customers. We maintain our relationship with distributors who are able to meet our expectations. Apart from focusing on maintaining cooperation with our existing distributors, we are also seeking to expand our distribution network and market coverage by signing up new distributors.

We confirm that there was no major non-compliance incident by the distributors during the Track Record Period.

## **BUSINESS**

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### **Principal terms of the annual distribution agreements**

We enter into annual distribution agreements with the distributors in the PRC. The annual distribution agreements typically include the following terms:

Duration:	Fixed term of one (1) year.
Designated distribution area:	Distributors cannot sell or resell our products outside their designated distribution areas. We may impose penalties and terminate the distribution agreement for non-compliance on the part of the distributors with this requirement.
Recommended retail price:	Distributors are required to ensure our products are sold in the market at our recommended retail prices.
Minimum order requirement:	Distributors are required to meet the monthly minimum sales target. If a distributor fails to meet its monthly minimum sales target for three consecutive months or 80% of the annual minimum sales order requirement, we may terminate the distribution agreement.
Credit period:	Distributors are required to make payment-before-delivery or at the time of delivery or we may grant a credit period ranging from 30 days to 90 days from the end of the month in which the relevant invoice was issued.
Product inspection:	Distributors are required to inspect products immediately upon receipt of our delivery and shall notify us within seven days from the date of delivery.
Delivery:	Distributors are responsible for the delivery costs of our products to the location required by them if they choose not to take delivery of the products at one of our production plants. Cost of delivery has been included in the purchase price.
Access to information:	Distributors are required to provide sales information on our products and if request by us shall facilitate our inspection of the level of inventory.
Breach of intellectual property rights:	Distributors shall not infringe on our trademark or intellectual property rights or continue to use our trademarks after termination of the distribution agreement.
Early termination right:	We may terminate a distribution agreement if the distributor fails to fulfil certain obligations or breach the agreement. We may require compensation to be paid by distributors if the distributors violate applicable laws and regulations that results in damage to our brand or our intellectual property rights. Distributors cannot terminate the distribution agreement before its expiration unless our failure to perform our obligations amounts to a fundamental non-performance.

## **BUSINESS**

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Despite there is no exclusivity agreement amongst distributors and there may be multiple distributors in a designated area, we typically monitor or restrict the number of distributors in a region in order to avoid intense competition.

### **Distributors in Hong Kong**

During the Track Record Period, we generated revenue from 182, 221 and 78 distributors in Hong Kong, respectively. All of these distributors are Independent Third Parties. These distributors included hardware stores, paint product shop, furniture chain stores, groceries and supermarkets. During the Track Record Period, sales to our these distributors in Hong Kong accounted for 7.2%, 5.8% and 7.0% of our revenue, respectively.

We have not entered into any annual distribution agreement with the distributors in Hong Kong because of the insignificant amount of each sales transaction and the fact that most of the distributors in Hong Kong are retailers of paint and coating products. These retailers prefer to conduct business with us on an “open account” basis. We normally grant the distributors in Hong Kong a credit period ranging from 30 to 90 days commencing from the end of the month in which the invoice was issued. We offer volume discount for their purchases and in certain cases, we may need to pay promotion fees to distributors which are furniture chain stores and supermarkets. Upon receipt of a purchase order from these distributors by phone or by facsimile, we will arrange for delivery of the products within the time specified through Independent Third Parties. The distributors in Hong Kong may return defective products to us.

### **PROCUREMENT AND RAW MATERIALS**

The raw materials used by us in the production process include principal raw materials, such as solvent, resin, pigment, filler and additives and packaging materials. We procure raw materials from a number of suppliers in various countries including the PRC, U.S., Japan, New Zealand, Australia, Germany, Norway, Taiwan, Malaysia and Hong Kong.

The cost of raw materials constituted the largest component of our cost of sales and, as such, fluctuations in the prices of our principal raw materials have a direct impact on our cost of sales. The raw materials used amounted to HK\$665.5 million, HK\$470.6 million and HK\$505.6 million during the Track Record Period, respectively, representing 90.2%, 86.6% and 85.7% of the cost of sales.

## **BUSINESS**

The following sets forth an analysis of the total cost of our raw materials required for our production for the Track Record Period:

	<b>Year ended 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Resin.....	238,664	177,966	193,144
Solvent.....	233,048	157,906	172,919
Pigment and filler.....	77,215	60,694	64,760
Additives.....	53,348	45,263	44,012
	602,275	441,829	474,835
Packaging materials.....	61,811	28,268	29,656
Others.....	1,404	514	1,121
<b>Total</b>	<b>665,490</b>	<b>470,611</b>	<b>505,612</b>

### **Resin**

Resin is used as a film-forming component of the coatings to bind the various raw materials together. Pricing of resin changes generally with that of petroleum. The price of resin recorded a decreasing trend during the Track Record Period.

### **Solvent**

Solvents can create the required viscosity to facilitate the smooth application and contribute to the uniform density of the coating product. Solvents are petroleum oil derivatives, and therefore the price of solvents is affected by the petroleum price globally. Solvents are relatively easy to procure as they are manufactured by many downstream sector companies within the petroleum oil industry in the PRC and Hong Kong. Solvents are used in the production of solvent-based liquid coatings but not water-based liquid coatings. The price of solvent recorded a declining trend during the Track Record Period.

### **Pigment and filler**

Pigment creates colouring to the coating product. Pricing of pigment varies with the kind of pigment used. Titanium dioxide is one of the key pigments used for paint and coating production. The price of titanium dioxide rose from 2010 to 2012 and declined from 2012 onward. Filler is used to enhance properties of the film in the coating product such as anti-abrasion.

### **Additives**

Additives facilitate dispersion of the raw materials and producing a smooth uniform finish to the paint and coating products.

## BUSINESS

### OUR SUPPLIERS

We purchase raw materials from a number of suppliers. Our suppliers are mainly based in China, U.S., Japan, New Zealand, Australia, Germany, Norway, Taiwan, Malaysia and Hong Kong. We choose our suppliers primarily based on the price and quality of raw materials supplied.

We do not have long-term purchase commitment or guarantee purchase quantities with our suppliers. The terms and conditions on warranties for product quality and return policy are set forth in the purchase orders. Pricing and production volumes are negotiated for each purchase order. There are no contractual commitments other than those set forth in the purchase orders.

Our key suppliers generally grant us a credit period ranging from 30 to 90 days. We may be allowed to enjoy a credit period of up to 90 days after the date of delivery for suppliers with whom we have established long-term relationships. The purchase price of our raw materials generally follows market prices. During the Track Record Period, we have not experienced any major quality issue with our raw materials or shortages of raw materials during the course of our operations or experience any difficulty in sourcing alternative suppliers for such raw materials that materially affected our operations. Our domestic purchases are paid in Renminbi whereas our foreign purchases are paid in U.S. dollars. Purchases are settled either by bank acceptance or bank transfers.

We typically purchase raw materials based on the historical levels of sales, actual sales orders on hand and the anticipated production requirements taking into consideration any expected fluctuation in raw material prices and delivery delay.

The following sets forth the number of suppliers we had for our major raw materials for the Track Record Period:

	Year ended 31 December		
	2014	2015	2016
Resin. . . . .	120	149	134
Pigment and filler . . . . .	105	121	106
Additives. . . . .	90	102	115
Solvent . . . . .	65	62	54
Packaging materials . . . . .	16	18	12
<b>Total</b>	<b>396</b>	<b>452</b>	<b>421</b>



## BUSINESS

The tables below set forth the particulars relating to our top five suppliers of raw materials during the Track Record Period:

### Year ended 31 December 2014

Name of supplier	Type of products we purchased from our supplier	Principal business of our supplier	Principal business location	Total purchase from our supplier during the year (HK\$'000)	% of total cost of raw materials during the year	Length of relationship with us (Years)
Supplier A. ....	Resin	Production and sales of coating resins, including alkyd resins, acrylic resins and polyester resins.	Zhuhai	55,252.5	8.3	13.7
Supplier B. ....	Resin	Production and sales of products including toluene diisocyanate (TDI), nitrocotton for coating materials, polyolefin products, neovaricaine, glycol, styrene, aromatic hydrocarbons solvent, butadiene, methylbenzene, xylene and transformer oil.	Guangzhou	31,132.0	4.7	10.7
Supplier C. ....	Packaging materials	Production and sales of tins (tinplates). Its products are widely used in industries including iron packaging tin, household appliance and construction and finishing industries.	Jiangmen	27,253.3	4.1	9.6
Supplier F. ....	Solvent	Production and sales of n-butyl acetate for industrial uses.	Wuxi	23,137.6	3.5	9.6
Supplier G. ....	Solvent	Production and sales of coatings and solvent agents.	Guangzhou	21,960.2	3.3	7.6

## BUSINESS

### Year ended 31 December 2015

<u>Name of supplier</u>	<u>Type of products we purchased from our supplier</u>	<u>Principal business of our supplier</u>	<u>Principal business location</u>	<u>Total purchase from our supplier during the year</u> <i>(HK\$'000)</i>	<u>% of total cost of raw materials during the year</u>	<u>Length of relationship with us</u> <i>(Years)</i>
Supplier A. ....	Resin	Production and sales of coating resins, including alkyd resins, acrylic resins and polyester resins.	Zhuhai	32,255.3	6.9	13.7
Supplier B. ....	Resin	Production and sales of products including toluene diisocyanate (TDI), nitrocotton for coating materials, polyolefin products, neovaricaine, glycol, styrene, butadiene, methylbenzene, xylene and transformer oil.	Guangzhou	28,976.1	6.2	10.7
Supplier H. ....	Solvent	Production and sales of basic chemicals, chemicals and inorganic products. Its products are widely used in chemical industries including synthetic resin, paint coating and daily chemical industries.	Dongguan	25,337.8	5.4	12.7
Supplier C. ....	Packaging materials	Production and sales of tins (tinplates). Its products are widely used in industries including iron packaging tin, household appliance and construction and finishing industries.	Jiangmen	21,377.5	4.5	9.6
Supplier I. ....	Resin	Production and sales of chemical products (excluding dangerous chemicals) and metallic materials.	Huizhou	16,169.8	3.4	1.5

## BUSINESS

### Year ended 31 December 2016

Name of supplier	Type of products we purchased from our supplier	Principal business of our supplier	Principal business location	Total purchase from our supplier during the year (HK\$'000)	% of total cost of raw materials during the year	Length of relationship with us (Years)
Supplier A. ....	Resin	Production and sales of coating resins, including alkyd resins, acrylic resins and polyester resins.	Zhuhai	41,985.5	8.3	13.7
Supplier B. ....	Resin	Production and sales of products including toluene diisocyanate (TDI), nitro cotton for coating materials, polyolefin products, neovaricaine, glycol, styrene, butadiene, methylbenzene, xylene and transformer oil.	Guangzhou	30,852.9	6.1	10.7
Supplier H. ....	Solvent	Production and sales of basic chemicals, chemicals and inorganic products. Its products are widely used in chemical industries including synthetic resin, paint coating and daily chemical industries.	Dongguan	24,115.5	4.8	12.7
Supplier C. ....	Packaging materials	Production and sales of tins (tinplates). Its products are widely used in industries including iron packaging tin, household appliance and construction and finishing industries.	Jiangmen	20,733.5	4.1	9.6
Supplier I. ....	Resin	Production and operation of methyl acetate, ethyl acetate, n-propyl acetate, n-butyl acetate, acetic acid isobutyl ester, n-butyl acrylate, n-butyl methacrylate and various chemical solvent products.	Jiangmen	15,452.9	3.1	13.3

Purchase from our five largest suppliers during the Track Record Period accounted for 23.9%, 26.4% and 26.4% of our total cost of raw materials, respectively. During the same period, purchase from our largest supplier accounted for 8.3%, 6.9% and 8.3% of our total cost of raw materials, respectively. We maintain a database of qualified suppliers for each category of raw materials and our Directors believe that we do not expose to the risk of supplier concentration. We maintain a diversified base of supply of our principal raw materials to reduce reliance on a single source of supply. We ensure our supply of raw materials are procured from legal sources. During the Track Record Period, we have not experienced any significant difficulty in the procurement of raw materials for production.

## **BUSINESS**

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During the Track Record Period and up to the Latest Practicable Date, our five largest suppliers were Independent Third Parties. During the Track Record Period and up to the Latest Practicable Date, none of our Directors or any of their respective associates, or any of our Shareholders who owned more than five per cent. of the issued share capital of our Company as of the Latest Practicable Date, held any interest in any of our five largest suppliers.

### **Utilities**

Electricity and water are the two principal utilities used in our production process. Our production plants have access to electricity from local power grids while water has been supplied to our production plants by local utility company.

### **Electricity**

We utilise a significant amount of power for running our production plants. Electricity is supplied to us from local power grids at government-mandated rates. We have installed backup electric generators for our Shajing Production Plant and Xuzhou Production Plant. During the Track Record Period, we did not encounter any material interruption in the supply of electricity. During the Track Record Period, we incurred expenditures on electricity of HK\$5.2 million, HK\$4.6 million and HK\$4.6 million, respectively.

### **Water**

We purchase water from local utility companies for our production plants. During the Track Record Period, we did not experience any material interruption in the supply of water. During the Track Record Period, we incurred expenditures on water of HK\$0.5 million, HK\$0.4 million and HK\$0.3 million, respectively.

## **INVENTORY CONTROL**

Our inventory consists of raw materials and spare parts for maintenance of our equipment or production facilities, work-in-progress and finished goods. We operate an inventory management system through the collaboration between our various departments, including production, sales and marketing, warehousing and procurement, to ensure that our inventory levels are sufficient to meet the demand without causing any material interruption to the production.

We maintain appropriate levels of our inventory of raw materials and spare parts and plan our procurement based on the historical sales, the actual orders on hand and our assessment of the anticipated demand for our paint and coating products.

Generally speaking, we maintain inventory level of raw materials of not more than two months of usage. For our finished goods, we target to maintain low inventory level because our production process would only require two days to complete. We will only maintain inventory of the standard paint and coating products and will not proceed to produce custom-made paint and coating products until they are confirmed to be purchased by our customers. We will deliver finished goods to our customers promptly after completion of the production.

## **BUSINESS**

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In order to have an effective control on our inventory of raw materials and finished goods, we have used an enterprise resource planning system to monitor our inventory levels. The system allows us to determine the schedule of our procurement, improve the inventory management and reduce the bottlenecks for higher operational efficiency. During the Track Record Period, our inventory turnover days were 39 days, 42 days and 36 days, respectively. As of 31 December 2014, 2015 and 2016, our inventory amounted to HK\$71.7 million, HK\$54.9 million and HK\$61.0 million, respectively. As of 31 December 2014 and 2015 and 2016, our inventory turnover days for our finished products were 10 days, 8 days, and 9 days, respectively.

We perform monthly and annual inventory checks of raw materials, work-in-progress and finished goods. The checks include an analysis the ageing of our inventory. We also have regular checks on any obsolete or damaged inventory. It is our policy to make allowance for inventory valuation and obsolescence if damaged or obsolete inventory is identified. During the Track Record Period, we had not identified any material obsolete or damaged inventory.

### **PRODUCT DEVELOPMENT**

Customers of our industrial paint and coating products may request for production of customised paint and coating products for special applications. An accurate measurement of the raw materials is important to ensure that the paint products are of the right quality and in the right colour. Our technology department will develop an accurate measurement of raw materials and devise a correct formula or specifications for the production of customised paint and coating products. Our technology department is also responsible for performing tests to improve the quality and functionality of our products and to keep abreast of the market developments and the product development trends. Our technology department also works with our marketing and sales teams to keep track of the up-to-date market information, monitor the customers' feedback and requirements and perform the relevant feasibility studies in view of the up-to-date technologies so that market opportunities can be readily identified and exploited. Our technology department is led by our product development director and our chief chemist, who have over 30 years of working experience in product development and in the coatings industry. We also participate industry exhibitions and attend technical seminars on a regular basis.

As part of our business strategies, our Xinfeng Production Plant would be established as our leading production plant for different types of paint and coating products. Most of the research and development facilities will be undertaken by the research and development centres in our Shajing Production Plant and Xinfeng Production Plant. Some research and development personnel will be relocated to the Xinfeng Production Plant for the development of new paint and coating products as well as making improvements of our existing products. The product research and development centre in our Shajing Production Plant will continue to undertake product improvements and testing as it has a laboratory that can support comprehensive product testing activities. Given that our Xinfeng Production Plant is our leading production plant, our Directors consider that having a research and development centre within the Xinfeng Production Plant is necessary.

## **BUSINESS**

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Our Directors confirm that as of the Latest Practicable Date, we are undertaking 11 product development projects in four principal categories, namely water-based wood coating, water-based mechanical coating, emulsion paints and new wall materials. The products include waterborne furniture paint and coating products, protective coating products, paint and coating products with different environmental protection and safety features for exterior and interior walls and surface and new wall materials. These products are planned to be launched by us by the end of 2017. Up to the Latest Practicable Date, our expenses incurred for these projects amounted to HK\$4.1 million. As of the Latest Practicable Date, we had 55 chemists, chemical engineers and technicians working on these projects.

As of 31 December 2016, our technology department in Shenzhen comprised 110 chemists, chemical engineers and technicians, and more than two-third of them have received tertiary education and have an average of 13 years of relevant working experience. We plan to increase the total number of staff for product research and development to 120 by the end of 2017.

During the Track Record Period, our expenses on our product development amounted to HK\$26.0 million, HK\$24.7 million and HK\$30.2 million, respectively, which primarily included the salaries for our product development staff and procurement cost for materials and utensils used in our laboratory for product testings and development.

## **ENVIRONMENTAL PROTECTION**

### **Overview**

Our operations are subject to certain PRC environmental laws and regulations enacted by national and local environmental protection authorities. For more details, see “Applicable Laws and Regulations – Laws and regulations relating to environmental protection.” We place great emphasis on environmental protection and are dedicated to environmental protection in our operations. Our environmental protection measures include:

- Conducting environmental impact assessments before construction of production facilities;
- Engaging qualified waste disposal companies for the disposal of the solid waste generated during our production process; and
- Installing environmental protection facilities and procedures in place to treat and dispose of waste gas and wastewater in accordance with national and local environmental laws and regulations.

Our PRC Legal Adviser confirms that we have received all material permits, licences and approvals in relation to environmental protection and safety production in all material respects as of the Latest Practicable Date. We had not received any notifications or warnings and had not been subject to any fines or penalties in relation to any breach of any applicable environmental laws or regulations that could have a material adverse effect on our production as of the Latest Practicable Date.

During the Track Record Period, our expenses incurred for the environmental protection amounted to HK\$1.6 million, HK\$1.2 million and HK\$1.9 million, respectively. The increase in the amount for the year ended 31 December 2016 was due to the improvement in the facilities for our waste water treatment plant.

## BUSINESS

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We have established an “Environment, Health and Safety (EHS)” team at each of our production plants for the purpose of monitoring and implementing all relevant measures to ensure full compliance with the applicable laws and regulations on emission control. The measures include various tests and regular assessments on the discharge level of benzene, methylbenzene, xylene, VOC and other particulates.

### **Environmental impact assessment**

We have also passed the applicable environmental impact appraisals in relation to construction of all of our production facilities.

### **Environmental protection facilities and measures**

We have obtained *Environmental Management System Certification ISO 14001* for all of our production facilities. We have passed the final acceptance of environmental protection facilities and environmental protection measures for construction projects. We also hold several waste discharge permits for our production facilities and implement environmental protection measures pursuant to the requirements under the relevant PRC laws and regulations.

In order to monitor and have an effective control over the environmental protection measures that we have adopted, we have installed pollution control equipments and devices at our production facilities to control and record the emission level of wastewater and gas pollutants, in order to evaluate any deviation from the emission standards under the applicable laws and regulations. Monitoring of the emission level of gas pollutants and wastewater on a regular basis allows us to have prompt investigation and rectification measures taken. The major wastes generated during our production process include wastewater, gas pollutants and solid waste. Our emission of gas pollutant and discharge of wastewater and solid waste is also subject to the monitoring by the environmental monitoring centre. Our waste water, waste gas and solid waste treatment processes are in compliance with material applicable regulatory standards in all material respects. During the Track Record Period, the discharge of each of the key pollutants had remained within the prescribed regulatory limits. We believe that our business operation does not have a material adverse impact on the environment.

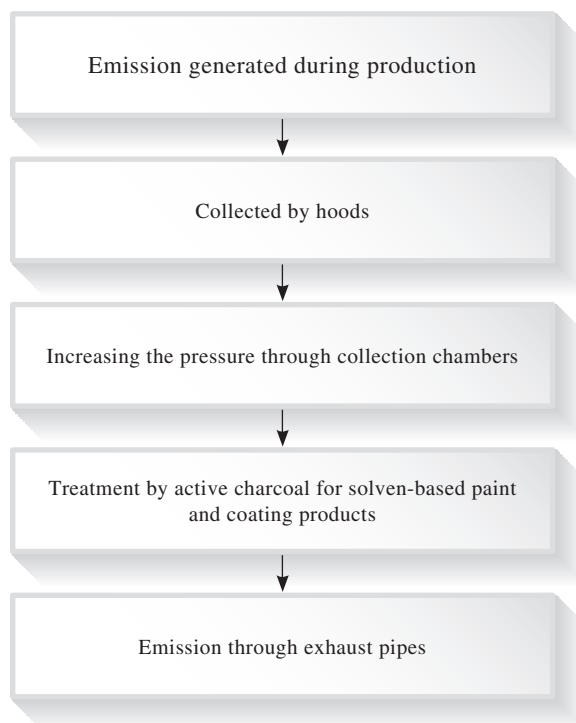
*Wastewater treatment* – We have installed wastewater treatment facilities in our production facilities in Shenzhen and Hubei. The wastewater treatment process comprises sedimentation, coagulation, aeration and oxidation. Xuzhou Production Plant has suspended production since the end of May 2016 as part of our business strategy to re-allocate our production capacity and pending the grant of work safety licences for the production of solvent-based paint products.

*Emission treatment* – We have installed emission treatment facilities to reduce the emission level and the dust generated during our production process in compliance with the national safety standards. We authorise the Independent Third Parties to monitor the emission levels to ensure that they do not exceed the permitted levels under the relevant laws and standards. Emission generated from solvent-based coating production plant is collected through hoods, and will then be released through exhaust pipes after filtering at the dust collection chambers and adsorption of organic emission through the use of active charcoal. The waste gas generated from water-based coatings production plant is collected by gas-collecting hood, which is then released through the exhaust pipe after buffer filtering at dust collection chamber.



## BUSINESS

The treatment process of waste gas at our production facilities is set forth below:



*Solid waste treatment* – We have engaged qualified waste disposal companies for the disposal of the solid waste generated during our production process.

We have dedicated personnel overseeing our waste treatment activities who are responsible for monitoring and conducting regular maintenance on our waste treatment facilities. These personnel include, three engineers and four technicians with relevant tertiary education and experience in the chemical engineering and environmental protection sector for a period between three to five years. During the Track Record Period, we were in all material respects in compliance with all applicable PRC environmental protection laws and regulations.

The environmental protection authorities have regular review of our operation and the environmental protection measures implemented by us. During the Track Record Period, we had not received any adverse findings or recommendations for improvement as a result of such reviews and monitoring.

### Clean Production Examination

Pursuant to the Measures on Clean Production Examination (清潔生產審核辦法), any enterprise that uses, releases or discharges hazardous and toxic substances or materials in its production process shall be subject to mandatory review of clean production measures by the provincial environmental protection authorities and other relevant provincial authorities. A list of selected enterprises subject to such mandatory review is published every year. Shajing Production Plant was included in such a review list in 2015.

## **BUSINESS**

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In 2013 and 2015, Xuzhou Production Plant was required to carry out the mandatory review, and it was not required to do so in 2014. In 2014 and 2015, Shajing Production Plant was required by the environmental protection authority at its location to carry out the mandatory review of clean production measures. Xuzhou Production Plant was not required to carry out the mandatory review in 2016 because of the planned suspension of production activities in May 2016.

Pursuant to our PRC Legal Adviser, Shajing Production Plant and Xuzhou Production Plant had passed the examination procedures while our Shajing Production Plant has not received the official notice for passing the compulsory clean production examination procedures. Xinfeng Production Plant and Ezhou Production Plant had not received any notice to carry out clean production examination during the Track Record Period.

Human Settlements and Environment Commission of Shenzhen Municipality (深圳市人居環境委員會) issued 2014 Shenzhen Municipal Volatile Organic Pollution Remediation Work Program (深圳市2014年揮發性有機物污染整治工作方案) in July 2014, pursuant to which China Paint Shenzhen was requested to take action pursuant to such notice. As advised by our PRC Legal Adviser, the inclusion of China Paint Shenzhen in the review list has no implication that China Paint Shenzhen has been or is in breach of the environmental protection laws and regulations in respect of VOCs emissions and China Paint Shenzhen has not been subject to any fine or penalty in relation thereto. As published by the competent authority in August 2015, China Paint Shenzhen had passed the inspection regarding emission reduction of VOCs.

Pursuant to the applicable PRC laws and regulations, the discharge of pollutants must comply with the waste discharge permitted levels and emission standards promulgated by the relevant government authorities. We have obtained confirmations from the relevant environmental protection authorities in the relevant geographical locations of our production facilities, confirming that the discharge of key pollutants had remained within the prescribed regulatory limits.

## **QUALITY CONTROL**

We place significant emphasis on quality control. Our quality management system with respect to our production facilities in Shenzhen, Ezhou, Xuzhou and Xinfeng have been certified to conform to ISO 9001:2008. It represents an international consensus on good quality management practices. Our ISO 9001 certification demonstrates that we have a consistent quality management system that meets applicable customer and regulatory requirements.

We adopt a quality control scheme to ensure that we can accurately monitor the production process and each batch of production corresponds to the specifications of customers. We inspect the raw materials we received, work-in-progress and final products. We have implemented internal procedures to ensure quality control in various stages of production, from procurement of raw material, production to inventory storage. Each of our production plants has a team of personnel responsible for monitoring the parameters of equipment, stability of materials, reporting any irregularities in the production process and making adjustments accordingly. We also provide trainings to our quality control staff for quality control in the production process. Our quality control department also assists our technology department in new product development and testing.

As of 31 December 2016, our quality control team comprised 33 members and some are university or college graduates.

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We hold the following certification in respect of quality control:

<b>Members of our Group</b>	<b>Certificate</b>	<b>Granting organisations</b>	<b>Year</b>	<b>Expiry date</b>
China Paint Shenzhen . . .	ISO 9001: 2008 Quality Management System Certificate	British Standards Institution	August 1996	14 September 2018
China Paint Shenzhen . . .	ISO 14001: 2004 Environmental Management System Certificate	China Environmental United (Beijing) Certification Center Co., Ltd.	September 2014	24 September 2017
China Paint Shenzhen . . .	ISO Occupational Health & Safety Management Certificate	China Environmental United (Beijing) Certification Center Co., Ltd.	September 2014	24 September 2017
China Paint Shenzhen . . .	IECQ QC08000 Management System Certificate	SGS-CSTC Standards Technical Services Co., Ltd.	September 2007	27 September 2019
China Paint Shenzhen . . .	Laboratory Accreditation Certificate	China National Accreditation Service for Conformity Assessment	January 2004	30 December 2017
China Paint Shenzhen . . .	Certificate for China Compulsory Product Certification	Beijing Zhong Hua Combination Certification Co., Ltd.	May 2004	28 August 2019

## BUSINESS

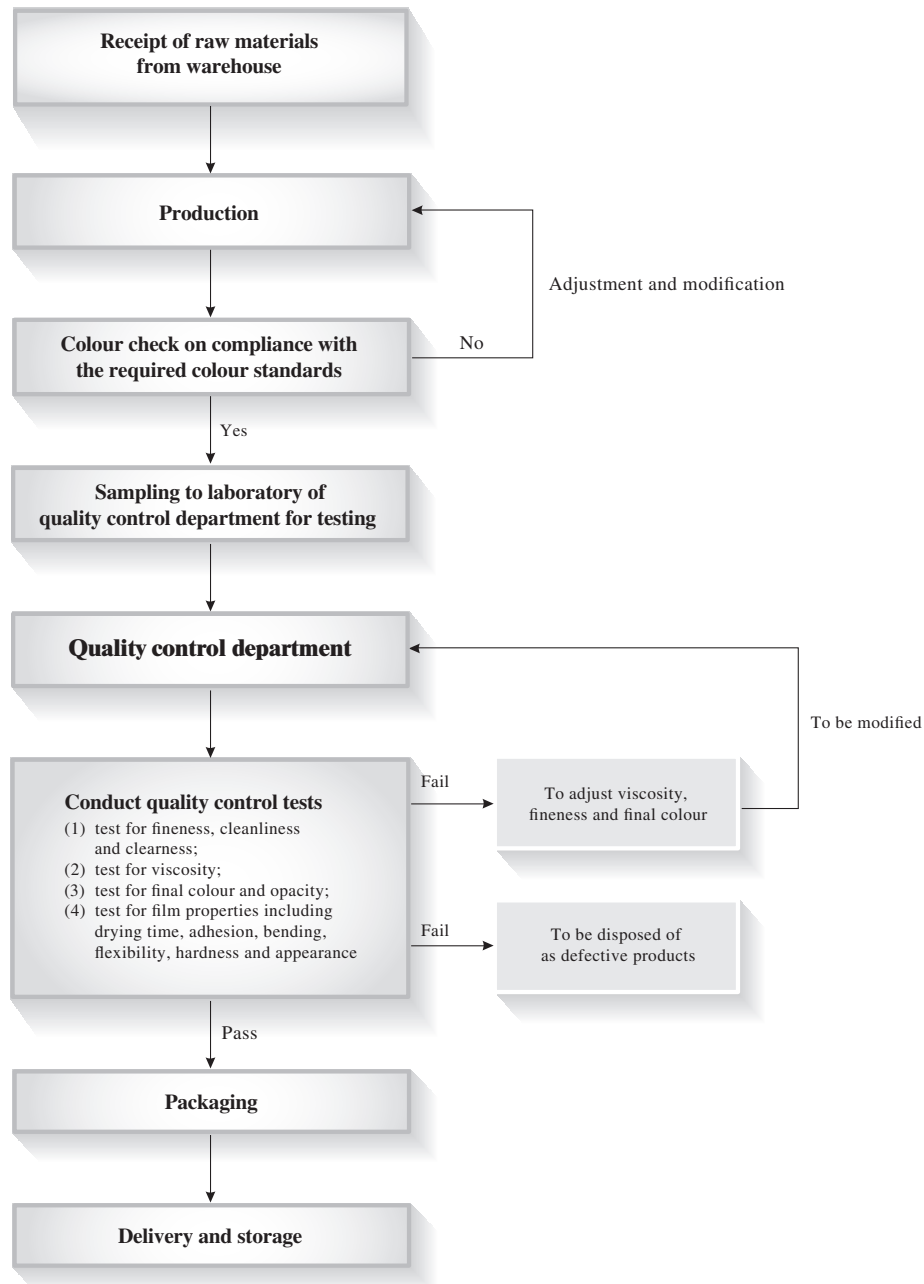
<b>Members of our Group</b>	<b>Certificate</b>	<b>Granting organisations</b>	<b>Year</b>	<b>Expiry date</b>
China Paint Shenzhen . . .	Certificate for China Environmental Labelling Product Certification	China Environmental United (Beijing) Certification Center Co., Ltd.	March 2008	26 November 2017
Xuzhou Giraffe . . . . .	ISO 9001: 2008 Quality Management System Certificate	Beijing Zhong Hua Combination Certification Co., Ltd.	November 2009	14 October 2018
Xuzhou Giraffe . . . . .	ISO 14001: 2004 Environmental Management System Certificate	Beijing Zhong Hua Combination Certification Co., Ltd.	November 2009	14 October 2018
Hubei Giraffe . . . . .	ISO 9001: 2008 Quality Management System Certificate	Beijing Zhong Hua Combination Certification Co., Ltd.	August 2011	28 July 2017
Hubei Giraffe . . . . .	Certificate for China Compulsory Product Certification	Beijing Zhong Hua Combination Certification Co., Ltd.	July 2015	28 August 2019
Hubei Giraffe . . . . .	ISO 14001: 2004	Beijing Zhong Hua Combination Certification Co., Ltd.	August 2011	28 July 2017

## BUSINESS

<b>Members of our Group</b>	<b>Certificate</b>	<b>Granting organisations</b>	<b>Year</b>	<b>Expiry date</b>
China Paint Xinfeng . . . .	ISO 9001: 2008 Quality Management System Certificate	Shenzhen Shenda International Certification Co., Ltd	July 2016	17 July 2019
China Paint Xinfeng . . . .	ISO 14001: 2004 Environmental Management System Certificate	Shenzhen Shenda International Certification Co., Ltd	July 2016	17 July 2019
China Paint Xinfeng . . . .	Certificate for China Compulsory Product Certification	Beijing Zhong Hua Combination Certification Co., Ltd.	November 2015	3 November 2020

## **BUSINESS**

The following diagram illustrates our quality control procedures for our production process:



## **BUSINESS**

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### **Quality control over raw materials**

We source raw materials from qualified and reputable suppliers only. Our quality control department conducts inspection and testing on a sampling basis to ensure the quality of the raw materials meets our required standard and quality. The raw materials will be returned to our suppliers if they do not meet our requirements and standard. Our quality control personnel conduct on-site inspection of suppliers' facilities and production process and carry out test on their prototype materials. When shipments of raw materials are supplied to us, our quality control team conducts inspections to ensure that the raw materials accord to our specifications, and verifies whether the raw materials delivered are properly certified. In particular, our suppliers are also required to provide us with signed letters of product quality and certificate of non-toxicity for certain raw materials with heavy metal such as pigment, as well as the relevant government inspection certificates and product testing reports confirming that the standard of products they supply complies with the relevant quality standards and regulations. We also perform in-house laboratory tests on the raw materials to ensure that they are in compliance with the relevant product standards.

### **Quality control over production process**

We strictly adhere to our standardised production procedures to ensure consistent product quality. We also apply the relevant industry standard of ISO 9001: 2008 in our production process to ensure that our products are consistently produced in compliance with the relevant industry standards. We have adopted strict quality control measures over our production process including post-production inspection and final quality control to ensure product quality. We conduct inspections and testing throughout the production process and seek to immediately rectify any non-compliance discovered. Any substandard work-in-progress or products identified are either disposed of or returned to the previous production step for rectification, as appropriate. The quality control department also performs sampling test on semi-finished products and finished products. If any of the semi-finished products and finished products fails the testing, the quality control department will promptly report to the management. All our products undergo inspection at each stage of the production process before the products are delivered to our customers for sale. Since the middle of February 2017, our Group has increased the number and frequency of sample checks.

During the Track Record Period and as of the Latest Practicable Date, we did not record any sales return as a result of quality defects and we had not received any complaints from our customers relating to product quality.

### **Warranty and product returns**

We generally offer a warranty period of 12 to 36 months for our products depending on the type of products and will replace the products if there is quality issue or inconsistent to the customers' specification. Distributors are generally not allowed to have product returns unless there is quality issue. Defective products can be returned to us or replaced by non-defective products at our own costs to the distributors. During the Track Record Period, we did not experience any material product returns from our customers. During the Track Record Period, the total value of paint and coating products returned by our customers was HK\$3.4 million, HK\$3.0 million and HK\$6.8 million, respectively, representing 0.3%, 0.3% and 0.7% of the total revenue, because of product defects, damaged products in transit and non-compliance with the product specifications.



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We have adopted a policy for handling product complaints received from the distributors and customers. Customers’ complaints are handled by our customer service personnel and the relevant departments, including production, quality control, warehousing and procurement, will be notified immediately to carry out the relevant remedial measures. We have established standard procedures to investigate and conduct quality tests on products that may need to be recalled. When we are informed that products may require recall, we ascertain the relevant product batch to be recalled and promptly inform the distributors and the customers.

### Quality complaints

We may receive complaints or notifications that the quality or features of our paint and coating products are found to be inconsistent with the relevant standards or the description of the relevant products. These findings are usually not correct or consistent with our own product test results carried out at different stages in our production process. These findings may result in possible regulatory concerns or negative publicity and may have short-term impact on our business reputation. During the Track Record Period and as of the Latest Practicable Date, we were not subject to any product complaints or regulatory concerns in Hong Kong and the PRC which are material to our business and financial conditions and our operating results.

### LICENCES AND PERMITS

The following table sets forth the principal licences and permits currently held by us:

Entity	Licence	Regulatory body	Date of grant	Date of expiry
China Paint Shenzhen . . . . .	Work Safety Licence	Economy, Trade and Information Commission of Shenzhen Municipality	3 June 2015	2 June 2018
China Paint Shenzhen . . . . .	Guangdong Province Pollutants Emission Permit for wastewater	Environmental Protection and Water Affairs Bureau of Baoan District of Shenzhen	27 July 2012	27 July 2017 <sup>(1)</sup>
China Paint Shenzhen . . . . .	Dangerous Chemicals Registration Certificate	Dangerous Chemicals Registration Office of Guangdong Province/Chemical Registration Centre of State Administration of Work Safety	7 April 2017	6 April 2020
China Paint Shenzhen . . . . .	Safety Production Standardization Certificate	Economy, Trade and Information Commission of Shenzhen Municipality	2 December 2013	December 2016 <sup>(2)</sup>

*Notes:*

<sup>(1)</sup> Our Directors confirm that China Paint Shenzhen will apply for renewal upon expiry. China Paint Shenzhen has been confirmed that it is eligible for applying for renewal of such licence, as announcement by Environmental Protection and Water Affairs Bureau of Baoan District of Shenzhen.

<sup>(2)</sup> The relevant regulatory body has completed its inspection and approval process. Pursuant to the 2017 Notice regarding Lists of the Three-level Enterprises of Safety Production of Dangerous Chemicals in Shenzhen announced by Shenzhen Safety Production Supervision Bureau on 8 May 2017 (the “**2017 Notice**”), China Paint Shenzhen is regarded as a Three-level Enterprises of Safety Production of Dangerous Chemicals and the period of validity is three years since from the date of publication of the 2017 Notice.

## BUSINESS

Entity	Licence	Regulatory body	Date of grant	Date of expiry
Hubei Giraffe . . . . .	Work Safety Licence	Safety Production Supervision and Administration Bureau of Hubei Province	21 October 2014	20 October 2017
Hubei Giraffe . . . . .	Pollutants Emission Permit for wastewater of Gedian Economic and Technological Development Zone, Ezhou	Administrative Examination and Approval Bureau of Gedian Development Zone, Ezhou	26 May 2016	25 May 2017 <sup>(3)</sup>
Hubei Giraffe . . . . .	Dangerous Chemicals Registration Certificate	Dangerous Chemicals Registration Office of Hubei Province/Chemical Registration Centre	3 July 2014	2 July 2017 <sup>(3)</sup>
Hubei Giraffe . . . . .	Safety Production Standardization Certificate	Safety Production Technology Association of Hubei Province	20 December 2014	December 2017
China Paint Xinfeng . . . . .	Work Safety Licence	Safety Production Supervision and Administration Bureau of Shaoguan	23 December 2014	22 December 2017
China Paint Xinfeng . . . . .	Guangdong Province Pollutants Emission Permit for waste gas and noise	Environmental Protection Bureau of Xinfeng County	13 January 2015	13 January 2020
China Paint Xinfeng . . . . .	Dangerous Chemicals Registration Certificate	Dangerous Chemicals Registration Office of Guangdong Province	30 November 2016	29 November 2019
China Paint Xinfeng . . . . .	Safety Production Standardization Certificate	Shaoguan City Safety Production Association	25 December 2015	24 December 2018
Xuzhou Giraffe . . . . .	Work Safety Licence	Safety Production Supervision and Administration Bureau of Jiangsu Province	19 May 2015	18 May 2018
Xuzhou Giraffe . . . . .	Jiangsu Province Pollutants Emission Permit for wastewater, waste gas and noise	Xuzhou Economic Development Branch of Xuzhou Municipal Environmental Protection Bureau	1 July 2015	1 August 2018

*Notes:*

<sup>(3)</sup> The renewal application has been submitted by Hubei Giraffe subject to the approval of the relevant authorities in the PRC.

## **BUSINESS**

<b>Entity</b>	<b>Licence</b>	<b>Regulatory body</b>	<b>Date of grant</b>	<b>Date of expiry</b>
Xuzhou Giraffe . . . . .	Dangerous Chemicals Registration Certificate	Chemical Registration Centre of Jiangsu Province/Chemical Registration Centre of State Administration of Work Safety	27 March 2017	26 March 2020
Xuzhou Giraffe . . . . .	Safety Production Standardisation Certificate	Xuzhou Municipal Safety Production Association	11 March 2016	March 2019

Our Directors confirm that we have obtained all material relevant licences and permits to carry out our business in the Track Record Period and that there is no legal impediment likely to hinder us in our future renewal of the above licences as and when it becomes necessary. Hubei Giraffe is in the process of applying for a new pollutants emission permit for wastewater to be issued by the Gedian Economic and Technological Development Zone Ezhou and dangerous chemicals registration certificate. China Paint Shenzhen is preparing the documents of applying for extending the valid period of the Guangdong Province Pollutants Emission Permit for wastewater.

## **SAFETY AND HEALTH**

### **Industrial accident**

We obtained the “Occupational Health Safety Management System” GB/T28001-2011 for China Paint Shenzhen. During the Track Record Period, there were 19, 18 and 21 industrial accidents, respectively, occurred during our production process. Our Directors confirm that none of these accidents are material incidents that disrupted our production process or otherwise resulted in fatality.

We have established a production safety committee, to oversee the implementation of the safety measures at our production plants. We also have prepared a number of production safety manuals for different production process and are designed to standardise the operating procedures in respect of work safety. We also provide on-the-job training to our employees on work safety.

During the Track Record Period, we complied with material relevant PRC health and safety laws and regulations and have not been subject to any material fine, penalty or citation related to health and safety matters. We arrange for our employees to undertake an annual occupational health examination. If there is any employee having occupational diseases, we will report to relevant authorities in the PRC and file work injury insurance claim for employee concerned.

### **Safety measures in the production process**

Our business involves the handling, storage and use of flammable and explosive materials. Improper handling of these materials may result in serious health effects or personal injury. During the Track Record Period, we have not received any complaints on material issues on production safety or any medical claims from our employee on serious personal injuries. There are no claims or penalties from the relevant authorities in the jurisdiction that we operate in.

## **BUSINESS**

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We have designated warehouses and storage tanks in place for the storage of raw materials and semi-finished goods that are hazardous substances. These warehouses and storage tanks are equipped with safety and firefighting systems and equipment in accordance with relevant PRC laws and regulations. Our warehouse department oversees the strict management of our material storage activities, including maintaining a ledger on raw materials and semi-finished goods. As of 31 December 2016, the storage levels of our inventory, including hazardous substances, remained satisfactory and were within our storage capacity.

During the Track Record Period, the cost of compliance in relation to health and safety costs amounted to HK\$1.4 million, HK\$2.1 million, and HK\$3.2 million respectively, which have been charged as part of our administrative expenses.

### **Tianjin explosions in 2015**

On 12 August 2015, a series of explosions happened at a container storage station at the Port of Tianjin located in the Binhai New Area, Tianjin, the PRC. Fires caused by the explosions continued to burn throughout the weekend and caused a number of explosions after the first explosion. The cause of the explosions was not known immediately after the incident, but an investigation concluded in February 2016 that an overheated container of dry nitrocellulose was the cause of the initial explosion. The explosions raised concern on the safety procedures in place for storing and transportation of dangerous chemicals, including solvent and solvent-based paint and coating products. The PRC Government did not strictly implement the regulations require “large- and medium-sized hazardous chemical storage facilities” to be kept at a distance of 1,000 meters from public buildings, infrastructure (including highway, railroads, and water lines) and industrial companies”. In response to these concerns, the State Council of the PRC pledged shortly after the explosions to “launch a nationwide inspection of businesses engaged in dangerous chemicals and explosives”. The State Council of the PRC also identified a number of problems revealed by the explosions in Tianjin being “lack of safety awareness among businesses and lax implementation of safety regulations, inadequate safety management of dangerous materials at ports, irregular practices among workers, weak emergency responses to incidents and relax supervision by authorities”. The State Council of the PRC ordered local governments “at all levels” to strictly enforce the regulations on the safety zone around industrial projects handling hazardous materials, and to “firmly implement regulatory measures for highly toxic chemicals.”

The explosions in Tianjin resulted in a nationwide inspection and a halt in the transportation of hazardous materials (including solvent-based paint and coating products) in selected areas in the PRC. The sales orders placed by the distributors, particularly in Eastern China, Central China and Southwestern China, experienced significant decreases, as these distributors reduced their purchase in light of the uncertainty and the stringent requirements on the storage of chemicals and inflammable materials. The explosions also accelerated the industry consolidation amongst the distributors in paint and coating industry as well as the shift in the consumers’ preference for water-based paint and coating products.

The PRC Government has strengthened a number of measures after the Tianjin explosions in August 2015, further information on which is set forth in the section headed “Applicable Laws and Regulations” in this [REDACTED].

## BUSINESS

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The Tianjin explosions have negative impact on all businesses engaged in the production, storage and delivery of chemical and inflammable products, including our Group. As part of our safety procedures following the Tianjin Explosions, we have strengthened and upgraded the management and surveillance procedures on handling of hazardous and inflammable material throughout the production process and the delivery and the storage of solvent based paint and coating products in the PRC. After the Tianjin explosions, the local authorities of the PRC Government have conducted thorough inspections of production facilities involving chemicals and inflammable materials. Our production plants have been inspected from time to time, and we have passed most of the requirements raised at these inspections and adopted all rectification suggestions. Such rectification suggestions are not in response to any material issue identified by the local authorities of the PRC government, but are our implementation of certain pre-cautionary measures and steps in relation to the storage of certain flammable products/materials and the labelling of such products/materials. Hence, although the PRC Government’s response affects all paint and coating manufacturers in the PRC, they do not have any direct material adverse impact on our business operations.

Nevertheless, our revenue in 2015 was affected because of the fact that our customers reduced their purchase in light of the uncertainty and the stringent requirements on the storage of chemicals and inflammable materials. Our Directors consider that the measures taken by the PRC Government following the Tianjin explosions would accelerate the healthy development of the paint and coating industry in the PRC with emphasis on production safety and environmental protection.

## COMPETITION

According to *Frost & Sullivan*, the paint and coating market in the PRC is fragmented. The 10 largest paint and coating manufacturers accounted for in aggregate less than 15% of the market share and the largest manufacturer had a market share of 3.4% in terms of revenue in 2016. The wood coating market in the PRC is more concentrated than the paint and coating market. The 10 largest manufacturers had a total market share of 59.7% and the largest manufacturer had a market share of 7.7% in terms of revenue in 2016. In 2016, sales of retailing wood coating products accounted for 27.5% of all the wood coating products sold in terms of revenue in the PRC. The prices of retailing wood coating products are generally higher than those for industrial use.

The major entry barriers of the coatings markets in the PRC and Hong Kong include intensifying environmental regulation, high product development requirements and branding and the availability sales channels for the paint and coating products. With the increasing environmental awareness from both the public and the governments, the environmental protection regulations are increasingly stringent in the PRC and Hong Kong. These will constitute entry barriers for new entrants entering into the market. High initial research and development investments would be required for the development of different types of paint and coating products. A significant amount of investment would also be required for the establishment of brand reputation and penetrate into the sales network in the PRC and Hong Kong.

With our decades of operating history and the quality of our products, our product development capability and our range of paint and coating products for different applications, our Directors believe that we have the competitive strengths in the paint and coating market in Hong Kong and the PRC. Further information on the competition that we face in the markets in which we operate is set forth in the section headed “Industry Overview – Competitive landscape of paint and coating product market in the PRC and Hong Kong” in this [REDACTED].

## **BUSINESS**

### **OUR AWARDS AND RECOGNITION**

We received numerous awards and recognitions from governmental bodies, industrial organisations, customers, suppliers and business partners throughout our business history of 85 years. Most of these awards are recognising our contribution to the manufacturing industry in Hong Kong and the PRC, the quality of our products and our business reputation and achievements. The following sets forth the important awards and recognitions obtained by us during the Track Record Period:

<b>Year</b>	<b>Award</b>	<b>Awarding organisation</b>	<b>Awarded entity</b>
2016	Architectural Coating-China Top 10 Competitive Enterprise	Organising Committee of China Real Estate 2017 Annual Purchase Summit	China Paint Shenzhen
2016	Special Contribution Award – “Special Contribution Award for China Water-based Coating Development”	China Coating Industrial Association	China Paint Shenzhen
2016	The Most Innovative Brand of China	Asia Brand Association, Publishing House of International Business Daily of the Ministry of Commerce of the PRC, Publishing House of China Economic & Trade Herald of National Development and Reform Commission, Publishing House of Economic Daily News and China Economic Information	China Paint Shenzhen
2016	Top 100 Famous Brand in Guangdong	Asia Brand Association, Publishing House of International Business Daily of the Ministry of Commerce of the PRC, Publishing House of China Economic & Trade Herald of National Development and Reform Commission, Publishing House of Economic Daily News and China Economic Information	China Paint Shenzhen
2016	“Flower (菊花牌)” – Hong Kong Top Brand	Hong Kong Brand Development Council, The Chinese Manufacturers’ Association of Hong Kong	China Paint (1932)
2016	Special Contribution Award for the Development of Water-Based Wood Coatings of China	China National Coatings Industry Association	China Paint Shenzhen
2015	“Giraffe (長頸鹿牌)” – Guangdong Province Top Brand Product	Promotion Committee of Guangdong Province Top Brand Product	China Paint Shenzhen
2015	“Flower (菊花牌)” – Shenzhen Famous Brand	Shenzhen Famous Brand Evaluation Committee	China Paint Shenzhen
2015	“Giraffe (長頸鹿牌)” – Top 10 Waterproof Coatings Brand in China	China Coating News	China Paint Shenzhen

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Year	Award	Awarding organisation	Awarded entity
2015	“Flower (菊花牌)” – China’s Top 10 Engineering Coating Brands	China Coating News	China Paint Shenzhen
2015	“Flower (菊花牌)” – Hong Kong Top Brand	Hong Kong Brand Development Council, The Chinese Manufacturers’ Association of Hong Kong	China Paint (1932)
2015	Hundred Years Hundred Enterprises in China Coating Industry 2015	China National Coatings Industry Association	China Paint Shenzhen
2015	Most Influential Enterprises within Hundred Years in China Coating Industry 2015	China National Coatings Industry Association	China Paint Shenzhen
2015	Guangdong Top 500 Enterprises	Guangdong Provincial Enterprise Confederation, Guangdong Provincial Association of Entrepreneurs	China Paint Shenzhen
2015	“Flower (菊花牌)” – Top Brand in China Architectural Coatings Industry Award 2015	China Paint Brand Competition Organising Committee	China Paint Shenzhen
2015	“Giraffe (長頸鹿牌)” – Top Brand in China Wood Coatings Industry Award 2015	China Paint Brand Competition Organising Committee	China Paint Shenzhen
2015	Hong Kong Green Label Certificate for the products of: Flower Archsite Emulsion Paint 0900 HA Series Flower Water-borne Acrylic Wall Finish 0200 Series Flower Premium Emulsion Paint 0100 Series Flower Sand Textured Emulsion Paint 3800 Series Flower Matt Latex Paint 000 Series Golden Flower Supreme Wall Finish GFW Golden Flower Lotus-effect Low Carbon Wall Finish GFA	Hong Kong Green Label Scheme by Green Council	China Paint (1932)
2014	“Flower (菊花牌)” – Hong Kong Top Brand	Hong Kong Brand Development Council, The Chinese Manufacturers’ Association of Hong Kong	China Paint (1932)

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Year	Award	Awarding organisation	Awarded entity
2014	“Giraffe (長頸鹿牌)” – Top Brand in China Wood Coatings Industry Award 2013	China Brand Selection Center Limited Company Limited and China Paint Brand Competition Organising Committee	China Paint Shenzhen
2014	“Flower (菊花牌)” – Top Brand in China Architectural Coatings Industry Award 2013	China Brand Selection Center Limited Company Limited and China Paint Brand Competition Organising Committee	China Paint Shenzhen
2014	Top 10 Outstanding Enterprises in Guangdong Coatings Industry	Guangdong Coatings Industry Association	China Paint Shenzhen
2013	“Flower (菊花牌)” – Hong Kong Top Brand	Hong Kong Brand Development Council, The Chinese Manufacturers’ Association of Hong Kong	China Paint (1932)
2013	China Waterborne Wood Coatings Industry 2013 Outstanding Enterprise Honor	China Waterborne Wood Coatings Industry Technology Alliance	China Paint Shenzhen
2013	Guangdong Top 500 Enterprises	Guangdong Provincial Enterprise Confederation, Guangdong Provincial Association of Entrepreneurs	China Paint Shenzhen
2013	Top 10 of Chinese Local Architectural Coating Brands	Architectural Coatings Branch of China Association of Decorative Building Materials	China Paint Shenzhen



## BUSINESS

### EMPLOYEES

As of 31 December 2016 and the Latest Practicable Date, we employed a total of 1,030 and 1,041 full-time employees in the PRC and Hong Kong. The following table shows a breakdown of our employees by function:

Business functions	As of 31 December 2016			As of the Latest Practicable Date		
	Hong Kong	PRC	Total	Hong Kong	PRC	Total
Production . . . . .	9	435	444	9	448	457
Sales and marketing . . . . .	19	222	241	18	226	244
Technology . . . . .	7	105	112	7	100	107
Administration . . . . .	17	69	86	16	71	87
Finance and accounting . . . . .	9	44	53	8	45	53
Corporate management and administration . . . . .	10	28	38	10	27	37
Quality control . . . . .	1	32	33	1	34	35
Procurement . . . . .	2	13	15	2	10	12
Safety and environmental protection . . . . .	0	8	8	0	9	9
<b>Total</b>	<b>74</b>	<b>956</b>	<b>1,030</b>	<b>71</b>	<b>970</b>	<b>1,041</b>

Our employees’ remuneration package includes salary, bonus and allowance elements. Our compensation programs are designed to remunerate our employees based on their work performance. We also provide our employees with continuing education and on-job training. For the employees in the PRC, we are required to make contributions to various government sponsored employee benefit funds, including social insurance fund, basic pension insurance fund and unemployment, maternity and work related insurance funds in accordance with applicable PRC laws and regulations. As confirmed by our PRC Legal Adviser, except for the non-compliance incidents set forth in the paragraphs under “Non-compliance incidents” below, as of the Latest Practicable Date, we had complied with all statutory social insurance and housing fund obligations applicable to us in all material respects under PRC laws.

Our Directors confirm, as advised by our Hong Kong legal adviser, that we have fully complied with the mandatory provident fund requirements for our employees in Hong Kong. In addition to the mandatory provident fund, we also provide our employees with benefits under a funded defined benefit scheme. Under the scheme, the employees will be entitled to retirement benefits at 70% of their final monthly salaries multiplied by their respective number of years of service on attainment of the retirement age. The scheme is administrated by an independent trustee with the fund held separately from us.

China Paint Shenzhen has established a labour union to represent our employees. We believe that our relationship with our employees and the labour unions are good and are based on mutual support and respect. During the Track Record Period and up to the Latest Practicable Date, there have been no labour disputes or strikes at any of our production facilities.

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### INSURANCE

We maintain insurance policies for all of our properties, production facilities, plant and machinery, equipment and inventories against damage caused by accidents. Under PRC laws and regulations, we are not required to maintain any insurance in relation to our business operations, such as business interruption insurance, or product liability insurance against claims or liabilities that may arise from products that we have sold. We do not carry insurance coverage against war or acts of terrorism. We believe that our insurance coverage is in line with industry practice in the PRC. We did not experience any material industrial accidents or any claims under our product liability policies during the Track Record Period. We also provide pension, medical, work injury, unemployment, social and maternity insurance for our employees in Hong Kong and the PRC.

### PROPERTIES

Our production facilities are situated at Shajing Production Plant, Ezhou Production Plant, Xuzhou Production Plant and Xinfeng Production Plant. Our administrative headquarters are situated in Hong Kong. The total aggregate gross floor area occupied by our production facilities was 76,004.0 sq. m., as of 31 December 2016, all of which were owned by us. We have obtained all land use right certificates and building ownership certificates in relation to such production facilities.

Further information on the properties occupied by us is set forth below:

Location	Self-owned/ leased/ other type	Property	Description and tenure	Purpose
<i>Shajing Production Plant</i>				
Land	Self-owned	Bu Yong Industrial Road Shajing Street Bao'an District Shenzhen Guangdong Province	The property is self-owned with land area of 58,786.0 sq. m.	Industrial use
Building	Self-owned	Bu Yong Industrial Road Shajing Street Bao'an District Shenzhen Guangdong Province	The property is self-owned with gross floor area of 36,276.1 sq. m.	Office, warehouse, industrial use, staff accommodation
Building	Other type	Xuefu Garden, the intersection of Haoxiang Road and Shasan Road Shajing Street Bao'an District Shenzhen Guangdong Province	Shajing Production Plant is using the property with gross floor area of 1,147.2 sq. m.	Staff accommodation
Building	Other type	Xing Guang Hua Ting, Unit 1001, Level 10, Block B, Building No.1 Qianxiaoqu, Yabian Community, Shajing Street, Bao'an District Shenzhen Guangdong Province	Shajing Production Plant is using the property with gross floor area of 778.6 sq. m.	Staff accommodation

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<b>Location</b>	<b>Self-owned/ leased/ other type</b>	<b>Property</b>	<b>Description and tenure</b>	<b>Purpose</b>
Building	Lease	Three-floor Building, together with the open space in front of and at the right of it, at the Northeast Corner of the cross of Beihuan Road and Huanzhen Road, Shajing Town, Baoan District, Shenzhen	China Paint Shenzhen leased the property with gross floor area of 579 sq. m.	Office
<b><i>Ezhou Production Plant</i></b>				
Land	Self-owned	The intersection of Road No.4 and Road No.3 in the south of Gedian Development Zone Ezhou City Hubei Province	The property is self-owned with land area of 9,453.3 sq. m.	Industrial use
Building	Self-owned	The intersection of Road No.4 and Road No.3 in the south of Gedian Development Zone Ezhou City Hubei Province	The property is self-owned with gross floor area of 4,483.7 sq. m.	Office, warehouse, industrial use
Land	Self-owned	Road No.4, Industrial Park No.2 Gedian Development Zone Hubei Province	The property is self-owned with land area of 19,872.3 sq. m.	Office, warehouse, industrial use
Building	Self-owned	Road No.4, Industrial Park No.2 Gedian Development Zone Ezhou City Hubei Province	The property is self-owned with gross floor area of 13,710.5 sq. m.	Office, warehouse, industrial use
Building	Self-owned	Living Area No.1 of Gedian Development Zone Hubei Province	The property is self-owned with gross floor area of 898.2 sq. m.	Staff accommodation
<b><i>Xuzhou Production Plant</i></b>				
Land	Self-owned	22 Jinshui Road, Xuzhou Economic Development Zone Xuzhou, Jiangsu Province	The property is self-owned with land area of 36,729.8 sq. m.	Industrial use
Building	Self-owned	22 Jinshui Road, Xuzhou Economic Development Zone Xuzhou, Jiangsu Province	The property is self-owned with gross floor area of 3,661.5 sq. m.	Office, warehouse, industrial use

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Location	Self-owned/ leased/ other type	Property	Description and tenure	Purpose
<i>Xinfeng Production Plant</i>				
Land	Self-owned	18, Jiuzu, Sanwei Hengjiang Village Fengcheng Sub-district Xinfeng County Guangdong Province	The property is self-owned with land area of 260,572.1 sq. m.	Office, Industrial use
Building	Self-owned	Hengjiang Village Fengcheng Sub-district Xinfeng County Guangdong Province	The property is self-owned with gross floor area of 16,974.3 sq. m.	Office, warehouse, industrial use
<i>Shanghai Complex</i>				
Land	Self-owned	No.3889, 3899 Waiqingsong Highway Qingpu District, Shanghai	The property is self-owned with land area of 30,956.9 sq. m.	Part of the building comprising the Shanghai Complex is currently used as the office of Shanghai Giraffe for trading business of our paint and coating products
Building	Self-owned	Nos.3889, 3899 Waiqingsong Highway Qingpu District, Shanghai	The property is self-owned with gross floor area of 6,674.9 sq. m.	Part of the building comprising the Shanghai Complex is currently used as the office of Shanghai Giraffe for trading business of our paint and coating products

We do not own any real property in Hong Kong. We have leased from members of the CNT Group office premises and warehouse property in Hong Kong, further information on which is set forth in the section headed “Continuing Connected Transactions – Non-exempt continuing connected transactions – leasing of properties” in this [REDACTED].

As no single property interest forming part of our Group’s non-property activities had a carrying amount of 15% or more of our total assets as of 31 December 2016, we are not required by Rule 5.01A of the Listing Rules to include a valuation report in this [REDACTED]. Pursuant to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, we are exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance to include a valuation report in this [REDACTED].

## **BUSINESS**

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### **INTELLECTUAL PROPERTY**

Throughout our business development history, we have developed and maintained a number of patents and trademarks for our product purposes. As of the Latest Practicable Date, we had 96, 36, six, two, five and four registered trademarks in China, Hong Kong, Singapore, Taiwan, Macau and Malaysia, respectively. As of the Latest Practicable Date, we had a total of 43 registered patents and 23 pending patent applications in the PRC.

In addition, all of our product development personnel have entered into confidentiality and proprietary information agreements with us. These agreements highlight that they are obliged to maintain strict confidential on our intellectual property rights and their agreement that all inventions, designs and technologies they develop during their employment belong to us.

Subsequent to the Track Record Period, we were involved in one litigation on an alleged infringement by us of the registered trademark of an Independent Third Party. Further information on which is set forth in the paragraphs under “Legal proceedings” below.

Further information on our intellectual property rights is set forth in the paragraph under “B. Further information about our business – 2. Intellectual property rights” in Appendix IV to this [REDACTED].

### **LEGAL PROCEEDINGS**

The section headed “Applicable Laws and Regulations” in this [REDACTED] sets forth further information on the laws and regulations which are applicable to our business operations. Our PRC Legal Adviser has advised us that as of the Latest Practicable Date, except for the non-compliance incidents set forth in the paragraphs under “Non-compliance incidents” below, we have complied in all material respects with relevant PRC laws and regulations and that all of our PRC subsidiaries have not been operating their respective business in violation of PRC laws and regulations or in excess of the business scope stated in their respective business licence since their establishment.

As of the Latest Practicable Date, China Paint Shenzhen was involved in one legal proceedings. In September 2016, China Paint Shenzhen, as one of the defendants, received a summons served by the People’s Court of Luohu District, Shenzhen (深圳市羅湖區人民法院) (the “**Court**”) regarding an alleged trademark infringement dispute. China Paint Shenzhen is claimed by an Independent Third Party for infringement of its trademark of “長頸鹿”. The claimant requested China Paint Shenzhen to stop the infringing acts and to destroy the infringing goods and related materials bearing registered trademark of the Independent Third Party. The claimant also requested China Paint Shenzhen, together with the other defendant, to pay an amount of RMB1,000,000 for the economic loss and reasonable expenses incurred by the claimant. The matter was heard by the Court in the PRC on 23 November 2016 but the written judgement has not been issued.

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According to the advice from Yangsan Law Firm, the Court handed-down the ruling on 21 March 2017 and ordered the suspension of the legal proceedings on the alleged trademark infringement against China Paint Shenzhen. According to the ruling, the Court is of the view that the legality and validity of the trademark (being the subject matter of the case) (the “**Disputed Trademark**”) could be subject to review by the Trademark Review and Adjudication Board of the State Administration for Industry & Commerce of the People’s Republic of China (中華人民共和國國家工商行政管理總局商標評審委員會) (the “**TRAB**”).

The Trademark Office of the State Administration for Industry & Commerce of the People’s Republic of China (中華人民共和國國家工商行政管理總局商標局) (the “**Trademark Office**”) accepted the application for the revocation of the registration of the Disputed Trademark on 28 December 2016. The TRAB has accepted the application submitted by China Paint Shenzhen for the nullification of the Disputed Trademark on 9 March 2017.

We had various paint and coating products sold in different categories of trademark registered under its renowned brand “*Giraffe*”. Our Directors confirm that the revenue generated from the sales of the products with the Disputed Trademark in the designated category amounted to HK\$1.8 million, HK\$2.0 million and HK\$1.0 million during the Track Record Period, respectively. Such amounts of sales are immaterial to the total amount of our revenue during the Track Record Period.

According to Yangsan Law Firm, the claims made by the plaintiff against China Paint Shenzhen on trademark infringement shall be rejected by the Court; and even if the Trademark Office and TRAB do not accept the nullification and the revocation application for the Disputed Trademark and China Paint (Shenzhen) loses the trademark infringement case, and the plaintiff was successful in the claim, the maximum amount of damages that we would have been required to pay under the claim would be around RMB1 million (as claimed by plaintiff) together with the litigation cost of not more than RMB20,000. Such amount is immaterial to the our business operations.

In light of the above, our Directors consider that the above legal proceedings, regardless the final decision, would not constitute a material adverse impact on our operation results.

Save as the above legal proceedings, as of the Latest Practicable Date, no member of our Group was sued for infringement of intellectual property rights by any third party. Our Directors were not aware of any threatened material proceedings or claims relating to intellectual property rights against us as of the Latest Practicable Date.

Save as disclosed above, as of the Latest Practicable Date, we were not aware of any material legal proceedings, claims, disputes, arbitration or administrative proceedings pending or threatening against any member of our Group or any of our Directors that could have a material adverse impact on our financial condition or operating results.

We may from time to time become a party to various legal or administrative proceedings arising in the ordinary course of our business, but none of these proceedings has any material impact on our business and financial condition or operating results.



## BUSINESS

### NON-COMPLIANCE INCIDENTS

The following sets forth detailed information on our non-compliance incidents during the Track Record Period:

Non-compliance incidents	Relevant laws and regulations and legal ramifications	Explanations and our remedial measures
<p>(1) During the Track Record Period, for certain employees employed by China Paint Shenzhen working outside Shenzhen, China Paint Shenzhen was making social insurance and housing fund contributions through an Independent Third Party which is a licensed human resources agency (instead of making contribution to the authorities directly by China Paint Shenzhen).</p> <p>During the Track Record Period, our computation basis for social insurance and housing fund covers basic salary (基本工资) and special position allowance (特崗津貼), whereas bonus (獎金), overtime working payment and other payables were not included.</p> <p>In addition, each of Shanghai Giraffe and Xuzhou Giraffe failed to register with competent social insurance authority within 30 days upon its establishment. Also, each of China Paint Shenzhen, China Paint Xinfeng, Hubei Giraffe, Shanghai Giraffe and Xuzhou Giraffe failed to register with competent housing fund management centres within 30 days upon its establishment, or to open a housing fund account for its employees within 30 days as of registration, respectively due to the reasons that: (i) Shanghai Giraffe and Xuzhou Giraffe had not recruited any local employees at the time of establishment; (ii) Since Hubei Giraffe and China Paint Xinfeng set up quite earlier (Hubei Giraffe was established in 1992, China Paint Xinfeng was established in 2007), local staffs were not aware of the statutory requirements; (iii) Shenzhen government promulgated the Shenzhen Municipality Interim Management Measures on Housing Provident Fund (深圳市住房公積金管理暫行辦法, the "Interim Measures") in November 2010, which took effect in December 2010 and promulgated Shenzhen Municipality Interim Management Provisions on Payment of Housing Provident Fund (for Trial) (深圳市住房公積金繳存管理暫行規定 (試行)) in December 2010, which provided that enterprises established before the implementation of the Interim Measures should complete the housing accumulation fund payment registration within six months after the implementation of the Interim Measures. Therefore, China Paint Shenzhen, established in 1991, was required to complete the housing accumulation fund payment registration within 6 months after the implementation of Interim Measures. China Paint Shenzhen registered with competent housing fund management centres in March, 2011.</p>	<p>According to the Social Insurance Law of the PRC (中華人民共和國社會保險法) and the Administrative Regulations on the Housing Fund of the PRC (住房公積金管理條例), any PRC company shall make contribution for social insurance, which shall cover basic pension insurance, unemployment insurance, basic medical insurance, workplace injury insurance and maternity insurance, and housing fund for its employees.</p> <p>Generally, the contribution basis shall cover all labor remuneration paid in cash to employees, such as basic salary, allowance, overtime working payment, bonus and other payables.</p> <p>Any newly established PRC company shall register with competent social insurance authority and competent housing fund management centre within 30 days upon its establishment, and shall open a housing fund accounts for its employees within 20 days as of registration.</p> <p>According to the Social Insurance Law of the PRC (中華人民共和國社會保險法) and other relevant regulations, where an employer fails to register for social insurance, the social insurance authority shall order the employer to rectify such non-compliance within a specified time limit. If it fails to do so, the social insurance authority shall impose a fine on the employer equivalent to one to three times the amount of the overdue social insurance contribution, and those management personnel and other personnel who are directly responsible shall be imposed with a fine of amount between RMB500 to RMB3,000. And where an employer fails to make social insurance contributions in full and on time, the social insurance authority shall order it to make outstanding contributions within a specified period and impose a late payment fee at the rate of 0.05% of the outstanding amount per day from the date on which the contribution becomes due. If such employer fails to make the overdue contributions within such time limit, the relevant authority may impose a fine equivalent to one to three times the overdue amount.</p>	<p>We made social insurance and housing fund contributions through a third party human resources agency for certain employees working in other cities due to the reason that these employees prefer to have their insurance and contributions paid in cities where they reside and work.</p> <p>Our computation basis for social insurance and housing fund does not cover bonus, overtime working payment and other payables since the inclusion of bonus, overtime working payment and other payables will reduce the amount of salary actually received by employees. Furthermore, some of our employees are migrant workers and thus may not fully enjoy the benefits provided by the social insurance and housing fund in Shenzhen. Therefore, such employees are unwilling to include those amounts into the calculation base.</p> <p>Upon establishment, each of Shanghai Giraffe and Xuzhou Giraffe had not yet recruited any local staff. Therefore, they failed to duly register with competent social insurance authority.</p> <p>Each of China Paint Shenzhen, China Paint Xinfeng, Hubei Giraffe, Shanghai Giraffe and Xuzhou Giraffe failed to register with competent housing fund management centres within 30 days upon its establishment, or to open a housing fund account for its employees within 20 days as of registration, respectively due to the reasons that: (i) Shanghai Giraffe and Xuzhou Giraffe had not recruited any local employees at the time of establishment; (ii) Since Hubei Giraffe and China Paint Xinfeng set up quite earlier (Hubei Giraffe was established in 1992, China Paint Xinfeng was established in 2007), local staffs were not aware of the statutory requirements; (iii) Shenzhen government promulgated the Shenzhen Municipality Interim Management Measures on Housing Provident Fund (深圳市住房公積金管理暫行辦法, the "Interim Measures") in November 2010, which took effect in December 2010 and promulgated Shenzhen Municipality Interim Management Provisions on Payment of Housing Provident Fund (for Trial) (深圳市住房公積金繳存管理暫行規定 (試行)) in December 2010, which provided that enterprises established before the implementation of the Interim Measures should complete the housing accumulation fund payment registration within six months after the implementation of the Interim Measures. Therefore, China Paint Shenzhen, established in 1991, was required to complete the housing accumulation fund payment registration within 6 months after the implementation of Interim Measures. China Paint Shenzhen registered with competent housing fund management centres in March, 2011.</p>

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Non-compliance incidents	Relevant laws and regulations and legal ramifications	Explanations and our remedial measures
		<p>Internal control measures: to prevent the recurrence of the above-mentioned non-compliance incidents, the Company has established the internal audit and compliance audit functions. The Company has also designated special personnel to supervise the payment of housing provident fund and social insurance of domestic companies, and has committed to hold compliance training for senior management personnel and human resources staff in the domestic companies from time to time and to encourage employees of the domestic companies to participate in compliance training organised by government, so as to ensure strict compliance with relevant regulatory requirements.</p>
		<p>Following the receipt of the advice from our PRC Legal Adviser in August 2016 that engagement with third party human resources agency for payment of social insurance and housing fund would not be appropriate, we immediately started to arrange registration and contribution of social insurance and housing fund for those employees in the relevant places where they work through our local branches.</p>
		<p>Our Directors confirm that we have made additional provision of HK\$6.2 million, HK\$2.4 million and HK\$2.9 million during the Track Record Period, respectively, for the outstanding account of the social insurance and housing fund contribution.</p>
		<p>We are in the process of adjusting the calculation basis for social insurance and housing fund in compliance with relevant laws and regulations.</p>
		<p>As at the Latest Practicable Date, we have not received any order from the competent PRC authorities in relation to these labour related non-compliance incidents. On 28 September 2016, Shenzhen Human Resources and Social Insurance Bureau, being the competent PRC authority, issued a compliance confirmation, in which it has confirmed that there is no administrative penalty record of China Paint Shenzhen concerning breach of any PRC laws and regulations on labour in the period from 1 January to 15 September 2016. On 22 February 2017, Shenzhen Social Insurance Fund Management Bureau, being the competent PRC authority, issued a compliance confirmation, in which it has confirmed that there is no administrative penalty record of China Paint Shenzhen concerning breach of any PRC laws and regulations on social insurance for the period from 1 July 2016 to 31 January 2017. On 3 November 2016, Baoan District Management Department of Shenzhen Housing Fund Management Centre, being the competent PRC authority, issued a compliance confirmation, in which it confirmed that there is no administrative penalty record of China Paint Shenzhen in the period from December 2010 to October 2016.</p>
		<p>On 23 February 2017, Baoan District Management Department of Shenzhen Housing Fund Centre, being the competent PRC authority, issued a compliance confirmation, in which it confirmed that there is no administrative penalty record of China Paint Shenzhen for the period from December 2010 to February 2017.</p>



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Non-compliance incidents	Relevant laws and regulations and legal ramifications	Explanations and our remedial measures
<p>Furthermore, each of China Paint Xinfeng, Hubei Giraffe and Xuzhou Giraffe did not pay housing fund contribution for its employees for certain period during the Track Record Period due to delay in completion of the registration with related housing fund management centres.</p>	<p>According to the Administrative Regulations on the Housing fund of the PRC (住房公積金管理條例) and other relevant regulations, where an employer fails to make payment registration of housing fund or fails to open housing fund accounts for its employees, the housing fund management centre shall order it to go through the formalities within a prescribed period. If such employer fails to do so at the expiration of the time limit, a fine ranging from RMB10,000 to RMB50,000 shall be imposed. And where any payment of housing fund is overdue or underpaid by an employer, the housing fund management centre shall order it to make the payment within a prescribed time limit. If the payment has not been made when the time limit expires, an application may be submitted to a people's court for compulsory enforcement.</p>	<p>On 20 September 2016, Xinfeng Branch of Shaoguan Social Insurance Service Management Department, being the competent authority in the PRC, issued a compliance confirmation, in which it confirmed that there is no administrative penalty record of China Paint Xinfeng concerning breach of any PRC laws and regulations on social insurance for the period from 14 September 2007 to 20 September 2016. On 14 February 2017, Xinfeng Branch of Shaoguan Social Insurance Service Management Department, being the competent authority in the PRC, issued a compliance confirmation, in which it confirmed that there is no administrative penalty record of China Paint Xinfeng concerning breach of any PRC laws and regulations on social insurance for the period from 1 September 2016 to 14 February 2017.</p> <p>On 20 September 2016, Xinfeng Office of Shaoguan Housing Fund Management Centre, being the competent authority in the PRC, issued a compliance confirmation, in which it confirmed that there is no administrative penalty record of China Paint Xinfeng concerning breach of any PRC laws and regulations on housing fund since September 2015. On 16 February 2017, Xinfeng Office of Shaoguan Housing Fund Management Centre, being the competent authority in the PRC, issued a compliance confirmation, in which it confirmed that there is no administrative penalty record of China Paint Xinfeng concerning breach of any PRC laws and regulations on housing fund from September 2015 to February 2017.</p> <p>On 20 September 2016, the Management Department of Social Insurance Bureau of Gedian Development Zone, Hubei Province, being the competent authority in the PRC, issued a compliance confirmation, in which it confirmed that there is no administrative penalty record of Hubei Giraffe concerning breach of any PRC laws and regulations on social insurance for the period from 1 January 2013 to 20 September 2016. On 10 February 2017, the Management Department of Social Insurance Bureau of Gedian Development Zone, Hubei Province, being the competent authority in the PRC, issued a compliance confirmation, in which it confirmed that there is no administrative penalty record of Hubei Giraffe concerning breach of any PRC laws and regulations on social insurance for the period from 1 January 2013 to 10 February 2017.</p> <p>On 21 September 2016, Ezhou Housing Fund Management Centre, being the competent authority in the PRC, issued a compliance confirmation, in which it confirmed that there is no administrative penalty record of Hubei Giraffe concerning breach of any PRC laws and regulations on housing fund for the period from 14 April 2015 when it opened the payment account to August 2016. On 13 February 2017, Ezhou Housing Fund Management Centre, being the competent authority in the PRC, issued a compliance confirmation, in which it confirmed that there is no administrative penalty record of Hubei Giraffe concerning breach of any PRC laws and regulations on housing fund for the period from 14 April 2015 to 31 January 2017.</p>

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Non-compliance incidents	Relevant laws and regulations and legal ramifications	Explanations and our remedial measures
		<p>On 22 September 2016, Xuzhou Human Resources and Social Insurance Bureau, being the competent authority in the PRC, issued a compliance confirmation, in which it confirmed that, for the period from August 2005 to 22 September 2016, Xuzhou Giraffe complies with PRC laws and regulations on social insurance and labor and there is no administrative penalty record of Xuzhou Giraffe concerning breach of any PRC laws and regulations on labor. On 13 February 2017, Xuzhou Human Resources and Social Insurance Bureau, being the competent authority in the PRC, issued a compliance confirmation, in which it confirmed that, for the period from September 2016 to February 2017, Xuzhou Giraffe complies with PRC laws and regulations on social insurance and labor and there is no administrative penalty record of Xuzhou Giraffe concerning breach of any PRC laws and regulations on labor.</p> <p>On 22 September 2016, Xuzhou Social Insurance Fund Management Centre, being the competent authority in the PRC, issued a compliance confirmation, in which it confirmed that Xuzhou Giraffe has been paid kinds of social insurance since August 2005. On 31 October 2016, Xuzhou Housing Fund Management Centre, being the competent authority in the PRC, issued a compliance confirmation, in which it confirmed that, there is no administrative penalty record of Xuzhou Giraffe. On 21 February 2017, Xuzhou Housing Fund Management Centre, being the competent authority in the PRC, issued a compliance confirmation, in which it confirmed that, there is no administrative penalty record of Xuzhou Giraffe.</p> <p>On 26 September 2016, Shanghai Social Insurance Business Management Centre, being the competent authority in the PRC, issued a compliance confirmation, in which it confirmed that there is no unpaid insurance fee of Shanghai Giraffe up to August 2016. On 21 February 2017, Shanghai Qingpu Branch of Human Resource and Social Insurance Bureau, being the competent authority in the PRC, issued a compliance confirmation, in which it confirmed that there is no administrative penalty record of Shanghai Giraffe concerning breach of any PRC laws and regulations on labor since 1 January 2014.</p> <p>On 6 March 2017, Shanghai Social Insurance Business Management Centre, being the competent authority in the PRC, issued a compliance confirmation, in which it confirmed that there is no unpaid insurance fee of Shanghai Giraffe up to February 2017. On 27 September 2016, Shanghai Housing Fund Management Centre, being the competent authority in the PRC, issued a compliance confirmation, in which it confirmed that there is no administrative penalty record of Shanghai Giraffe since it opened the payment account in January 2008. On 23 February 2017, Shanghai Housing Fund Management Centre, being the competent authority in the PRC, issued a compliance confirmation, in which it confirmed that there is no administrative penalty record of Shanghai Giraffe since it opened the payment account in January 2008.</p> <p>We do not need to make any additional provision as the amounts of provision set forth in (1) above include the potential liability and the shortfall under this non-compliance incident.</p> <p>Our PRC Legal Adviser is of the view that the non-compliance incidents described above do not constitute a material breach of the relevant laws and regulations in the PRC on the basis that compliance confirmations have been issued by the PRC competent authorities.</p> <p>In addition to the compliance confirmations, considering that (i) we have implemented the internal control measures to prevent the recurrence of the above-mentioned non-compliance incidents and (ii) as of the Latest Practicable Date, we have not received any order from the PRC competent authorities in relation to the non-compliance incidents, our PRC Legal Adviser and our Directors are of the view that the possibility that the PRC competent authorities would impose any penalty on us for the non-compliance incidents is low.</p>

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Non-compliance incidents	Relevant laws and regulations and legal ramifications	Explanations and our remedial measures
<p>(2) During the Track Record Period, the branch company of China Paint Shenzhen in Shenzhen (“<b>Shenzhen Branch</b>”) and the branch company of China Paint Shenzhen in Xinfeng (“<b>Xinfeng Branch</b>”) did not hold Operating License for Hazardous Chemicals (危險化學品經營許可證) but signed distribution agreements regarding paint and coating products with customers, issued sales invoices and collected payments accordingly. Shenzhen Branch was a re-invoicing centre that receive and process all invoices between China Paint Shenzhen and its branches, and between the branches and customers. The Shenzhen Branch and the Xinfeng Branch did not handle or deliver any inventory of paint and coating products, and the delivery was arranged directly by China Paint Shenzhen which possesses a valid licence for delivery of paint and coating products, i.e. the Road Transportation License of Dangerous Goods (道路危險貨物運輸許可證). All products were delivered by China Paint Shenzhen to the customers.</p> <p>The branch company of China Paint Shenzhen in Guangzhou (“<b>Guangzhou Branch</b>”) continued to engage in such re-invoicing activities after its Operating License for Hazardous Chemicals (危險化學品經營許可證) expired on 28 September 2013 and before it received a new valid Operating License for Hazardous Chemicals on 3 July 2014. The Guangzhou Branch did not handle or deliver any inventory of paint and coating products, and the deliver was arranged directly by China Paint Shenzhen. All products were delivered by China Paint Shenzhen to the customers.</p> <p>The above business activities of the three branches, namely Shenzhen Branch, Xinfeng Branch and Guangzhou Branch, could be identified as operation of hazardous chemicals.</p>	<p>Pursuant to the Work Safety Law of PRC (中華人民共和國安全生產法), the Regulations on the Safety Management of Hazardous Chemicals (危險化學品安全管理條例) and the Measures on Operating License for Hazardous Chemicals (危險化學品經營許可證管理辦法), enterprises that engage in operation of hazardous chemicals which are listed in the Catalogue of Hazardous Chemicals (危險化學品目錄) shall obtain Operating License for Hazardous Chemicals, and if any enterprise fails to obtain such license before proceeding to conduct operation of hazardous chemicals, relevant competent authority(ies) shall order it to cease the operation, confiscate related hazardous chemicals and the illegal incomes, and impose a fine of amount between RMB100,000 to RMB200,000.</p>	<p>As Xinfeng Branch was a re-invoicing centre, local staffs were not aware that Xinfeng branch should apply for Operation License for Hazardous Chemicals (危險化學品經營許可證). Following the receipt of the advice by our PRC Legal Adviser, Xinfeng Branch immediately applied for Operating License for Hazardous Chemicals (危險化學品經營許可證) and has obtained Operating License for Hazardous Chemicals (危險化學品經營許可證) on 21 November 2016. As for the Guangzhou Branch, the Operating License for Hazardous Chemicals (危險化學品經營許可證) of Guangzhou Branch expired on 28 September 2013 and Guangzhou Branch obtained a renewed Operating License for Hazardous Chemicals (危險化學品經營許可證) on 3 July 2014. As the sales business arrangements of Guangzhou Branch were continuous, the transaction arrangement under the contract signed by Guangzhou Branch before September 2013 would last until and after 28 September 2013. Since the distribution and shipment of products under the contracts signed by Guangzhou Branch have all been undertaken by China Paint Shenzhen, by which Guangzhou Branch would not intervene or participate in. Guangzhou Branch obtained a renewed Operating License for Hazardous Chemicals (危險化學品經營許可證) on 3 July 2014. Currently, due to internal business integration, Guangzhou Branch has transferred its aforementioned business to Xinfeng Branch. Guangzhou Branch has suspended its aforementioned business. China Paint Shenzhen is in the process of signing supplemental agreements to terminate the distribution arrangements with Shenzhen Branch. Financial matters as well as customers’ relationship conducted by Shenzhen Branch will be taken care by China Paint Shenzhen. Shenzhen Branch was a re-invoicing centre that received and processed all invoices between China Paint Shenzhen and its branches, and between the branches and customers, due to the reason that at the time of establishment of Shenzhen Branch, local authority did not explicitly require the Shenzhen Branch to apply for a license. To ensure business compliance and due to internal business integration of the Company, Shenzhen Branch has suspended its re-invoicing centre function.</p> <p>Internal control measures: we have established the internal audit and compliance audit functions to prevent recurrence of the non-compliance incidents. We have also designated staff to obtain information on the relevant laws and regulations. Based on the laws and regulations, solutions or optimisation plans are proposed from time to time to ensure that we comply with the relevant regulatory requirements. Guangzhou Branch and Shenzhen Branch have suspended the above business activities. Xinfeng Branch has obtained the license in November 2016.</p> <p>During the Track Record Period and up to the Latest Practicable Date, neither of the Shenzhen Branch, Xinfeng Branch nor Guangzhou Branch received any penalty or any notice that ordered any of them to cease the operation of hazardous chemicals business from the relevant PRC authorities in relation to such non-compliance incidents.</p>

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Non-compliance incidents	Relevant laws and regulations and legal ramifications	Explanations and our remedial measures
		<p>The three branches have obtained compliance confirmations from competent PRC authorities of work safety as follows:</p> <p>(1) On 22 September 2016, Supervision Administration of Work Safety of Xinfeng County (新豐縣安全生產監督管理局), issued a compliance confirmation that, for the period from 1 January 2013 to 22 September 2016, the Xinfeng Branch complied with the national and local laws and regulations on work safety, committed no activities that violate national and regional laws and regulations on work safety and it was not subject to any investigation, administrative penalty or lawsuit due to breach of any national and regional laws and regulations on work safety. On 13 February 2017, Supervision Administration of Work Safety of Xinfeng County (新豐縣安全生產監督管理局), issued a compliance confirmation that, for the period from 1 July 2016 to 13 February 2017, the Xinfeng Branch complied with the national and local laws and regulations on work safety, committed no activities that violate national and regional laws and regulations on work safety and it was not subject to any investigation, administrative penalty or lawsuit due to breach of any national and regional laws and regulations on work safety.</p> <p>(2) On 28 September 2016, Supervision Administration of Work Safety of Shenzhen Nanshan District (深圳市南山區安全生產監督管理局) issued a compliance confirmation that within its jurisdiction, there was no administrative penalty record of the branch company of China Paint Shenzhen in Shenzhen concerning breach of any PRC laws and regulations on work safety for the period from 1 January 2013 to 15 September 2016. On 20 February 2017, 28 September 2016, Supervision Administration of Work Safety of Shenzhen Nanshan District (深圳市南山區安全生產監督管理局) issued a compliance confirmation that within its jurisdiction, there was no administrative penalty record of Shenzhen Branch concerning breach of any PRC laws and regulations on work safety for the period from 1 July 2016 to 31 January 2017.</p> <p>(3) On 25 October 2016, Supervision Administration of Work Safety of Guangdong Province (廣東省安全生產監督管理局), issued a compliance confirmation that it had not imposed any administrative penalty on the Guangzhou Branch concerning breach of any PRC laws and regulations regarding work safety for the period from 1 January 2013 to 30 September 2016. On 2 March 2017, Supervision Administration of Work Safety of Guangdong Province (廣東省安全生產監督管理局), issued a compliance confirmation that it had not imposed any administrative penalty on the Guangzhou Branch concerning breach of any PRC laws and regulations regarding work safety for the period from 1 July 2016 to 31 January 2017.</p> <p>Our PRC Legal Adviser is of the view that the non-compliance incidents described above does not constitute a material breach of the relevant laws and regulations in the PRC on the basis that compliance confirmations have been issued by the PRC competent authorities.</p> <p>In addition to the compliance confirmations, considering that (i) Guangzhou Branch together with Shenzhen Branch have suspended the above business activities, and Xinfeng Branch has obtained the Operating License for Hazardous Chemicals (危險化學品經營許可證) in November 2016 and (ii) as of the Latest Practicable Date, we have not received any order or any notice that ordered any of them to cease the operation of hazardous chemicals business from the relevant PRC authorities in relation to the non-compliance incidents, our PRC Legal Adviser and our Directors are of the view that the possibility that the competent PRC authorities would impose any penalty on us for the non-compliance incidents is low.</p>

## **BUSINESS**

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During the Track Record Period, we had a number of non-compliance incidents in respect of the payment of social insurance fund and housing provident fund in the PRC and the maintenance of required licences for our production at our production facilities. Having considered the nature of the non-compliance incidents, our Directors are of the view that the incidents are not material impact non-compliance incidents or systematic non-compliance incidents. The non-compliance incidents set forth above were generally caused by the incomplete and incorrect understanding of the applicable laws and regulations in the PRC on the part of our Group. Following the identification of the non-compliance incidents, we took all necessary steps to rectify the non-compliance incidents. We have not been required to pay any penalty or fine or is and was otherwise subject to other enforcement actions initiated by the relevant competent PRC authorities.

In order to promote corporate governance and ensure due compliance with the applicable laws and regulations, we have established an internal control system to monitor our business operations. Our internal control system has been reviewed by an independent internal control consultant on regulatory compliance, risk management, information system control, financial management control, human resources and payroll, revenue and receivables, purchase and payables, inventory management and fixed asset management. As our business continues to expand, we will continue to refine and enhance our internal control system to respond to the evolving requirements of our business operations. We will continue to review our internal control system to ensure due compliance with the applicable laws and regulations.

We have decided to adopt the following measures to ensure on-going compliance with the applicable laws and regulations and to strengthen our internal control upon [REDACTED]:

- (1) strengthening the internal control system manuals on corporate governance, operations, management, legal matters, finance and auditing setting out the internal approval and review procedures pursuant to which our employees at different departments shall comply with;
- (2) having supervision and guidance by our Audit Committee comprising our independent non-executive Directors which is empowered to provide an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of our Group, overseeing the audit process etc; and
- (3) engaging external professional advisers (including compliance adviser with effect from [REDACTED] and legal advisers as to Hong Kong and PRC laws) to provide professional advice and guidance to us to ensure compliance with the applicable laws and regulations. We also expect our external professional advisers to provide internal training to our staff from time to time to ensure that we are kept up-to-date to any legal and regulatory development.

Based on the above, our Directors are of the view that, as concurred by Sponsor, we have taken reasonable steps to establish an internal control system and procedures to enhance the control environment at both the working and management levels, and that the internal control measures are adequate and effective for our business operations.



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## BUSINESS

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### IMPACT OF THE RECENT REGULATIONS ON US

In light of the recent development in the industry regulations on promoting the use of water-based paint and coating products and restricting the use of certain chemical substance in paint and coating products, we have strengthened our efforts and have devoted additional resources in new product development. The impact of such recent development on us may be analysed from the business, operational and financial perspectives as follows:

#### Business matters

As set forth in the section headed “Applicable Laws and Regulations” in this [REDACTED], the local government authorities in various PRC provinces and cities (including Shenzhen, Beijing, Shanghai, Guangdong Province and Zhejiang Province) have introduced regulations on the restricted or reduced use of solvent-based paint and coating products. Some of these regulations impose quantitative requirements on the use of solvent-based paint and coating products and these requirements are expected to slow down the increase in demand for the solvent-based paint and coating products, albeit that the solvent-based paint and coating products are expected to continue to be the principal type of paint and coating products in the near future, according to *Frost & Sullivan* Report.

As set forth in the section headed “Business – Business Strategies” in this [REDACTED], we plan to expand our water-based paint and coating production facilities and will continue the development and promotion of water-based paint and coating products in the future. Such strategy is intended to broaden our product mix.

Our Directors consider that we have the requisite experience and launch new water-based paint and coating products shortly, such as “長頸鹿牌環保健康水性木器漆” and “長頸鹿牌清怡抗劃傷水性木器漆”. In addition, the Group has also launched solvent-based paint and coating products with improved combination of ingredients, such as “長頸鹿牌超值清味健康木器漆” and “長頸鹿牌木塗美清味環保型硝基木器漆” which satisfy the stringent quality requirements on the use of chemical substance in paint and coating products. During the Track Record Period and up to the Latest Practicable Date, we continued to improve the quality and the functionality of our paint and coating products. In addition to water-based paint and coating products, we have further developed new features and functions embedded in its paint and coating products, such as “長頸鹿牌清味環保水性木器漆” and “長頸鹿漆淨味120硅藻竹炭全效內牆乳膠漆”. Most of our research and development projects will focus on environmental-friendly paint and coating products which do not contain any allegedly harmful chemical ingredients. Our Directors believe that such product development strategies will enable us to leverage on our strengths and our well-recognised brands.

#### Operational matters

In response to the stringent quality requirements in different PRC markets, we have implemented effective system in monitoring the full compliance with the applicable municipal rules and regulations. The relevant marketing campaigns have been tailored made for different regional markets in the PRC. The production lead time has been reduced, so that we do not need to keep excessive inventory of solvent-based paint and coating products. We will continue to establish our own warehouses so that the entire production and delivery process will be under our control. All of these measures are intended to reduce our reliance on solvent-based paint and coating products and streamline the production process.

## **BUSINESS**

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### **Financial matters**

Our Directors consider that the impact on our financial matters would be minimal because of the following reasons:

- (i) as a result of our increased efforts in complying with the relevant environmental laws, the expenses incurred by us on environmental matters amounted to HK\$1.2 million and HK\$1.9 million, respectively, for the two years ended 31 December 2015 and 2016;
- (ii) we recorded the revenue growth in 2016 in the Southern China, Eastern China and Northern China (where new regulations on the restricted use of solvent-based paint and coating products) of 1.8%, 14.4% and 21.5%, respectively; and
- (iii) our net profit margin was increased by 22.9% from 4.8% in 2015 to 5.9% in 2016 and our revenue recorded a modest growth in 2016, as compared with 2015.

Our improved performance in 2016 demonstrates that even though we are subject to the requirements of Recent Regulations, our business continues to grow and that the Group has started reducing its reliance on the sales of solvent-based paint and coating products.

In light of the above, our Directors consider that the Recent Regulations do not have any material impact on our operating results.

## FUTURE PLANS AND USE OF NET PROCEEDS FROM THE [REDACTED]

### FUTURE PLANS

Further information on our business development is set forth in the section headed “Business – Our business strategies” in this [REDACTED]. One of our business strategies is to expand our production capacity in order to support the expansion of our product portfolio and the penetration of the paint and coating market in Southern China and Central China.

#### Production capacity and capacity expansion plans

We intend to construct and upgrade the production facilities at our Xinfeng Production Plant for additional production facilities for water-based paint and coating products. The following sets forth the capacity expansion for the two years ending 31 December 2018.

	Year ending 31 December	
	2017	2018
	<i>tonnes</i>	<i>tonnes</i>
Water-based paint and coating products . . . . .	–	20,000

#### Expected capital expenditure

	Year ending 31 December	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Total investment . . . . .	9,822	68,678

As of the Latest Practicable Date, our expansion plans were at the preparation stage. We expect that our expansion plans on the production facilities at our Xinfeng Production Plant will be completed in the third quarter of 2018. We cannot assure you that our expansion plans will be implemented fully or will be successful as they are subject to various factors, including market conditions, demand for our products and whether we are able to obtain the required for the expansion plans at the appropriate times.

Further information is set forth in the section headed “Risk Factors – Risks relating to our business – Our business expansion plan may not be completed as planned and may not achieve commercial viability or the intended economic results” in this [REDACTED].



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## FUTURE PLANS AND USE OF NET PROCEEDS FROM THE [REDACTED]

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### USE OF NET PROCEEDS FROM THE [REDACTED]

Our Directors estimate that we will receive net proceeds from the [REDACTED] of HK\$[REDACTED] million, after deducting the [REDACTED] fees and estimated expenses for the [REDACTED] paid and payable by us, assuming that the [REDACTED] is HK\$[REDACTED], being the mid-point of the indicative range of the [REDACTED] stated in this [REDACTED]. We intend to use the net proceeds from the [REDACTED] for the following purposes:

- HK\$[REDACTED] million, or [REDACTED]%, will be used for the construction of our Xinfeng Production Plant, which is expected to include the following:
  - HK\$[REDACTED] million, or [REDACTED]%, for the construction of the infrastructure, office buildings, staff accommodation and related electricity and environmental protection facilities and the purchase of the required plant and machinery at our Xinfeng Production Plant for the production of water-based paint and coating products. Our Directors estimate that the infrastructure will support the production facilities of water-based paint and coating products with the annual production capacity of 20,000 tonnes;
  - HK\$[REDACTED] million, or [REDACTED]%, for the establishment of a paint and coating product research and development centre at our Xinfeng Production Plant; and
  - HK\$[REDACTED] million, or [REDACTED]%, for the construction of three dangerous goods warehouses of 1,500 sq.m. each for the solvent-based paint and coating products produced at our Xinfeng Production Plant. These warehouses will be designed for the storage of solvent-based paint and coating products under our management and control. Our Directors consider that it would be more suitable for our business needs if the warehouses are designed and built by us, and we could take all necessary steps to ensure that they are in compliance with the all rules and regulations including the Recent Regulations. The costs include the construction cost and all electricity, fire-safety and ventilation facilities. These warehouses would be completed within one year following the [REDACTED].

Following completion of the above, our Xinfeng Production Plant will have an annual production capacity of 11,591 tonnes of solvent-based and 20,000 tonnes of water-based paint and coating products with all the required warehouses, administrative support buildings, environmental protection and ancillary facilities.

- HK\$[REDACTED] million, or [REDACTED]%, will be used for the repayment of our bank loans so as to reduce the utilised banking facilities of HK\$115.6 million as of 30 April 2017. The bank loan was used for the construction of our Xinfeng Production Plant and is currently subject to the interest rates between 1.4% and 2.4% per annum without any fixed repayment date. Following completion of the Spin-Off and the [REDACTED], the banking facilities will no longer be guaranteed by any member of the Remaining Group. Further information on the banking facilities available to us as of the Latest Practicable Date is set forth in the section headed “Financial Information – Indebtedness” in this [REDACTED].

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## FUTURE PLANS AND USE OF NET PROCEEDS FROM THE [REDACTED]

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- HK\$[REDACTED] million, or [REDACTED]%, will be budgeted for pursuing acquisitions of businesses or production assets. Our Directors plan to, among others, selectively pursue strategic acquisitions of paint and coating businesses and assets so as to further enhance our market share in Southern China and penetrate the paint and coating markets in Southern and Central China. As of the date of this [REDACTED], we had not identified or committed to any acquisition targets for our use of net proceeds from the [REDACTED]. We will consider the opportunities based on the scale of the production and storage facilities and whether the acquisition target has obtained the required licences and has its own distribution network that would complement our existing works. We will also consider the production portfolio of the acquisition target, i.e. the combination of water-based and solvent-based production lines, and other logistics and geographical considerations. Further information on our strategies is set forth in the section headed “Business – Our business strategies” in this [REDACTED].
- HK\$[REDACTED] million, or [REDACTED]%, will be used for our sales and market campaigns and activities which are planned to include renovating the store display and image of selected shops of the distributors in Hong Kong and the PRC, promoting the brands of “Flower (菊花牌)”, “Giraffe (長頸鹿牌)”, “Resene” and “ZICERA” as the new generation of water-based paint and coating products for indoor and outdoor painting. Further information on our strategies is set forth in the section headed “Business – Our business strategies” in this [REDACTED].

If the [REDACTED] is determined at HK\$[REDACTED], being the highest point of the indicative range of the [REDACTED], the net proceeds to us would be increased by HK\$[REDACTED]. In such event, the percentage of our allocation of the total net proceeds for the above purposes will be adjusted on a pro rata basis.

If the [REDACTED] is determined at HK\$[REDACTED], being the lowest point of the indicative range of the [REDACTED], the net proceeds to us would be decreased by HK\$[REDACTED]. In such event, the percentage of our allocation of the total net proceeds for the above purposes will be adjusted on a pro rata basis.

If the [REDACTED] is exercised in full, and assuming that the [REDACTED] is HK\$[REDACTED], (being the mid-point of the indicative range of the [REDACTED]), the net proceeds to us would be increased by HK\$[REDACTED] million. In such event, the percentage of our allocation of the total net proceeds for the above purposes will be adjusted on a pro rata basis.

To the extent that the net proceeds from the [REDACTED] are not immediately required for the above purposes or if we are unable to effect any of our future development plans as intended, we may hold such funds in short-term deposits with licenced banks and authorised financial institutions in Hong Kong and/or China for so long as it is considered in our best interests by our Directors.

## CONTINUING CONNECTED TRANSACTIONS

*Following the Spin-Off and the [REDACTED], we will continue to carry out the following transactions with our connected persons and such transactions will constitute continuing connected transactions for our Company under Chapter 14A of the Listing Rules. These continuing connected transactions may also be categorised into non-exempt continuing connected transactions and exempt continuing connected transactions.*

### NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS – LEASING OF PROPERTIES

During the two years ended 31 December 2015, we leased certain properties from other members of the CNT Group. Information on these properties is set forth below:

- the whole 31st Floor and two units on 28th Floor, CNT Tower, 338 Hennessy Road, Wanchai, Hong Kong
- various storage units, i.e. 15 units in 2014 and 15 units from January 2015 to October 2015 and 9 units from November 2015 to December 2015, within the industrial building located at 7 Hong Ting Road, Sai Kung, New Territories, Hong Kong

Due to the enhancement in our production technology which reduces the production lead time and the time required for delivery, we have reduced the warehouse space leased from other members of the CNT Group from May 2014. As of the Latest Practicable Date, we leased certain properties from CNT for use as office premises and warehouses in Hong Kong. The location of each of these properties (collectively, the “**Hong Kong Properties**”) is set forth below:

- the whole 31st Floor, CNT Tower, 338 Hennessy Road, Wanchai, Hong Kong
- One storage unit within the industrial building located at 7 Hong Ting Road, Sai Kung, New Territories, Hong Kong

During the Track Record Period, the aggregate amount of rental paid by us to CNT for the lease of the Hong Kong Properties was HK\$17.5 million, HK\$15.4 million and HK\$5.2 million, respectively. We will continue to lease the properties following completion of the Spin-Off and the [REDACTED].

On [REDACTED], our Company (on behalf of other members of our Group) entered into a master lease agreement (the “**Master Lease Agreement**”) with CNT (on behalf of other members of the Remaining Group) with respect to the leasing of Hong Kong Properties for use as our administrative office in Hong Kong and our transshipment hub in Hong Kong. The following sets forth the annual rental payable by us in respect of Hong Kong Properties for the three years ending 31 December 2019:

	Year ending 31 December		
	2017	2018	2019
	HK\$'000	HK\$'000	HK\$'000
Annual rental payable under the Master Lease Agreement . . .	3,576	3,755	3,943

## **CONTINUING CONNECTED TRANSACTIONS**

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The Master Lease Agreement is for a term commencing on the [REDACTED] and expiring on 31 December 2019. The amount of rental under the Master Lease Agreement is determined on an arm's length basis and upon normal commercial terms. BMI Appraisals Limited, an independent valuer of our property interests, has confirmed that the amount of rental payable by us for the Hong Kong Properties under the Master Lease Agreement is fair and reasonable and comparable to the prevailing market rent. The parties will separately enter into a tenancy agreement in respect of each property of the Hong Kong Properties.

The applicable percentage ratios (other than the profits ratio) of the estimated annual cap under the Master Lease Agreement are less than 5% and the Master Lease Agreement is subject to reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules.

### **APPLICATION FOR WAIVER**

Pursuant to the Listing Rules, the transactions under the Master Lease Agreement require reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules.

We have applied for, and the Stock Exchange has granted, a waiver pursuant to Rule 14A.105 of the Listing Rules to exempt each of the Master Lease Agreement and the transactions contemplated thereunder from strict compliance with the announcement requirement under Chapter 14A of the Listing Rules, subject to (i) our Directors' undertaking that we will comply with the applicable requirements under Chapter 14A of the Listing Rules for the three years ending 31 December 2019 for the Master Lease Agreement and (ii) the aggregate value of each of the above continuing connected transactions described above for each financing year not exceeding the relevant cap set forth above.

### **Confirmation from our Directors**

Our Directors (including our independent non-executive Directors) confirm that the Master Lease Agreement has been entered into in the ordinary and usual course of our business and is based on normal commercial terms or better that are fair and reasonable and in the interest of our Company and Shareholders as a whole, and that the proposed annual caps are fair and reasonable and in the interest of our Company and Shareholders as a whole.

### **Confirmation for the Sponsor**

The Sponsor is of the view that the above non-exempted continuing connected transactions, for which waiver has been sought, have been entered into in the ordinary and usual course of business and is based on normal commercial terms or better that are fair and reasonable and in the interest of our Company and Shareholders as a whole, and that the proposed annual caps are fair and reasonable and in the interest of our Company and Shareholders as a whole.

## CONTINUING CONNECTED TRANSACTIONS

### EXEMPT CONTINUING CONNECTED TRANSACTIONS – PROVISION OF ADVERTISING SUPPORT SERVICES

Prior to the Spin-Off and the [REDACTED], CNT provided advertising supporting service to us. The provision of the advertising supporting service, which includes the liaising with the relevant companies for outdoor advertising and media on public transportation, will continue after completion of the Spin-Off and the [REDACTED]. In this regard, our Company (for itself and on behalf of other members of our Group) and CNT (for itself and on behalf of its subsidiaries) entered into the advertising supporting service agreement (the “Advertising Supporting Service Agreement”) on [REDACTED].

During the Track Record Period, the transactions with CNT in respect of the provision of advertising supporting service amounted to HK\$9.4 million, HK\$7.4 million and HK\$3.6 million, respectively.

The Advertising Supporting Service Agreement is a short-term arrangement commencing on the [REDACTED] and expiring on 31 December 2017. Our Directors confirm that we have established our own marketing and promotion teams to support and coordinate our advertising and promotional activities. The service currently provided by CNT to us, which includes liaison with the relevant companies for outdoor advertising and media on public transportation, is intended to ensure that there will be smooth continuation and handover to us of the coordination of the marketing and promotional activities. There is no new service to be provided by CNT to us under the Advertising Supporting Service Agreement and as such, the transaction amount during the Track Record Period was decreasing. The amount of consideration was and will continue to be based on the prevailing transaction prices charged by CNT for the same services rendered to Independent Third Parties.

The following set forth our estimate of the purchase amount of advertising supporting service from CNT for the year ending 31 December 2017:

	Year ending 31 December 2017
	<u>HK'000</u>
Amount payable under the Advertising	
Supporting Service Agreement .....	2,900

Our Directors confirm that the amount involved under the Advertising Support Service Agreement is negotiated on normal commercial terms and in the interest of our Shareholders as a whole. The amount under the Advertising Supporting Service Agreement falls within the scope of Rule 14A.76 of the Listing Rules and are fully exempt from the disclosure and Shareholders’ approval requirements under the Listing Rules.

## **CONTINUING CONNECTED TRANSACTIONS**

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### **CORPORATE GOVERNANCE MEASURES ON CONNECTED TRANSACTIONS**

To monitor the continuing connected transactions with CNT, we have adopted the following corporate governance measures:

- (a) we will conduct frequent checks of the market prices for rental fee and advertising supporting service charge to ensure the amount payable by us would be reasonable. As part of the procurement policy, we regularly obtain quotations from Independent Third Parties and to compare the amount payable by us with the comparable market rates;
- (b) we will prepare summary of the continuing connected transactions between our Company and CNT including the rental fee and advertising supporting service charge paid by us to CNT and a confirmation from our independent non-executive Directors that those transactions are conducted pursuant to terms of the relevant agreements and that based on the information provided by us, the transactions are conducted upon no less favourable terms offered by Independent Third Parties; and
- (c) further information on connected transactions will be disclosed in the annual reports of our Company according to the requirement of Rule 14.71 of the Listing Rules and the annual reports will be reviewed and approved by our Board.

## SHARE CAPITAL

### SHARE CAPITAL

The authorised and issued share capital of our Company is as follows:

<b>Authorised share capital:</b>	<i>HK\$</i>
<u>8,000,000,000 Shares</u>	<u>800,000,000</u>

Assuming the [REDACTED] is not exercised, the issued share capital of our Company immediately following the completion of the [REDACTED] and the Capitalisation Issue will be as follows:

**Issued and to be issued, fully paid or credited as fully paid upon completion of the [REDACTED] and the Capitalisation Issue:**

	<i>HK\$</i>
100 Shares in issue as of the date of this [REDACTED]	10
[REDACTED] Shares to be issued under the Capitalisation Issue	[REDACTED]
[REDACTED] Shares to be issued under the [REDACTED]	[REDACTED]
<u>[REDACTED] Total</u>	<u>[REDACTED]</u>

Assuming the [REDACTED] is exercised in full, the issued share capital of our Company immediately following the completion of the [REDACTED] and the Capitalisation Issue will be as follows:

**Issued and to be issued, fully paid or credited as fully paid upon completion of the [REDACTED] and the Capitalisation Issue:**

	<i>HK\$</i>
100 Shares in issue as of the date of this [REDACTED]	10
[REDACTED] Shares to be issued under the Capitalisation Issue	[REDACTED]
[REDACTED] Shares to be issued under the [REDACTED]	[REDACTED]
[REDACTED] Shares to be issued upon exercise of [REDACTED] in full	[REDACTED]
<u>[REDACTED] Total</u>	<u>[REDACTED]</u>

### RANKING

The [REDACTED] will rank equally in all respects with all other existing Shares in issue or to be issued and will qualify for all dividends, income and other distributions and any other rights and benefits attaching or accruing to our Shares after completion of the [REDACTED].



## **SHARE CAPITAL**

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### **CAPITALISATION ISSUE**

Pursuant to the written resolutions of the sole Shareholder passed on [REDACTED], subject to the conditions set forth therein, our Directors are authorised to allot and issue a total of [REDACTED] Shares credited as fully paid at par to the Shareholders whose name appears on the register of members of our Company at the close of business on [REDACTED] (be entitled to be allotted or issued by fraction of a Share) by way of capitalisation of the sum of HK\$[REDACTED] standing to the credit of the share premium account of our Company, and the Shares to be allotted and issued pursuant to this resolution shall rank equally in all respects with the existing issued Shares.

### **GENERAL MANDATE TO ISSUE SHARES**

Conditional on the [REDACTED] becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with an aggregate nominal value of not more than the sum of:

- (i) 20% of the total number of Shares in issue immediately following the completion of the [REDACTED] and the Capitalisation Issue (excluding any Share which may fall to be issued pursuant to the exercise of the [REDACTED]); and
- (ii) the total number of Shares bought back by our Company (if any) under the general mandate to buy-back Shares referred to below.

The allotment and issue of Shares under a rights issue or pursuant to the exercise of any subscription rights, warrants which may be issued by our Company from time to time, scrip dividend scheme or similar arrangement providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles do not generally require the approval of Shareholders of our Company in general meeting and the aggregate nominal amount of Shares which our Directors were authorised to allot and issue pursuant to this mandate will not be compromised by the allotment and issue of such Shares.

This mandate will expire:

- (i) at the conclusion of our Company's next annual general meeting; or
- (ii) upon the expiration of the period within which our Company is required by any applicable law or the Articles to hold its next annual general meeting; or
- (iii) when varied, revoked or renewed by an ordinary resolution of our Shareholders in a general meeting,

whichever occurs first.

## **SHARE CAPITAL**

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Further information of this general mandate are set forth in the paragraphs under “A. Further information about our Company – 3. Written resolutions of the sole Shareholder passed on [REDACTED] and [REDACTED]” in Appendix IV to this [REDACTED].

### **GENERAL MANDATE TO BUY-BACK SHARES**

Conditional on the [REDACTED] becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all of the powers of our Company to buy-back Shares with a total number not exceeding 10% of the total number of Shares in issue or to be issued immediately following the completion of the Capitalisation Issue and the [REDACTED] (excluding any Shares which may fall to be issued upon the exercise of the [REDACTED]).

This mandate only relates to the buy-back transactions made on the Stock Exchange, or any other approved stock exchange(s) on which the securities of our Company may be listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are made in accordance with all applicable laws and/or requirements of the Listing Rules. A summary of the relevant Listing Rules is set forth in the paragraphs under “A. Further information about our Company – 6. Buy-back of our Shares by our Company” in Appendix IV to this [REDACTED].

This mandate will expire:

- (i) at the conclusion of our Company’s next annual general meeting; or
- (ii) upon the expiration of the period within which our Company is required by any applicable law or Articles to hold its next annual general meeting; or
- (iii) when varied, revoked or renewed by an ordinary resolution of our Shareholders in a general meeting,

whichever occurs first.

Further information of the Buy-back Mandate are set forth in the paragraphs under “A. Further information about our Company – 3. Written resolutions of the sole Shareholder passed on [REDACTED] and [REDACTED] in Appendix IV to this [REDACTED].

## FINANCIAL INFORMATION

*The following discussion and analysis should be read in conjunction with the consolidated financial information together with the accompanying notes in the Accountants’ Report included in Appendix I to this [REDACTED]. Our financial information and the combined financial statements of our Group have been prepared in accordance with the HKFRS, which may differ in certain material aspects from generally accepted accounting principles in other jurisdictions. You should read the whole Accountants’ Report and not rely merely on the information contained in this section. Unless the context otherwise requires, financial information in this section is described on a consolidated basis.*

*The discussion and analysis set forth in this section contains forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments as well as other factors we believe are appropriate under the circumstances. Our actual results may differ significantly from those projected. Factors that could cause or contribute to such differences include, without limitation, those discussed in “Risk Factors” and “Business” and elsewhere in this [REDACTED].*

*Discrepancies between totals and sums of amounts listed in this section in any table or elsewhere in this [REDACTED] may be due to rounding.*

### OVERVIEW

We are a manufacturer of industrial and architectural paint and coating products under our established brands of, among others, “Flower (菊花牌)”, “Giraffe (長頸鹿牌)” and “Toy Brand (玩具牌)”. Our business was established in Hong Kong in 1932, and we are one of the well-recognised paint and coating manufacturers in Hong Kong and the PRC. Wood painting products, including lacquers, polyurethane coatings and baking enamels, are our principal paint and coating products. According to *Frost & Sullivan*, we ranked the sixth and the fifteenth in the retailing wood coating market and the wood coating market in the PRC in terms of revenue in 2016, respectively, with a market share of 5.9% and 1.6%<sup>(1)</sup>.

Our brands of “Flower (菊花牌)”, “Giraffe (長頸鹿牌)” and “Toy Brand (玩具牌)” are renowned brands of paint and coating products in Hong Kong and the PRC. “Flower (菊花牌)” is recognised as Top Brand in China Architectural Coatings Industry Award 2015 (二零一五年中國建築塗料名牌獎) and Shenzhen Famous Brand (深圳知名品牌) in 2015. “Flower (菊花牌)” is also recognised as the Hong Kong Top Brand (香港名牌) for twelve consecutive years from 2006 to 2017. “Giraffe (長頸鹿牌)” is recognised as the Top Brand in China Wood Coatings Industry Award 2015 (二零一五年中國木器塗料名牌獎). With our operating history of more than 80 years, renowned brands and high product quality, we have established our market position in selected segments of the paint and coating market in Hong Kong and the PRC and have the competitive strengths amongst other domestic and international branded paint and coating products in our target markets.

According to *Frost & Sullivan*, the paint and coating market in the PRC is fragmented. The 10 largest manufacturers had a market share of less than 15.0% and the largest manufacturer had a market share of 3.4% in terms of revenue in 2016. The wood coating market in the PRC, which represented 5.4% of the paint and coating market in the PRC in terms of revenue in 2016 is more concentrated, and the 10 largest manufacturers had a total market share of 59.7% and the largest manufacturer had a market share of 7.7% in terms of revenue in 2016. In 2016, sales of paint and coating products to customers in retailing wood coating market accounted for 27.5% of the revenue generated from the sales of wood coating products. The prices of retailing wood coating products are generally higher than those for industrial use.

(1) According to *Frost & Sullivan*, the wood coating market in the PRC can be divided into retailing wood coating market and manufacturing wood coating market. Retailing wood coating products are sold to household users for on-site decoration and maintenance and manufacturing wood coating products are sold to wooden furniture factories.

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## FINANCIAL INFORMATION

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Our paint and coating products may be used for different applications and can be solvent-based or water-based. During the Track Record Period, our revenue generated from the sales of solvent-based paint and coating products represented 56.4%, 55.6% and 56.8% of our revenue generated from the sales of industrial and architectural paint and coating products, respectively. The production of solvent-based paint and coating products in the PRC is subject to tightening regulatory requirements. The following sets forth a brief description of the three principal categories of our paint and coating products:

- *Industrial paint and coating products* – These paint and coating products are generally used in a wide range of applications, such as furniture painting, manufacturing and surface finishing for different kinds of materials, and are being used by manufacturers, renovation contractors for property and infrastructure projects and household users.
- *Architectural paint and coating products* – These paint and coating products are generally used in property development and infrastructure projects.
- *General paint and coating and ancillary products* – These products include thinner, enamels and anti-mold agents and solvent agents.

We also supply customised industrial and architectural paint and coating products upon the request by our customers.

We have established business relationships with our customers which include distributors, manufacturers, renovation contractors for property and infrastructure projects and household users in Hong Kong and the PRC. During the Track Record Period, the distributors were amongst our five largest customers and they are engaged in wholesale and retail business in Hong Kong and the PRC. In addition to our sales to distributors, we also sell our paint and coating products directly to renovation contractors for property and infrastructure projects and household users, and these sales are conducted by China Paint (1932), CNT Resene and CNT Resene (Distribution) in Hong Kong and China Paint Shenzhen and its showroom and branch companies established at different locations in the PRC.

Our administrative headquarters are in Hong Kong. During the Track Record Period, we had four production plants, namely Shajing Production Plant, Ezhou Production Plant, Xuzhou Production Plant and Xinfeng Production Plant. During the year ended 31 December 2016, our total designed annual production capacity of industrial paint and coating products, architectural paint and coating products and general paint and coating and ancillary products was 26,801.7 tonnes, 12,872.6 tonnes and 16,857.2 tonnes, respectively.

According to *Frost & Sullivan*, the demand for paint and coating products in the downstream markets in the PRC, such as construction and renovation business, will continue to increase. The sales value of paint and coating products in the PRC and Hong Kong is expected to increase at a CAGR of 5.7% and 0.4%, respectively, during the five-year period from 2017 to 2021. The forecasted growth in the PRC is attributable to steady growth of downstream industries including building and construction, furniture and automotive industry, increasing application of protective and environmental-friendly coatings and continuous expansion of manufacturing industries in the PRC. However, the sales value of retailing wood coating market decreased at a CAGR of 6.8% from 2010 to 2016 primarily because of the slowdown in the real estate market in the PRC and the changing consumers' preference in using factory-made furniture. The sales value of retailing wood coating market is expected to continue to decrease at a CAGR of 0.8% during the five-year period from 2017 to 2021.

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## **FINANCIAL INFORMATION**

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### **RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE**

Subsequent to the Track Record Period and up to the Latest Practicable Date, our operating results were affected by the industry slack season, change in our product mix and the amount of expenses incurred by us for the [REDACTED]. During this period, we focused on increasing our production volume and sales volume and the utilisation rates of our production facilities increased as a result. The average selling prices of our paint and coating products decreased because of reduction in our selling prices for promotion of our products and changes in the product mix as well as fluctuations in the cost of raw materials. We also incurred expenses for the [REDACTED] which also affected our operating results during the period. Based on the information currently available, our operating results during the four months ended 30 April 2017 is lower than the corresponding period in 2016. We will comply with the relevant disclosure requirements following the [REDACTED] if there is any material change to our business operations.

Save for the aforesaid, our Directors have confirmed that since 31 December 2016, being the date to which the latest audited financial statements of our Company were prepared, and up to the date of this [REDACTED], including the four months ended 30 April 2017, there was no material adverse change in our financial, operational and trading positions or prospect or in the general regulatory, economic and market conditions in China and Hong Kong or the industry in which we operate that materially and adversely affected our business, results of operations or financial condition.

### **PRINCIPAL FACTORS AFFECTING OUR OPERATING RESULTS**

The following factors may affect our operating results. They are not exhaustive and our operating results may also be affected by the risk factors set forth in the section headed “Risk Factors” in this [REDACTED].

#### **Fierce competition in the paint and coating market and our product pricing strategy**

One of the principal factors attributable to our deteriorating operating results during the year ended 31 December 2015 was the profit margin maintaining pricing strategy adopted by us in the sales of our industrial and architectural paint and coating products. While our competitors launched price campaigns and other promotional strategies, we insisted maintaining the selling prices and the gross profit margins of our products. As a result, the revenue generated from the sales of paint and coating products in the PRC, particularly in Eastern China and Central China, recorded a notable decrease in 2015. The decrease was also attributable to the ramifications of the 2015 Tianjin explosions implemented by the PRC Government and the increasing market share of ready-made wooden furniture.

The decrease in sales in 2015 resulted in the decrease in the amounts of gross profit and net profit, albeit that we had rebound in our revenue and net profit in 2016 because of the business initiatives implemented by us, further information on which is set forth in the paragraphs under “Sustainability of our business in light of deteriorating performance during the year ended 31 December 2015” below.

In the paint and coating market, which is price sensitive, any profit margin maintaining pricing strategy could have a material impact on the operating results as end customers may choose other less expensive paint and coating products of similar features. Any material price differentiation could result in loss of distributors which could in turn affect the sales and distribution of our paint and coating products in our target markets.

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## FINANCIAL INFORMATION

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We have to monitor and react to the changing market environment of the paint and coating industry in Hong Kong and the PRC from time to time. If for any reason we fail to react promptly to the changing market environment, our sales of paint and coating products could be materially and adversely affected. This would undermine our operating results even though the overall demand for paint and coating products would continue to increase, as set forth in the report of *Frost & Sullivan* and the section headed “Industry Overview” in this [REDACTED].

### **Consumers’ preference and requirements on paint and coating products**

Paint and coating products can be decorative as well as functional, and they must satisfy the needs of consumers ranging from large commercial enterprises to do-it-yourself homeowners. New paint and coating products are being developed to address the consumers’ preference and the latest safety and health requirements under the applicable laws and regulations in our target markets. New colours and finishing and zero-VOC formulations drive the demand for new product development. Industrial paint and coating products are used in the manufacturing of a wide range consumer products and industrial products. Industrial paint and coating products include anti-corrosion paints, fire-proofing coatings and other paints for use in property and infrastructure projects. Wood coatings help furniture items to resist wear and stains. In addition, the “green chemistry” plays an important role in the paint and coating industry in Hong Kong and the PRC. This involves sustainable and non-polluting production process as well as products that do not release harmful compounds into the environment.

All of the above are changing from time to time and may affect the demand for a particular type of paint and coating product. If our products are not able to satisfy the consumers’ preference and the requirements under the applicable laws and regulations, we will lose our market share and this could affect our business and financial condition and operating results.

### **Our production capacity and utilisation rate**

Our operating results also depend on our production capacity and the utilisation rate of our production facilities. The utilisation rate will have a significant impact on our gross profit margin. Operations at or near full capacity would have a significant positive effect on our profitability. If the utilisation rate of our production facilities increases, the production volume will increase and our average fixed costs per tonne of paint and coating products will decrease. This will increase our gross profit margin.

The utilisation rate is affected by the time required for the production set-up and the time required for repairs and maintenance. Other factors affecting the utilisation rate include the level of demand for our paint and coating products, the overall economic performance in the PRC and the selected segment of the paint and coating market and other operational disruptions, such as the expansion of production facilities, disruption to the power supply and our ability to manage our production facilities.



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## FINANCIAL INFORMATION

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### Cost of raw materials

The cost of raw materials is the principal component of our cost of sales, and the cost of purchase of resin and solvent represents a significant part of our cost of raw materials. The prices of raw materials are beyond our control. We also use a significant amount of packaging materials for our paint and coating products. During the Track Record Period, the cost of raw materials accounted for 90.2%, 86.6% and 85.7% of our cost of sales, respectively. Any significant increase in the prices of raw materials could affect our gross profit margin if we could not pass on the cost increase to our customers. We currently do not enter into any hedging arrangement to mitigate our exposure to the fluctuations in the cost of raw materials.

We may not be successful to pass on the cost increase to our customers. We control our cost of sales by implementing stringent controls on the cost of raw material. We intend to expand the sources of supply of raw materials, which would allow us to have a better negotiation powers on the purchase of raw materials.

### Continuous economic growth of the PRC

The PRC is our principal market. During the Track Record Period, the revenue generated from our sales to customers in the PRC amounted to HK\$1,039.7 million, HK\$805.4 million and HK\$857.2 million, respectively, representing 91.9%, 92.8% and 91.5% of the total amount of revenue. We rely on the sales to our customers in the PRC. Hence, the economic growth in the PRC has a significant impact on various aspects of our operations, including, the demand for our products, the price and the supply of raw materials, as well as our expenses. The rapid growth of the PRC’s economy has resulted in increase in consumers’ spending and acceleration of urbanisation. According to *Frost & Sullivan*, the demand for paint and coating products in the downstream markets in the PRC, such as construction and renovation business, will continue to increase, albeit that the retailing wood coating market experienced a transient setback during the period from 2010 to 2015 primarily because of the slowdown in the real estate market in the PRC and the changing consumers’ preference in using factory-made furniture. According to *Frost & Sullivan*, the sales value of paint and coating products in the PRC and Hong Kong is expected to increase at a CAGR of 5.7% and 0.4%, respectively, during the five-year period from 2017 to 2021. Since our products are primarily used in manufacturing and renovation, our operating results will continue to be affected by the economic performance of the PRC.

In addition, the PRC Government has from time to time adjusted its monetary, financial, fiscal or industrial policies, among others, or implemented other macroeconomic measures. Any adjustment in or implementation of economic policies and measures would also directly or indirectly affect our business and financial condition and operating results. Both the macroeconomic trends and industrial policies in the PRC could affect our procurement, production, sales and other parts of our business, leading to fluctuations in our operating results.

### Foreign currency exchange rates

The fluctuations in the foreign currency exchange rate affect our operating results. Our revenue is mainly denominated in RMB and most of our cost of sales and operating expenses are denominated in RMB. During the Track Record Period, our revenue denominated in RMB represented close to 90% of the total amount of our revenue, with the remaining balance denominated in HK dollars. The reporting currency of our financial statements is HK dollars. Any depreciation of RMB against the foreign currencies (including HK dollars) would have a negative impact on our operating results reported in HK dollars.



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## **FINANCIAL INFORMATION**

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### **Taxation**

Our business operations are subject to the PRC EIT, Hong Kong profits tax and other local taxes in the PRC. The effective tax rate during the Track Record Period was 23.7%, 32.0% and 24.3%, respectively. The fluctuations were primarily due to the effect of unrecognised tax loss and the effect of non-deductible expenses.

Hubei Giraffe and Xuzhou Giraffe are subject to the standard rate of PRC EIT of 25%. The PRC EIT Law provides a preferential tax treatment for “High and New Technology Enterprises” (高新技術企業) in the form of a reduced EIT rate of 15% subject to competent authorities’ review and approval. China Paint Shenzhen has been recognised by the competent authorities in the PRC as a “High and New Technology Enterprise” since 2009 and was subject to the reduced rate of 15% for the PRC EIT during the Track Record Period. Such preferential tax rate will expire on 1 November 2018. If there is any change in the tax preferential treatment in the PRC, our tax payment will increase. This will affect our operating results.

### **BASIS OF PRESENTATION OF OUR FINANCIAL INFORMATION**

Our audited combined statements of profit or loss, combined statements of other comprehensive income, combined statements of financial position, combined cash flow statements and combined statements of changes in equity as of, and for the three years ended, 31 December 2016 present our operating results during the Track Record Period.

Pursuant to the Reorganisation as more fully explained in the section headed “History, Development and Reorganisation – Reorganisation” in this [REDACTED], our Company became the holding company of the companies now comprising our Group subsequent to the Track Record Period.

The financial information in this [REDACTED] has been prepared in accordance with HKFRS. The financial information has been prepared under the historical cost convention.

### **CRITICAL ACCOUNTING POLICIES**

We have identified certain accounting policies that are significant to the preparation of our Group’s financial statements. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgements relating to accounting items. In each case, the determination of these items requires management judgements based on information and financial data that may change in future periods. When reviewing our financial statements, you should consider: (i) our selection of critical accounting policies; (ii) the judgements and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumption. Our significant accounting policies and estimates which are important for an understanding of our financial condition and results of operations, are set forth in detail in notes 3 and 4 of the Accountants’ Report contained in Appendix I to this [REDACTED].

## FINANCIAL INFORMATION

### SELECTED FINANCIAL DATA

#### Combined statements of profit or loss

The following sets forth our combined audited statements of profit or loss during the Track Record Period:

	Year ended 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
REVENUE . . . . .	1,131,305	867,997	937,450
Cost of sales . . . . .	(737,417)	(543,573)	(590,088)
Gross profit. . . . .	393,888	324,424	347,362
Other income and gains, net . . . . .	16,551	18,318	12,827
Selling and distribution expenses . . . . .	(170,204)	(156,063)	(148,647)
Administrative expenses . . . . .	(98,192)	(103,900)	(112,227)
Other expenses, net. . . . .	(11,626)	(18,050)	(23,998)
Finance costs. . . . .	(3,076)	(3,098)	(2,050)
Profit before tax . . . . .	127,341	61,631	73,267
Income tax expenses . . . . .	(30,192)	(19,701)	(17,801)
Profit for the year . . . . .	<u>97,149</u>	<u>41,930</u>	<u>55,466</u>
ATTRIBUTABLE TO:			
Owners of our Company . . . . .	97,274	42,498	55,448
Non-controlling interests. . . . .	(125)	(568)	18
	<u>97,149</u>	<u>41,930</u>	<u>55,466</u>

## FINANCIAL INFORMATION

### Combined statements of comprehensive income

The following sets forth our combined audited statements of comprehensive income during the Track Record Period:

	Year ended 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
<b>Profit for the year</b> . . . . .	97,149	41,930	55,466
<b>Other comprehensive income</b>			
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations . . . . .	(18,465)	(38,266)	(53,672)
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:			
Remeasurement of net pension scheme assets . . . . .	(281)	(489)	339
<b>Other comprehensive loss for the year</b> . . . . .	(18,746)	(38,755)	(53,333)
<b>Total comprehensive income for the year</b> . . . . .	78,403	3,175	2,133
ATTRIBUTABLE TO:			
Owners of our Company . . . . .	78,644	3,928	2,358
Non-controlling interests . . . . .	(241)	(753)	(225)
	78,403	3,175	2,133

## **FINANCIAL INFORMATION**

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The amount of the exchange differences represents the differences in the exchange rates between our reporting currency and the foreign currencies at the beginning and the end of the reporting year. These exchange differences are not charged to our combined statements of profit or loss because they are relating to the translation of foreign operations as of the respective reporting dates and arising in the preparation of our combined audited financial statements. The depreciation of RMB would have negative impact on the net assets value of the Group’s PRC subsidiaries which are measured at RMB when doing the translation to present in HK\$ in the combined financial statements. For the year ended 31 December 2014 and 2015, RMB depreciated against HK\$ by 2.5% and 4.5%, respectively. This resulted in a significant exchange losses on translation of foreign operations of HK\$18.5 million and HK\$38.3 million in the year ended 31 December 2014 and 2015, respectively. Due to the significant depreciation of Renminbi in 2016 of 6.4%, the translation of Renminbi assets into HK\$ resulted in a significant exchange loss on translation of foreign operations. Therefore, the amount of total comprehensive income was significantly lower than the net profit during the Track Record Period. Further information on the accountanting treatment of exchange differences is set forth in the Accountants’ Report, the text of which is set forth in Appendix I to this [REDACTED].

We operate a funded defined scheme for our employees in Hong Kong. Under the scheme, the employees will be entitled to retirement benefits on attainment of the retirement age. The scheme is administrated by an independent trustee with the assets held separately from other assets. Hence, any change in the fair value of the scheme asset would not be charged to our combined audited statements of profit or loss.

## FINANCIAL INFORMATION

### Combined statements of financial position

The following sets forth our combined audited statements of financial position as of 31 December 2014, 2015 and 2016:

	As of 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment . . . . .	193,729	195,730	188,041
Prepaid land lease payments . . . . .	21,682	20,181	18,389
Available-for-sale investment . . . . .	300	300	300
Deposits for purchases of property, plant and equipment . . . . .	8,603	8,318	8,662
Net pension scheme assets . . . . .	2,853	2,178	2,372
Deferred tax assets . . . . .	9,083	7,854	7,470
<b>Total non-current assets</b>	<b>236,250</b>	<b>234,561</b>	<b>225,234</b>
<b>CURRENT ASSETS</b>			
Inventories . . . . .	71,683	54,886	60,955
Trade and bills receivables . . . . .	392,882	325,788	445,513
Prepayments, deposits and other receivables . . . . .	40,904	40,374	44,702
Due from the Remaining Group . . . . .	91,058	111,046	106,555
Structured deposits . . . . .	203,037	157,224	98,666
Restricted cash . . . . .	74,958	71,610	–
Cash and cash equivalents . . . . .	185,704	214,945	219,540
<b>Total current assets</b>	<b>1,060,226</b>	<b>975,873</b>	<b>975,931</b>
<b>CURRENT LIABILITIES</b>			
Trade and bills payables . . . . .	196,110	115,790	199,635
Other payables and accruals . . . . .	155,490	134,939	139,797
Derivative financial instrument . . . . .	16	10	–
Due to the Remaining Group . . . . .	96,020	77,735	19,853
Interest-bearing bank and other borrowings . . . . .	145,230	165,349	113,344
Tax payable . . . . .	14,661	13,751	17,088
<b>Total current liabilities</b>	<b>607,527</b>	<b>507,574</b>	<b>489,717</b>
<b>NET CURRENT ASSETS</b>	<b>452,699</b>	<b>468,299</b>	<b>486,214</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b>688,949</b>	<b>702,860</b>	<b>711,448</b>

## FINANCIAL INFORMATION

	As of 31 December		
	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings . . . . .	22	12	1,388
Deferred tax liabilities . . . . .	31,037	31,713	29,343
Deferred income . . . . .	3,265	2,813	2,346
<b>Total non-current liabilities</b>	<b>34,324</b>	<b>34,538</b>	<b>33,077</b>
<b>Net assets</b>	<b>654,625</b>	<b>668,322</b>	<b>678,371</b>
EQUITY			
Issued capital . . . . .	—	—	—
Reserves . . . . .	650,029	664,479	674,753
	650,029	664,479	674,753
Non-controlling interests . . . . .	4,596	3,843	3,618
<b>Total equity</b>	<b>654,625</b>	<b>668,322</b>	<b>678,371</b>

## COMPONENTS OF OUR COMBINED AUDITED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

### Revenue

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts. For management purpose, we have one reportable operating segment. Our revenue is principally generated from the sales of (a) industrial paint and coating products; (b) architectural paint and coating products; and (c) general paint and coating and ancillary products.

## FINANCIAL INFORMATION

The following sets forth an analysis of our revenue by the three principal types of our paint and coating products during the Track Record Period:

	Year ended 31 December					
	2014		2015		2016	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Industrial paint and coating products						
Solvent-based .....	623,607	55.1	467,239	53.8	520,966	55.6
Water-based .....	2,681	0.2	5,461	0.7	6,388	0.7
<b>Sub-total</b>	<b>626,288</b>	<b>55.3</b>	<b>472,700</b>	<b>54.5</b>	<b>527,354</b>	<b>56.3</b>
Architectural paint and coating products						
Solvent-based .....	14,353	1.3	15,652	1.8	10,893	1.2
Water-based .....	231,710	20.5	156,506	18.0	184,144	19.6
<b>Sub-total</b>	<b>246,063</b>	<b>21.8</b>	<b>172,158</b>	<b>19.8</b>	<b>195,037</b>	<b>20.8</b>
General paint and coating and ancillary products <sup>(1)</sup> .....	258,954	22.9	223,139	25.7	215,059	22.9
<b>Total</b>	<b>1,131,305</b>	<b>100</b>	<b>867,997</b>	<b>100</b>	<b>937,450</b>	<b>100</b>

*Note:*

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

### *Industrial paint and coating products*

Our industrial paint and coating products include wood coating, coating for machines and equipment, and anti-corrosive paints for equipment, fleets and infrastructure facilities. We offer a wide range of industrial paint and coating products comprising polyurethane coatings, baking enamels, ultraviolet curing paints, lacquers, furniture paints, automotive coatings, paints for plastic, polyester auto-body putty, light industrial paint and coating products and anti-corrosive paints. Industrial paint and coating can be applied onto different kinds of surface materials, including wood, metal and plastic, for different applications. End users/customers of our industrial paint and coating products include manufacturers of various products ranging from consumer electronics, machinery and mechanical equipment, toys, electrical appliances, furniture to marine and automotive parts and components, renovation contractors for property and infrastructure projects and household users.



## FINANCIAL INFORMATION

### *Architectural paint and coating products*

Our architectural paint and coating products include coatings for wall, floor and exterior parts of buildings comprising emulsion paints, fluorocarbon coatings, epoxy paints and exterior top coatings. Our architectural paint and coating products primarily focus on the commercial and residential construction and maintenance markets. End users of our architectural paint and coating products include renovation contractors for property and infrastructure projects and household users.

### *General paint and coating and ancillary products*

We produce and sell general paint and coating and ancillary products which can be used for both architectural and industrial purposes, such as thinner, enamels, anti-mold agents and solvent agents.

During the Track Record Period, the percentages of revenue contribution from these three principal types of paint and coating products were relatively stable.

### *Sales to customers in the retailing wood coating market and the manufacturing wood coating market*

During the Track Record Period, our industrial paint and coating products sold to customers in the retailing wood coating market amounted to HK\$501.6 million, HK\$405.4 million and HK\$417.9 million, respectively, representing 80.1%, 85.8% and 79.3% of the total amount of our revenue generated from our industrial paint and coating products. The following sets forth the sales of industrial paint and coating products to customers in the retailing wood coating market and the manufacturing wood coating and non-wood paint and coating market during the Track Record Period:

	Year ended 31 December					
	2014		2015		2016	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Retailing wood coating market. . . . .	501,598	80.1	405,432	85.8	417,929	79.3
Manufacturing wood coating market . . . . .	3,356	0.5	9,548	2.0	17,315	3.3
Non-wood paint and coating market . . . . .	121,334	19.4	57,720	12.2	92,110	17.4
<b>Total</b>	<b>626,288</b>	<b>100</b>	<b>472,700</b>	<b>100</b>	<b>527,354</b>	<b>100</b>

## FINANCIAL INFORMATION

### Geographical markets

Our products were principally sold to customers in the PRC and Hong Kong. The following sets forth our revenue by customers in different geographical locations for the Track Record Period:

	Year ended 31 December					
	2014		2015		2016	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
PRC						
Southern China . . . . .	593,818	52.5	555,427	63.9	565,248	60.3
Eastern China . . . . .	225,271	19.9	129,466	14.9	148,116	15.8
Central China . . . . .	104,370	9.2	54,629	6.3	69,810	7.4
Southwestern China. . . . .	63,805	5.6	32,691	3.8	37,389	4.0
Northern China <sup>(1)</sup> . . . . .	26,922	2.4	20,500	2.4	24,911	2.7
Northwestern China. . . . .	19,172	1.7	7,537	0.9	7,060	0.8
Northeastern China <sup>(2)</sup> . . . . .	6,342	0.6	5,138	0.6	4,683	0.5
	<u>1,039,700</u>	<u>91.9</u>	<u>805,388</u>	<u>92.8</u>	<u>857,217</u>	<u>91.5</u>
Hong Kong . . . . .	91,360	8.1	62,557	7.2	80,233	8.5
Singapore . . . . .	<u>245</u>	<u>*</u>	<u>52</u>	<u>*</u>	<u>–</u>	<u>–</u>
<b>Total</b>	<b><u>1,131,305</u></b>	<b><u>100</u></b>	<b><u>867,997</u></b>	<b><u>100</u></b>	<b><u>937,450</u></b>	<b><u>100</u></b>

\* Value insignificant

#### Notes:

<sup>(1)</sup> Northern China refers to Beijing, Tianjin, Hebei Province, Shanxi Province and Inner Mongolia.

<sup>(2)</sup> Northeastern China refers to Liaoning Province, Jilin Province and Heilongjiang Province.

## FINANCIAL INFORMATION

### Sales volume, average selling prices and production volume

The following sets forth the sales volume and the average selling prices of our three principal types of paint and coating products during the Track Record Period:

	Year ended 31 December					
	2014		2015		2016	
	Sales volume tonne	Average selling prices HK\$'000/ tonne	Sales volume tonne	Average selling prices HK\$'000/ tonne	Sales volume tonne	Average selling prices HK\$'000/ tonne
Industrial paint and coating products						
solvent-based . . . . .	18,365.7	34.0	13,459.6	34.7	18,165.9	28.7
water-based . . . . .	87.3	30.7	173.9	31.4	192.8	33.1
	<u>18,453.0</u>	<u>33.9</u>	<u>13,633.5</u>	<u>34.7</u>	<u>18,358.7</u>	<u>28.7</u>
Architectural paint and coating products						
solvent-based . . . . .	828.3	17.3	899.9	17.4	559.6	19.5
water-based . . . . .	14,780.3	15.7	9,946.3	15.7	11,351.3	16.2
	<u>15,608.6</u>	<u>15.8</u>	<u>10,846.2</u>	<u>15.9</u>	<u>11,910.9</u>	<u>16.4</u>
General paint and coating and ancillary products <sup>(1)</sup> . . . . .	<u>16,518.5</u>	14.8	<u>14,630.2</u>	15.1	<u>14,849.5</u>	14.4
<b>Total</b>	<u><u>50,580.1</u></u>		<u><u>39,109.9</u></u>		<u><u>45,119.1</u></u>	

Note:

- (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.

The following sets forth the average selling prices of our principal products sold to customers in the retailing wood coating market and the manufacturing wood coating market and non-wood paint and coating market during the Track Record Period:

	Year ended 31 December		
	2014	2015	2016
	HK\$'000/ tonne	HK\$'000/ tonne	HK\$'000/ tonne
Retailing wood coating market . . . . .	36.6	36.5	31.4
Manufacturing wood coating market . . . . .	14.6	17.5	16.5
Non-wood paint and coating market . . . . .	27.0	29.1	23.1

## FINANCIAL INFORMATION

During the Track Record Period, as part of our pricing strategy, we did not adjust significantly the selling prices of our principal paint and coating products. During the Track Record Period, the average selling prices of our solvent-based industrial paint and coating products decreased so as to maintain the price competitiveness of such products. The average selling prices of our water-based industrial and coating products were increased steadily during the Track Record Period because of our promotional plans and the launch of new water-based paint and collating products with slightly higher prices than the existing products. There were no significant changes in the average selling prices of the general paint and coating and ancillary products.

The following sets forth the production volume of our three principal types of paint and coating products during the Track Record Period:

	Year ended 31 December		
	2014	2015	2016
	<i>tonnes</i>	<i>tonnes</i>	<i>tonnes</i>
Industrial paint and coating			
solvent-based . . . . .	17,541.1	13,390.8	18,194.8
water-based . . . . .	86.8	72.8	218.0
	<u>17,627.9</u>	<u>13,463.6</u>	<u>18,412.8</u>
Architectural paint and coating			
solvent-based. . . . .	779.3	854.1	638.6
water-based . . . . .	14,896.7	9,256.3	11,344.5
	<u>15,676.0</u>	<u>10,110.4</u>	<u>11,983.1</u>
General paint and coating and ancillary products . . . . .	15,874.5	14,403.2	14,887.0
<b>Total</b>	<u><u>49,178.4</u></u>	<u><u>37,977.2</u></u>	<u><u>45,282.9</u></u>

The production volume was less than the sales volume during the Track Record Period because part of our closing stock of finished goods was used for sale. As part of our business strategies, we plan to reduce the closing stock of finished goods gradually so as to release the working capital deployed for the purpose. Hence, the closing stock of finished goods of the Group as of 31 December 2014, 2015 and 2016 was HK\$20.8 million, HK\$13.1 million and HK\$14.8 million, respectively.

## FINANCIAL INFORMATION

### Cost of sales

The following sets forth an analysis of our cost of sales of our principal products during the Track Record Period:

	Year ended 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
Industrial paint and coating products . . . . .	397,775	285,496	323,015
Architectural paint and coating products . . . . .	166,204	117,924	123,935
General paint and coating and ancillary products . . . . .	173,438	140,153	143,138
<b>Total</b>	<b>737,417</b>	<b>543,573</b>	<b>590,088</b>

The cost of sales of the principal products sold in the retailing wood coating market during the Track Record Period was HK\$314.0 million, HK\$242.2 million and HK\$257.0 million, respectively, and the cost of sales of the principal products sold in the manufacturing wood coating market was HK\$2.7 million, HK\$6.8 million and HK\$12.4 million, respectively.

The cost of sales comprises cost of raw materials, labour cost depreciation and production overhead. The following sets forth an analysis of our cost of sales as a percentage of the cost of sales and of our revenue during the Track Record Period:

	Year ended 31 December								
	2014			2015			2016		
	% to		cost	% to		cost	% to		cost
	HK\$'000	of sales		HK\$'000	of sales		HK\$'000	of sales	
Raw materials . . . . .	665,490	90.2	58.8	470,611	86.6	54.2	505,612	85.7	53.9
Direct labour . . . . .	53,395	7.2	4.7	54,061	9.9	6.2	57,771	9.8	6.2
Depreciation . . . . .	9,450	1.3	0.8	9,713	1.8	1.1	11,147	1.9	1.2
Production overhead . . . . .	9,082	1.3	0.8	9,188	1.7	1.1	15,558	2.6	1.7
<b>Total</b>	<b>737,417</b>	<b>100</b>	<b>65.1</b>	<b>543,573</b>	<b>100</b>	<b>62.6</b>	<b>590,088</b>	<b>100</b>	<b>63.0</b>

## FINANCIAL INFORMATION

The raw materials include resin, solvent, pigment and filler and additives. The following sets forth an analysis of the cost of raw materials during the Track Record Period:

	Year ended 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
Resin . . . . .	238,664	177,966	193,144
Solvent . . . . .	233,048	157,906	172,919
Pigment and filler . . . . .	77,215	60,694	64,760
Additives . . . . .	53,348	45,263	44,012
Packaging materials . . . . .	61,811	28,268	29,656
Others . . . . .	1,404	514	1,121
<b>Total</b>	<b>665,490</b>	<b>470,611</b>	<b>505,612</b>

The decrease in the amount of cost of raw materials during the Track Record Period was due to the decreases in our sales volume and production volume of our paint and coating products during the same period.

### Gross profit and gross profit margin

The gross profit represents the difference between the revenue and the cost of sales during a particular year. The following sets forth the amount of our gross profit and the gross profit margin for each of our principal products during the Track Record Period:

	Year ended 31 December					
	2014		2015		2016	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Industrial paint and coating products						
Solvent-based . . . . .	227,224	36.4	184,342	39.5	200,889	38.6
Water-based . . . . .	1,289	48.0	2,862	52.4	3,450	54.0
Sub-total/Average	228,513	36.5	187,204	39.6	204,339	38.7
Architectural paint and coating products						
Solvent-based . . . . .	4,286	29.9	5,406	34.5	4,170	38.3
Water-based . . . . .	75,573	32.6	48,829	31.2	66,932	36.3
Sub-total/Average	79,859	32.5	54,235	31.5	71,102	36.5
General paint and coating and ancillary products . . . . .	85,516	33.0	82,985	37.2	71,921	33.4
<b>Total/overall gross profit/gross profit margin . . . . .</b>	<b>393,888</b>	<b>34.8</b>	<b>324,424</b>	<b>37.4</b>	<b>347,362</b>	<b>37.1</b>

The gross profit of our principal paint and coating products sold to customers in the retailing wood coating market during the Track Record Period amount to HK\$187.6 million, HK\$163.2 million and HK\$160.9 million, respectively, and the gross profit margin was 37.4%, 40.3% and 38.5%, respectively. The gross profit of our principal paint and coating products sold to customers in the manufacturing wood coating market during the Track Record Period was HK\$0.7 million, HK\$2.8 million and HK\$4.9 million respectively, the gross profit margin was 20.8%, 29.1% and 28.6%, respectively.

## FINANCIAL INFORMATION

The gross profit margin during the Track Record Period was 34.8%, 37.4% and 37.1%, respectively. The increase in the gross profit margin in 2015 was due to our pricing strategy of not to reduce the selling prices of our paint and coating products throughout the Track Record Period and the decreases in the cost of raw materials as a percentage to our revenue as a result of, amongst others, decreases in the price of petroleum-related products, according to the report of *Frost & Sullivan*.

### Other income and gains

The following sets forth an analysis of other income and gains during the Track Record Period:

	Year ended 31 December					
	2014		2015		2016	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
<b>Other income</b>						
Scrap sales, rebates from						
suppliers and others. . . . .	3,907	23.6	3,039	16.6	2,264	17.7
Bank interest income . . . . .	3,858	23.3	5,163	28.2	2,402	18.7
Government grants . . . . .	2,789	16.8	4,840	26.4	4,641	36.2
Recognition of deferred						
income. . . . .	323	2.0	317	1.7	301	2.3
<b>Gains</b>						
Fair value gains on						
structured deposits. . . . .	5,674	34.3	4,926	26.9	3,209	25.0
Fair value gains on interest						
rate swap contracts . . . . .	–	–	6	–	10	0.1
Gain on disposal of items						
of property, plant and						
equipment, net. . . . .	–	–	27	0.2	–	–
<b>Total</b>	<b>16,551</b>	<b>100</b>	<b>18,318</b>	<b>100</b>	<b>12,827</b>	<b>100</b>

During the Track Record Period, the amount of other income and gains amounted to HK\$16.6 million, HK\$18.3 million and HK\$12.8 million, respectively. The fluctuations in the amount of other income and gain were due to the fluctuations in the bank interest income and the amount of government grants received.



## FINANCIAL INFORMATION

### Selling and distribution expenses

During the Track Record Period, our selling and distribution expenses mainly consisted of staff costs, transportation and travelling and warehouse and office rental. Our selling and distribution expenses are generally recognised as they are incurred. The following sets forth an analysis of our selling and distribution expenses during the Track Record Period:

	Year ended 31 December					
	2014		2015		2016	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Staff costs . . . . .	61,531	36.1	56,933	36.5	61,341	41.3
Transportation and travelling . . . . .	40,820	23.9	39,902	25.6	45,440	30.6
Marketing and promotion . . . . .	42,143	24.8	34,879	22.3	27,743	18.7
Warehouse and office rental . . . . .	16,684	9.8	15,680	10.0	4,661	3.1
Depreciation . . . . .	1,115	0.7	635	0.4	802	0.5
Packaging and stationery . . . . .	99	0.1	124	0.1	118	0.1
Legal and professional fees . . . . .	377	0.2	97	0.1	242	0.2
Insurance . . . . .	29	*	7	*	6	*
Others <sup>(1)</sup> . . . . .	7,406	4.4	7,806	5.0	8,294	5.5
<b>Total</b>	<b>170,204</b>	<b>100</b>	<b>156,063</b>	<b>100</b>	<b>148,647</b>	<b>100</b>

\* Value insignificant

*Note:*

- (1) Other expenses included government fees and levies, training fees, recruitment fees and other miscellaneous costs and expenses for the selling activities of our Group.

During the Track Record Period, our selling and distribution expenses were HK\$170.2 million, HK\$156.1 million and HK\$148.6 million. The continuous decreases in selling and distribution expenses were due to the improved logistics and the reduced costs incurred on warehousing and office leases. In 2016, we incurred less warehouse rental expenses because our paint and coating products were delivered to our customers directly from our production plants in the PRC.

## FINANCIAL INFORMATION

### Administrative expenses

During the Track Record Period, our administrative expenses primarily included staff cost, legal and professional fees (including audit fee) and rent and rate. Our administrative expenses are generally recognised as they are incurred. The following sets forth an analysis of our administrative expenses during the Track Record Period:

	Year ended 31 December					
	2014		2015		2016	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Staff costs . . . . .	65,824	67.0	64,388	62.0	61,426	54.8
Legal and professional fees . . . . .	5,117	5.2	8,977	8.6	19,170	17.1
Rent and rates . . . . .	6,212	6.3	6,810	6.6	6,990	6.2
Depreciation . . . . .	3,202	3.3	7,282	7.0	6,225	5.5
Transportation and travelling . . . . .	5,669	5.8	5,191	5.0	4,874	4.3
Security fee . . . . .	2,039	2.1	2,827	2.7	2,761	2.5
Amortisation of pre-operating expenses . . . . .	1,078	1.1	1,085	1.0	*	*
Government levies and expenses . . . . .	265	0.3	260	0.3	246	0.2
Packaging and stationery . . . . .	101	0.1	184	0.2	865	0.8
Insurance . . . . .	100	0.1	8	*	3	*
Others <sup>(1)</sup> . . . . .	8,585	8.7	6,888	6.6	9,667	8.6
<b>Total</b>	<b>98,192</b>	<b>100</b>	<b>103,900</b>	<b>100</b>	<b>112,227</b>	<b>100</b>

\* Value insignificant

Note:

- (1) Other expenses included government fees and levies, training fees, recruitment fees and other miscellaneous cost and expenses for administrative purpose.

The increase in administrative expenses throughout the Track Record Period was due to the increase in our legal and professional fees incurred for [REDACTED].

## FINANCIAL INFORMATION

### Other expenses, net

The following sets forth an analysis of the other expenses, net during the Track Record Period:

	Year ended 31 December					
	2014		2015		2016	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Provision for doubtful debts .....	1,348	11.6	5,465	30.3	11,694	48.7
Local taxes and levies and stamps duties .....	9,040	77.8	10,170	56.3	10,870	45.3
Fixed assets written-off .....	225	1.9	155	0.9	608	2.5
Loss on disposal of fixed assets .....	358	3.1	–	–	142	0.6
Exchange loss .....	655	5.6	2,256	12.5	71	0.3
Others .....	–	–	4	*	613	2.6
<b>Total</b>	<b>11,626</b>	<b>100</b>	<b>18,050</b>	<b>100</b>	<b>23,998</b>	<b>100</b>

\* Value insignificant

The amount of provision for doubtful debt included the amount due for more than 150 days from customers which had not made any payment to us during the preceding year. The basis of making such provision is set forth in the Accountants’ Report, the text of which is set forth in Appendix 1 to this prospectus.

## FINANCIAL INFORMATION

### Finance costs

Our finance costs comprise interest expenses on bank loans and import loans and finance leases less interest capitalised. The following sets forth the breakdown of our finance costs during the Track Record Period:

	Year ended 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
Interest expenses on			
Bank loans . . . . .	3,118	2,851	1,998
Import loans . . . . .	137	195	–
Interest rate swap . . . . .	94	49	7
	<u>3,349</u>	<u>3,095</u>	<u>2,005</u>
Finance lease payment . . . . .	<u>11</u>	<u>3</u>	<u>45</u>
	<u>3,360</u>	<u>3,098</u>	<u>2,050</u>
Less: Interest capitalised . . . . .	<u>(284)</u>	<u>–</u>	<u>–</u>
<b>Total</b>	<u><u>3,076</u></u>	<u><u>3,098</u></u>	<u><u>2,050</u></u>

As of 31 December 2014, 2015 and 2016, we had total outstanding bank loans and other borrowings of HK\$145.3 million, HK\$165.4 million and HK\$114.7 million, respectively. The interest rates for our bank borrowings ranged from 1.3% to 3.4% as of 31 December 2014, from 1.4% to 3.1% as of 31 December 2015 and from 1.4% to 2.5% as of 31 December 2016.

### Profit before tax

The profit before tax is equal to the excess amount of the gross profit less all expenses incurred for our business operations during a particular year. During the Track Record Period, our profit before tax was HK\$127.3 million, HK\$61.6 million and HK\$73.3 million, respectively. The substantial decrease in our profit before tax in 2015, as compared with the year ended 31 December 2014, was due to a number of factors, further information on which is set forth in the paragraphs under “Sustainability of our business in light of deteriorating performance during the year ended 31 December 2015” below. The amount of our profit before tax improved significantly during the year ended 31 December 2016, as compared with the year ended 31 December 2015, because of the increase in revenue.

## FINANCIAL INFORMATION

### Income tax expense

During the Track Record Period, we provided income tax of HK\$30.2 million, HK\$19.7 million and HK\$17.8 million, respectively.

As of 31 December 2016, we had made all the required tax filings with and settled all outstanding tax liabilities to the relevant tax authorities in Hong Kong and the PRC. We are not aware of any outstanding or potential dispute with such tax authorities.

The following sets forth our income tax payment during the Track Record Period:

	Year ended 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
Current			
Charge for the year . . . . .	29,683	18,142	20,283
Under provision in prior years. . . . .	132	50	–
Deferred tax . . . . .	377	1,509	(2,482)
<b>Total tax charge for the year</b>	<b>30,192</b>	<b>19,701</b>	<b>17,801</b>

The amount of deferred tax charged to our combined statements of profit or loss represented the aggregate of the amount transferred from deferred tax liabilities (arising from the withholding tax) and deferred tax assets (arising from depreciation in excess of tax depreciation allowance and accruals). Movements of the deferred tax liabilities and deferred tax assets are set forth in the paragraphs under “Principal components of our non-current assets and non-current liabilities – Deferred tax assets and deferred tax liabilities” below.

## FINANCIAL INFORMATION

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdictions in which our Company and the majority of our subsidiaries are domiciled to the tax expense at the effective tax rate and a reconciliation of the applicable rate, i.e., the statutory tax rate, to the effective tax rate, are as follows:

	Year ended 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
Our profit before tax . . . . .	127,341	61,631	73,267
Tax at the statutory tax rate. . . . .	21,011	10,169	12,089
Different tax rates for specific provinces in the PRC, net . . . . .	(4,401)	(4,815)	(3,111)
Adjustments in respect of current tax of previous years . . . . .	132	50	–
Income not subject to tax . . . . .	(1,583)	(2,068)	(1,933)
Expenses not deductible for tax. . . . .	1,067	1,366	8,391
Effect of withholding tax at 5% on the distributable profits of our subsidiaries in the PRC . . . . .	8,139	3,243	1,819
Tax losses utilised from previous years. . . . .	–	–	(4,404)
Tax losses not recognised . . . . .	5,759	14,660	4,324
Others . . . . .	68	(2,904)	626
Tax charge to profit and loss. . . . .	30,192	19,701	17,801
Effective tax rate. . . . .	23.7%	32.0%	24.3%

In 2014 and 2015, the increase in the effective tax rate was primarily due to the tax loss of China Paint (1932) and other subsidiaries of our Company (except for China Paint Shenzhen, China Paint Xinfeng and Shanghai Giraffe) not recognised for the purpose of the PRC EIT and the Hong Kong profits tax.

In 2015 and 2016, the decrease in the effective tax rate was due to the effect of non-deductible of expenses incurred for the [REDACTED] in 2015 and the effect of tax losses utilised from previous years principally arising from China Paint Xuifeng and Shanghai Giraffe. Our Directors confirm that the reason for not recognising the tax losses arising from the previous year was due to the fact that the relevant members of our Group were loss making for over a number of years or otherwise have commenced business operations since 2015. Our Directors do not consider it probable that taxable profits will be available against such tax losses.

## FINANCIAL INFORMATION

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### *PRC EIT*

China Paint Shenzhen was subject to the preferential rate of PRC EIT at 15% during the Track Record Period. The current entitlement status will expire in 2018. Other subsidiaries of our Group in the PRC were subject to the PRC EIT at the rate of 25%.

### *Cayman Islands profits tax*

Our Company is incorporated in the Cayman Islands as an exempted company with limited liability and is not subject to any income tax in the Cayman Islands.

### *BVI income tax*

CP Industries, Majority Faith and China Paint Factory are incorporated in the BVI and are not subject to any income tax in the BVI.

### *Hong Kong profits tax*

CNT Resene, CNT Resene (Distribution), China Paint (1932), Shine Express and R, J & Thomas were incorporated in Hong Kong and are subject to the Hong Kong profits tax at the rate of 16.5% during the Track Record Period.

### *Singapore income tax*

China Paint Singapore was incorporated in Singapore and is subject to the profits tax in Singapore at the rate of 17.0%.

### **Dividends**

During the Track Record Period, we did not declare and pay any dividend to members of the CNT Group. Prior to the Spin-Off and the [REDACTED], we declared and paid to members of the CNT Group a special interim dividend of HK\$180 million.

## FINANCIAL INFORMATION

### OUR OPERATING RESULTS

#### Year ended 31 December 2016 compared to year ended 31 December 2015

##### Revenue

Our revenue increase by 8.0% to HK\$937.5 million in 2016 from HK\$868.0 million in 2015. The following sets forth an analysis of our revenue during the two years ended 31 December 2016 by our principal products:

	Year ended 31 December				% of change
	2015		2016		
	HK\$'000	%	HK\$'000	%	
Industrial paint and coating products . . . . .	472,700	54.5	527,354	56.3	11.6
Architectural paint and coating products . . . . .	172,158	19.8	195,037	20.8	13.3
General paint and coating and ancillary products <sup>(1)</sup>	223,139	25.7	215,059	22.9	(3.6)
<b>Total</b>	<b>867,997</b>	<b>100</b>	<b>937,450</b>	<b>100</b>	<b>8.0</b>

Note:

- (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.

During the year ended 31 December 2016, our revenue increased because of a number of factors. First, the increase was due to the implementation of various business initiatives to revamp our business. Further information on these business initiatives is set forth in the paragraphs under “Sustainability of our business in light of the deteriorating performance during the year ended 31 December 2015” below. Our Directors confirm that the actual increase in our revenue in RMB was more than 8.0% because of the depreciation of RMB against Hong Kong dollars. The increase in the revenue from the sales of industrial paint and coating products and architectural paint and coating products were 11.6% and 13.3%, respectively. The revenue generated from the sales of general paint and coating and ancillary products was decreased slightly by 3.6% primarily due to changes in the product mix and certain price discounts offered to our customers.

In 2016, the average selling prices of our paint and coating products were increased as follows:

	Year ended 31 December		% of change
	2015	2016	
	HK\$'000/ tonne	HK\$'000/ tonne	
Industrial paint and coating products . . . . .	34.7	28.7	(17.3)
Architectural paint and coating products . . . . .	15.9	16.4	3.1
General paint and coating and ancillary products <sup>(1)</sup> . . . . .	15.1	14.4	(4.6)



## FINANCIAL INFORMATION

*Note:*

- (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.

In 2016, the changes in the average selling prices of all products were due to the implementation of an improved pricing strategy with the focus on increasing the market share and consolidate our market position in our target markets. We have implemented an improved and appropriate pricing strategy with focus on the demand and supply dynamics and price incentives, rather than maintaining a fixed gross profit margin.

Because of the overall increase in the revenue generated from the sales of our paint and coating products, the amount of revenue generated from each sales channel also recorded significant increase, except for the cash and credit sales to other customers. The revenue generated from the sales through this sales channel was decreased by 33.9% because of enhancement of credit management in credit sales to other customers. The following sets forth an analysis of the revenue generated from our sales through different sales channels and the percentages of change:

	Year ended 31 December				% of change
	2015		2016		
	HK\$'000	%	HK\$'000	%	
<b>Distributors</b>					
Distributors – PRC . . . . .	578,766	66.7	618,807	66.0	6.9
Distributors – Hong Kong . . . . .	50,202	5.8	65,691	7.0	30.9
	628,968	72.5	684,498	73.0	8.8
<b>Direct sales</b> . . . . .	169,903	19.6	206,911	22.1	21.8
<b>Cash and credit sales to other customers</b> . . . . .	68,616	7.9	45,373	4.8	(33.9)
<b>Showroom sales</b> . . . . .	510	*	668	0.1	31.0
<b>Total</b>	867,997	100	937,450	100	8.0

\* Value insignificant

## FINANCIAL INFORMATION

The following sets forth an analysis of our revenue by the locations of our customers during the two years ended 31 December 2016 and the percentages of change:

	Year ended 31 December				% of change
	2015		2016		
	HK\$'000	%	HK\$'000	%	
PRC					
Southern China . . . . .	555,427	63.9	565,248	60.3	1.8
Eastern China . . . . .	129,466	14.9	148,116	15.8	14.4
Central China . . . . .	54,629	6.3	69,810	7.4	27.8
Southwestern China. . . . .	32,691	3.8	37,389	4.0	14.4
Northern China . . . . .	20,500	2.4	24,911	2.7	21.5
Northwestern China. . . . .	7,537	0.9	7,060	0.8	(6.3)
Northeastern China . . . . .	5,138	0.6	4,683	0.5	(8.9)
	805,388	92.8	857,217	91.5	6.4
Hong Kong . . . . .	62,557	7.2	80,233	8.5	28.3
Singapore . . . . .	52	*	—	—	(100)
<b>Total</b>	<b>867,997</b>	<b>100.0</b>	<b>937,450</b>	<b>100.0</b>	<b>8.0</b>

\* Value insignificant

The percentages of revenue generated from the sales to customers at different regions in the PRC during the year ended 31 December 2016 were generally consistent with the percentages in 2015. We have strengthened our business development efforts in Eastern China and Central China, and the percentage of sales generated from each of these regions was increased. Overall, the percentages of sales to Southwestern China and Northern China were also increased. Sales to Hong Kong also recorded an increase of 28.3% because of the increased sales of our “Resene” paint and coating products and the increased sales to our major distributors.

### Cost of sales

The following sets forth an analysis of the cost of sales during the two years ended 31 December 2016 and the percentages of change.

	Year ended 31 December				% of change
	2015		2016		
	HK\$'000	% to revenue	HK\$'000	% to revenue	
Raw materials . . . . .	470,611	54.2	505,612	53.9	7.4
Direct labour . . . . .	54,061	6.2	57,771	6.2	6.9
Depreciation . . . . .	9,713	1.1	11,147	1.2	14.8
Production overhead . . . . .	9,188	1.1	15,558	1.7	69.3
<b>Total</b>	<b>543,573</b>	<b>62.6</b>	<b>590,088</b>	<b>63.0</b>	<b>8.6</b>

## FINANCIAL INFORMATION

We implemented stringent control on the cost of sales in 2016, and it represented 63.0% of the total amount of revenue and a slight increase of 0.4% as compared with 62.6% in 2015. The amount of cost of sales was HK\$590.1 million, as compared with HK\$543.6 million in 2015, representing an increase of 8.6% as compared the amount of cost of sales in 2015. The increase in the cost of sales was generally consistent with the increase in the amount of revenue. The following sets forth an analysis of our cost of raw materials during the two years ended 31 December 2016 and the percentages of change:

	Year ended 31 December		% of change
	2015	2016	
	HK\$'000	HK\$'000	
Resin .....	177,966	193,144	8.5
Solvent .....	157,906	172,919	9.5
Pigment and filler .....	60,694	64,760	6.7
Additives .....	45,263	44,012	(2.8)
Packaging materials .....	28,268	29,656	4.9
Others .....	514	1,121	118.1
<b>Total</b>	<b>470,611</b>	<b>505,612</b>	<b>7.4</b>

The raw material cost was increased by 7.4% and the percentage of increase was less than the increase in the amount of revenue. This was due to our stringent cost control in the use of raw materials, such as resin and solvent, and packaging materials. The low level of crude oil prices also helped us to maintain the cost of sales at the level generally consistent with the previous year.

### ***Gross profit and gross profit margin of our products***

The amount of gross profit was increased to HK\$347.4 million during the year ended 31 December 2016 by 7.1% from HK\$324.4 million during the year ended 31 December 2015. The following sets forth the amount of gross profit and the gross profit margin for our products during the year ended 31 December 2015 and 2016 and the percentages of change:

	Year ended 31 December				% of change
	2015		2016		
	HK\$'000	%	HK\$'000	%	
Architectural paint and coating products . . . . .	187,204	39.6	204,339	38.7	9.2
Industrial paint and coating products . . . . .	54,235	31.5	71,102	36.5	31.1
General paint and coating and ancillary products . .	82,985	37.2	71,921	33.4	(13.3)
<b>Total</b>	<b>324,424</b>	<b>37.4</b>	<b>347,362</b>	<b>37.1</b>	<b>7.1</b>

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## FINANCIAL INFORMATION

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The improvement in the gross profit margin during the year ended 31 December 2016 was due to our effective pricing strategy, resulting in the increased demand in our architectural and industrial paint and coating products.

The sales volume of our industrial paint and coating products increased by 34.7% to 18,358.7 tonnes and the sales volume of our architectural paint and coating products also increased by 9.8% to 11,910.9 tonnes. The sales volume of our general paint and coating and ancillary products was increased by 1.5% to 14,849.5 tonnes. The overall increase in the sales volume resulted in the increase in the revenue generated from the sales of our paint and coating products. The increase in our sales volume was due to our effective business initiatives implemented in 2015.

### *Other income and gains*

Our other income and gains was decreased by 30.0% to HK\$12.8 million during the year ended 31 December 2016 from HK\$18.3 million during the year ended 31 December 2015. The decrease was primarily due to the decrease in bank interest income.

### *Selling and distribution expenses*

Our selling and distribution expenses was decreased by 4.8% to HK\$148.6 million during the year ended 31 December 2016 from HK\$156.1 million during the year ended 31 December 2015. The decrease was due to our improved logistics. All items under the selling and distribution expenses recorded significant decreases mainly due to the decrease in warehouse and office rental expenses.

### *Administrative expenses*

Our administrative expenses was increased by 8.0% to HK\$112.2 million during the year ended 31 December 2016 from HK\$103.9 million during the year ended 31 December 2015. The increase was due to the increase in the legal and professional fees.

### *Other expenses*

Our other expenses significantly were increased by 33.0% to HK\$24.0 million during the year ended 31 December 2016 from HK\$18.1 million during the year ended 31 December 2015. The increase was due to the increase in the provision for doubtful debts based on our assessment of the recoverability of the amount of trade receivables. The exchange loss was decreased during the year as a result of the reduced depreciation of RMB against HK dollars.

### *Finance costs*

Our finance costs were decreased by 33.8% to HK\$2.1 million during the year ended 31 December 2016 from HK\$3.1 million as compared with the year ended 31 December 2015. The decrease was due to the decrease in interest expenses on bank loans and import loans.

## FINANCIAL INFORMATION

### *Income tax expense*

Our income tax expense was decreased by 9.6% to HK\$17.8 million during the year ended 31 December 2016 from HK\$19.7 million during the year ended 31 December 2015. The decrease in the amount of income tax expense charged to the combined statements of profit or loss was primarily due to decrease in deferred tax.

### *Profit for the year and net profit margin*

As a result of the foregoing, our profit after tax was increased to HK\$55.5 million during the year ended 31 December 2016 from HK\$41.9 million during the year ended 31 December 2015. The net profit margin was slightly increased from 4.8% during the year ended 31 December 2015 to 5.9% during the year ended 31 December 2016.

### **Year ended 31 December 2015 compared to year ended 31 December 2014**

#### *Revenue*

Our revenue was decreased by 23.3% to HK\$868.0 million in 2015 from HK\$1,131.3 million in 2014. The following sets forth an analysis of our revenue during the two years ended 31 December 2015 by our principal products and the percentages of change:

	Year ended 31 December				% of change
	2014		2015		
	HK\$'000	%	HK\$'000	%	
Industrial paint and coating products . . . . .	626,288	55.3	472,700	54.5	(24.5)
Architectural paint and coating products . . . . .	246,063	21.8	172,158	19.8	(30.0)
General paint and coating and ancillary products . .	258,954	22.9	223,139	25.7	(13.8)
<b>Total</b>	<b>1,131,305</b>	<b>100</b>	<b>867,997</b>	<b>100</b>	<b>(23.3)</b>

## FINANCIAL INFORMATION

During the year ended 31 December 2015, our revenue was decreased because of a number of factors, further information on which is set forth in the paragraphs under “Sustainability of our business in light of deteriorating performance during the year ended 31 December 2015” below. The decrease in our revenue started in 2014, as set forth in the report of *Frost & Sullivan* and summarised in the section headed “Industry Overview” in this [REDACTED]. We launched a series of marketing and promotional campaigns to promote our sales during the last quarter of 2014. In 2015, however, the average selling prices of our paint and coating products was not decreased, but increased slightly as follows:

	Year ended 31 December		% of change
	2014	2015	
	HK\$'000/ tonne	HK\$'000/ tonne	
Industrial paint and coating products . . . . .	33.9	34.7	2.4
Architectural paint and coating products . . . . .	15.8	15.9	0.6
General paint and coating and ancillary products <sup>(1)</sup> . . . . .	14.8	15.1	2.0

Note:

- (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.

Primarily due to the slowdown in the real estate market in the PRC and changes in consumers' preference, the demand for wood coating products in retail market was decreased significantly in 2015. We decided in the year not to compete with our competitors in terms of price and as a result, the average selling prices of our paint and coating products increased slightly.

Sales through all sales channels recorded significant decreases in 2015. The decreases were due to a number of factors, further information on which is set forth in the paragraphs under “Sustainability of our business in light of the deteriorating performance during the year ended 31 December 2015” below. The following sets forth the further information on our revenue generated from our sales channels and the percentages of change:

	Year ended 31 December				% of change
	2014		2015		
	HK\$'000	%	HK\$'000	%	
<b>Distributors</b>					
Distributors – PRC . . . . .	685,956	60.6	578,766	66.7	(15.6)
Distributors – Hong Kong . . . . .	81,208	7.2	50,202	5.8	(38.2)
	767,164	67.8	628,968	72.5	(18.0)
<b>Direct sales</b> . . . . .	223,973	19.8	169,903	19.6	(24.1)
<b>Cash and credit sales to other customers</b> . . . . .	139,052	12.3	68,616	7.9	(50.7)
<b>Showroom sales</b> . . . . .	1,116	0.1	510	*	(54.3)
<b>Total</b>	1,131,305	100	867,997	100	(23.3)

\* Value insignificant

## FINANCIAL INFORMATION

The following sets forth an analysis of our revenue by the locations of our customers during the two years ended 31 December 2014 and the percentages of change:

	Year ended 31 December				% of change
	2014		2015		
	HK\$'000	%	HK\$'000	%	
PRC					
Southern China . . . . .	593,818	52.5	555,427	63.9	(6.5)
Eastern China . . . . .	225,271	19.9	129,466	14.9	(42.5)
Central China . . . . .	104,370	9.2	54,629	6.3	(47.7)
Southwestern China . . . . .	63,805	5.6	32,691	3.8	(48.8)
Northern China . . . . .	26,922	2.4	20,500	2.4	(23.9)
Northwestern China . . . . .	19,172	1.7	7,537	0.9	(60.7)
Northeastern China . . . . .	6,342	0.6	5,138	0.6	(19.0)
	1,039,700	91.9	805,388	92.8	(22.5)
Hong Kong . . . . .	91,360	8.1	62,557	7.2	(31.5)
Singapore . . . . .	245	*	52	*	(78.8)
<b>Total</b>	<b>1,131,305</b>	<b>100</b>	<b>867,997</b>	<b>100</b>	<b>(23.3)</b>

\* Value insignificant

Except for Southern China in which our revenue was decreased only by 6.5%, our sales to all other regions in the PRC as well as Hong Kong recorded substantial decreases of more than 19.0%. The reasons for the decreases are set forth in the paragraphs under “Sustainability of our business in light of the deteriorating performance during the year ended 31 December 2015” below.

### Cost of sales

The following sets forth an analysis of the cost of sales during the two years ended 31 December 2015 and the percentages of change.

	Year ended 31 December				% of change
	2014		2015		
	HK\$'000	% to revenue	HK\$'000	% to revenue	
Raw materials . . . . .	665,490	58.8	470,611	54.2	(29.3)
Direct labour . . . . .	53,395	4.7	54,061	6.2	1.2
Depreciation . . . . .	9,450	0.8	9,713	1.1	2.8
Production overhead . . . . .	9,082	0.8	9,188	1.1	1.2
<b>Total</b>	<b>737,417</b>	<b>65.1</b>	<b>543,573</b>	<b>62.6</b>	<b>(26.3)</b>

## FINANCIAL INFORMATION

The decrease in the cost of sales was driven by the reduced production volume as well as the decreased amount of raw materials. The percentage of decrease was more than the percentage of decrease in our revenue because of the price decreases of most of the raw materials used by us in the production process, as a result of the decrease in the petroleum-related products. The following sets forth an analysis of our cost of raw materials during the two years ended 31 December 2015 and the percentages of change:

	Year ended 31 December		% of change
	2014	2015	
	HK\$'000	HK\$'000	
Resin . . . . .	238,664	177,966	(25.4)
Solvent . . . . .	233,048	157,906	(32.2)
Pigment and filler . . . . .	77,215	60,694	(21.4)
Additives . . . . .	53,348	45,263	(15.2)
Packaging materials . . . . .	61,811	28,268	(54.3)
Others . . . . .	1,404	514	(63.4)
<b>Total</b>	<b>665,490</b>	<b>470,611</b>	<b>(29.3)</b>

### ***Gross profit and gross profit margin of our products***

The amount of gross profit was decreased significantly to HK\$324.4 million during the year ended 31 December 2015 by 17.6% from HK\$393.9 million during the year ended 31 December 2014. The following sets forth the amount of gross profit and the gross profit margin for our products during the year ended 31 December 2014 and 2015 and the percentages of change:

	Year ended 31 December				% of change
	2014		2015		
	HK\$'000	%	HK\$'000	%	
Architectural paint and coating products . . . . .	228,513	36.5	187,204	39.6	(18.1)
Industrial paint and coating products . . . . .	79,859	32.5	54,235	31.5	(32.1)
General paint and coating and ancillary products . .	85,516	33.0	82,985	37.2	(3.0)
<b>Total</b>	<b>393,888</b>	<b>34.8</b>	<b>324,424</b>	<b>37.4</b>	<b>(17.6)</b>

The improvement in the gross profit margin during the year ended 31 December 2015 was due to our pricing strategy of maintaining the selling prices of our paint and coating products. However, such pricing strategy resulted in our paint and coating products becoming less competitive. As a result, the sales volume was decreased and the amount of revenue generated from the sales of our paint and coating products was also decreased.



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The sales volume of our industrial paint and coating products was decreased by 26.1% to 13,633.5 tonnes and the sales volume of our architectural paint and coating products also decreased by 30.5% to 10,846.2 tonnes. As industrial and architectural paint and coating products are our principal products, the decrease in the sales volume of these products, for the reasons set forth in the paragraphs under “Sustainability of our business in light of deteriorating performance during the year ended 31 December 2015” below, significantly affected the amount of our revenue and the amount of gross profit. We did not reduce the selling prices of our products even though there was fierce competition and as a result, there was no material change in the gross profit margin.

### *Other income and gains*

Our other income and gains were increased by 10.7% to HK\$18.3 million during the year ended 31 December 2015 from HK\$16.6 million during the year ended 31 December 2014. The increase in the other income and gain was principally due to the increase in our government grants because of the status of “High and New Technology Enterprise” (高新技術企業) of China Paint Shenzhen and the increase in the bank interest income by 33.8% to HK\$5.2 million because of the increased in the amount of investment in structured deposits in 2014.

### *Selling and distribution expenses*

Our selling and distribution expenses were decreased by 8.3% to HK\$156.1 million during the year ended 31 December 2015 from HK\$170.2 million during the year ended 31 December 2014. The decrease in the selling and distribution expenses was primarily due to the decrease in the amount of our revenue and the sales volume of our paint and coating products. All items under the selling and distribution expenses recorded significant decreases except for packing and stationery and other expenses.

### *Administrative expenses*

Our administrative expenses were increased by 5.8% to HK\$103.9 million during the year ended 31 December 2015 from HK\$98.2 million during the year ended 31 December 2014. The increase in the administrative expenses was due to the increase in the legal and professional fees incurred by us for the previous spin-off application which was rejected by the Stock Exchange in June 2015. The other expenses were decreased during the year ended 31 December 2015.

### *Other expenses*

Our other expenses were increased significantly by 55.3% to HK\$18.1 million during the year ended 31 December 2015 from HK\$11.6 million during the year ended 31 December 2014. The increase was due to the increase in the provision for doubtful debts based on our assessment of the recoverability of the amount of trade receivables. The exchange loss increased during the year as a result of the continuous depreciation of RMB against HK dollars.

### *Finance costs*

Our finance costs remained stable at HK\$3.1 million during the year ended 31 December 2015 as compared with the year ended 31 December 2014.

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### *Income tax expense*

Our income tax expense was decreased significantly by 34.7% to HK\$19.7 million during the year ended 31 December 2015 from HK\$30.2 million during the year ended 31 December 2014. The decrease in the amount of income tax expense charged to the combined statements of profit or loss was due to the decrease in the amount of net profit before tax and the increase in the amount of deferred tax charged to our combined profit and loss due to temporary difference of depreciation and certain non-deductible expenses incurred during the year.

### *Profit for the year and net profit margin*

As a result of the foregoing, our profit after tax was decreased to HK\$41.9 million during the year ended 31 December 2015 from HK\$97.1 million during the year ended 31 December 2014. The net profit margin decreased from 8.6% during the year ended 31 December 2014 to 4.8% during the year ended 31 December 2015.

## **SUSTAINABILITY OF OUR BUSINESS IN LIGHT OF THE DETERIORATING PERFORMANCE DURING THE YEAR ENDED 31 DECEMBER 2015**

### **Background information**

During the year ended 31 December 2015, our revenue was decreased by 23.3% to HK\$868.0 million from HK\$1,131.3 million in 2014. During the two years ended 31 December 2015, the gross profit amounted to HK\$393.9 million and HK\$324.4 million, respectively. In 2015, the amount of gross profit was decreased by 17.6% which was less than the decrease in revenue during the same year. Our gross profit margin in 2015 was increased to 37.4% as compared with the gross profit margin of 34.8% during the year ended 31 December 2014.

During the two years ended 31 December 2015, the net profit amounted to HK\$97.1 million and HK\$41.9 million, respectively. The amount of net profit was decreased by 56.8% in 2015. The decrease in the amount of net profit in 2015 was primarily due to the decrease in revenue by 23.3% in the same year. Although our performance during the year ended 31 December 2015 experienced a significant decrease, our Directors believe that, for the reasons set forth below, our business is sustainable and the paint and coating market in the PRC provides us with ample business opportunities.

The following sets forth the reasons for the deteriorating performance of our Group during the year ended 31 December 2015 and an analysis of the sustainability of our business in light of the business initiatives implemented by us.

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### Reasons for the substantial decrease in our revenue in 2015

The decrease in our revenue in 2015 began in the year ended 31 December 2014 because of the following reasons:

#### *Profit margin maintaining pricing strategy*

Alongside the weakened residential property market in the PRC and the decreasing demand in the retailing wood coating market, we intended to maintain our gross profit margin as our core pricing strategy because of our well-recognised brands. Our competitors, however, reduced their selling prices which enabled them to increase their market share. Competition was particularly intense in Eastern China and Central China. We lost a significant market share in these regions in 2015 because of the profit margin maintaining pricing strategy of maintaining higher average selling prices than those of our competitors. As a result, the sales volume of our paint and coating products decreased notably during the year.

In Hong Kong, our Directors noted that one of our major distributors in Hong Kong was in temporary financial difficulty in 2015 and as a result, we reduced the sales to this major distributor until we are satisfied that the financial condition of the distributor has been improved. We did not take immediate steps to identify replacement distributor as we believed that the financial condition of the distributor would be improved given the long operating history of this distributor and the established business relationship with this distributor. Our Directors confirm that the revenue generated from the sales of products to this distributor in Hong Kong during Track Record Period amounted to HK\$19.1 million, HK\$5.4 million and HK\$12.0 million, respectively. The sales to this distributor in 2015 were decreased by HK\$13.7 million or 71.7% as compared with the sales amount in 2014. This distributor was not one of our five largest customers during the Track Record Period. The amount of trade receivable due from this distributor as of 31 December 2015 and 31 December 2016 were settled before 28 February 2016 and 28 February 2017, respectively, without default payment.

Due to the increase in the average selling prices for painting and coating products in 2015, our sales of enamel and thinner in Hong Kong was decreased by HK\$14.8 million or 39.5% as compared with the sales amount in 2014.

In 2015, the decrease in our revenue generated from the sales in Hong Kong was primarily due to the above two factors. However, it is impractical for us to quantify the impact of each of these two factors. These factors contributed to the decrease in our sales in Hong Kong by 31.5% in 2015.

The landscape of the paint and coating industry and the operating environment, however, were not as good as what we anticipated. Because of the profit margin maintaining pricing strategy, most of the distributors could not achieve the prescribed sales targets in 2015. We nevertheless insisted to maintain our gross profit margin and did not adjust the selling prices of most of our products. Hence, our revenue from the sales of industrial and architectural paint and coating products, particularly in the areas of Eastern China and Central China, recorded a significant decrease of more than 40%. The amount of the gross profit and the net profit in 2015 also decreased.

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During the year ended 31 December 2015, the average selling prices of our paint and coating products for the retailing wood coating market were in the range between HK\$33.5/kilogram and HK\$66.0/kilogram, which our Directors believe to be generally higher than the average selling prices of most of the similar local branded products offered by our competitors.

Based on the communication with the distributor and the ongoing and satisfactory settlement of the amount due, the Directors are satisfied that the financial condition of the said distributor which demanded more products from the Group in 2016. The amount of sales to the distributor was increased from HK\$5.4 million in 2015 to HK\$12.0 million in 2016. Our Directors believe that the fluctuations in the sales to the distributor do not have any material impact on our operating results in the future.

### *Impact of the 2015 Tianjin explosions*

On 12 August 2015, a series of explosions happened at a container storage station at the Port of Tianjin located in the Binhai New Area, Tianjin, the PRC. Fires caused by the explosions continued to burn throughout the weekend and caused a number of explosions after the first explosion. The cause of the explosions was not known immediately after the incident, but an investigation concluded in February 2016 that an overheated container of dry nitrocellulose was the cause of the initial explosion. The explosions raised concern on the safety procedures in place for storing and transportation of dangerous chemicals, including solvent and solvent-based paint and coating products. The PRC Government did not strictly implement the regulations require “large- and medium-sized hazardous chemical storage facilities” to be kept at a distance of 1,000 meters from public buildings, infrastructure (including highway, railroads, and water lines) and industrial companies”. In response to these concerns, the State Council of the PRC pledged shortly after the explosions to “launch a nationwide inspection of businesses engaged in dangerous chemicals and explosives”. The State Council of the PRC also identified a number of problems revealed by the explosions in Tianjin being “lack of safety awareness among businesses and lax implementation of safety regulations inadequate safety management of dangerous materials at ports, irregular practices among workers, weak emergency responses to incidents and relax supervision by authorities”. The State Council of the PRC ordered the local governments at all levels to strictly enforce the regulations on the safety zone around industrial projects handling hazardous materials, and to “firmly implement regulatory measures for highly toxic chemicals.”

The explosions in Tianjin resulted in a nationwide inspection and a halt on the transportation of hazardous materials (including solvent-based paint and coating products) in selected areas in the PRC. The sales orders placed by the distributors, particularly in Eastern China, Central China and Southwestern China, experienced significant decreases, as the distributors prefer not to maintain inventory in light of the sluggish demand for solvent-based paint and coating products and the stringent requirements on the storage of hazardous materials. The explosions also accelerated the industry consolidation amongst the distributors in paint and coating industry as well as the shift in the consumers’ preference for water-based paint and coating products. All of these factors had adverse impact on our sales.

Our sales of solvent-based paint and coating products in 2015 in Eastern China and Central China recorded a significant decrease of more than 40%. Our sales of solvent-based paint and coating products in Southern China were not materially affected, but it could not compensate the loss of revenue in other regions in the PRC.

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### *Decrease in the market size of the retailing wood coating market in the PRC*

During the Track Record Period, the sales of wood paint and coating products accounted for 44.6%, 47.8% and 46.4% of the amount of our revenue, respectively. Our business strategy focused on the retailing wood coating market in Hong Kong and the PRC. The renovation contractors for property and infrastructure projects and the household users are the principal end users of our paint and coating products, and we rely on the distributors in Hong Kong and the PRC to sell our products to these end users. This sales strategy was proven successful in the past with the continuous business growth before the Track Record Period and enabled us to command for higher average selling prices and gross profit margins for our paint and coating products than the PRC and Hong Kong.

However, starting from the second half of 2014, the growth of the real estate market and the overall economic performance in the PRC was slow. In addition, a majority of the newly completed residential properties in recent years are fully furnished with the furniture and fitting installed by the furniture manufacturers. The use of coating substrates and wall papers also increased and to a certain extent, replaced the use of paint and coating products. These recent developments result in continuous decreases in the demand for on-site renovation works and the demand from the customers in the retailing wood coating market. According to *Frost & Sullivan*, the sales value of the retailing wood coating market in the PRC decreased at the rate of 7.0% in 2015 and 3.0% in 2016 and at the CAGR was 6.8% during the five-year period from 2010 to 2016. Such decrease was due to the change in consumers’ preference and the general slowdown of overall residential property market in the PRC. Our business remained stable in 2014, partly because of our brand promotion and marketing campaigns launched in the year, but we experienced a substantial decrease in our revenue during the year ended 31 December 2015.

### **Directors’ views on the substantial decrease in our revenue during the year ended 31 December 2015**

Our Directors believe that following the substantial decrease in our revenue in 2015, the performance of our Group has begun to stabilise with various business initiatives implemented by us. Further information on these business initiatives is set forth below. Our Directors do not consider that the short-term decrease in our revenue and profitability in 2015 is an indication that our business is not sustainable. Our Directors consider that the “sustainability” of our business cannot be narrowly determined with the sole emphasis on the short-term decrease in our revenue and the net profit in 2015 in a challenging business environment. The sustainability of our business should be considered in light of a number of factors, including our business and operating history, our recent performance, the industry trend and our resilience in dealing with challenging business environment.

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### *Decrease in revenue in 2015 was transient*

As mentioned above, our Directors are of the view that the decrease in our revenue in 2015 was transient and due to a number of factors outside our control. Based on the public information, our competitors with business presence in the PRC also experienced a significant decrease in revenue generated from their paint and coating business in 2015. According to *Frost & Sullivan*, the sales value of retailing wood coating market decreased from RMB7.1 billion in 2014 to RMB6.6 billion in 2015. Our Directors believe that we re-gained the growth momentum with the amount of our revenue, gross profit and net profit (excluding the expenses for [REDACTED]) increased in 2016 as compared with the same in 2015.

Following the implementation of the business initiatives in response to the decrease in revenue in 2015, we successfully focus to service the better performance distributors and maintained cordial business relationship with the selected and well-performed distributors which are our customers.

All of the above shows that our operating results in 2016 have been improved from the low level in 2015.

### *Continuous improvements in our operating results*

During the year ended 31 December 2016, our net profit was HK\$55.5 million and represented a significant growth as compared with the amount of net profit of HK\$41.9 million in 2015. This clearly indicates that our business started to improve since the first half of 2016. We also maintained the gross profit margin in 2016 as compared with 2015, albeit that the average selling prices of our paint and coating products were decreased because of the implementation of less rigid pricing policy for promoting our sales. All of these clearly demonstrate that the business initiatives are effective in improving our operating results. Our other performance benchmarks and the utilisation rates of our production facilities during the year ended 31 December 2016 have also been improved.

During the year ended 31 December 2016, the gross profit margin was 37.1% and the net profit margin was 5.9%. The gross profit margin remained stable as compared with the year ended 31 December 2015, and the net profit margin was slightly improved due to the reduced expenses by cost control measures on reduction of less effective selling and promotional activities, as well as improving the transportation and delivery logistics to reduce transportation costs.

### *Our liquidity position*

Our liquidity position has been managed prudently with minimal exposure to external borrowings and debts. Our gearing ratio remained at low level at 22.6%, 25.1% and 17.2% as of 31 December 2014, 2015 and 2016.

Our external borrowings and debts represented an insignificant part of our total liabilities. We have recorded operating cash inflow before changes in working capital of HK\$311.2 million in aggregate during the Track Record Period, even though our revenue experienced a temporary decrease in 2015.

During the Track Record Period and up to the date of this [REDACTED], we had not experienced any major difficulties in obtaining banking facilities, nor had we been informed of any withdrawal of the granted banking facilities initiated by banks. There had been no material breach of any loan covenant entered into by us during the Track Record Period and up to the date of this [REDACTED]. Because of this financial position, our Directors believe that the liquidity risk would be minimal.



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### *We have a proven operating history and stabilised industry trend*

We have an operating history of more than 80 years and are able to withstand the major changes and challenges in our industry. Operating within a highly competitive and fragmented industry, we ranked the sixth and the fifteenth in the retailing wood coating market and the wood coating market in the PRC, respectively, in terms of revenue in 2016. According to *Frost & Sullivan*, the demand for paint and coating products in the downstream markets in the PRC, such as construction and renovation business, will continue to increase, and the sales value of paint and coating products in the PRC and Hong Kong is expected to increase at a CAGR of 5.7% and 0.4%, respectively, during the five-year period from 2017 to 2021. According to *Frost & Sullivan*, although the retailing wood coating market in the PRC will have a negative growth rate of CAGR 0.8% during the period from 2017 to 2021, the manufacturing wood coating market in the PRC will continue to grow at CAGR 4.1% during the period from 2017 to 2021. These trends will give us business opportunities for developing our business in the PRC.

### *We have a stable and experienced management team*

Our management team is experienced in the paint and coating industry. In particular, our executive Directors, Mr. TSUI Ho Chuen, Philip and Mr. LI Guangzhong, have diversified skill sets and industry background and experience with a clear vision on the development of the paint and coating industry in the PRC. Our senior management team, including Mr. FONG Yik Ming, Benedict, Mr. CHUCK Ricky Chui Hung and Mr. NG Cheuk Man, has substantial experience in the manufacturing industries and has an average of 20 years of experience in the industry. The strength of our senior management team was one of the key factors contributing to our success and will enable us to implement our strategies and capture future growth opportunities. As of the Latest Practicable Date, our corporate management and administration team has 37 employees.

### **Business initiatives in response to the substantial decrease in our revenue in 2015**

In light of the substantial decrease in our revenue in 2015, we have taken a number of business initiatives from the first quarter of 2016 to revamp our operating results. These business initiatives include the followings:

#### *Adjustment in our pricing policy*

Following the substantial decrease in the amount of revenue in 2015, we have reduced the recommended selling prices and the gross profit margins for our products for the purpose of providing incentives to the distributors. The other initiatives include the provision of additional discount to the purchase price paid by the distributors. The impact of these initiatives was a decrease of 6.4% of the average selling prices of our paint and coating products in 2016. Our Directors believe that the increased amount of purchase discount will motivate the distributors in promoting and selling our paint and coating products.

With our well-recognised brands, our Directors also consider that our pricing strategy should focus on the medium to high-end customers. We have implemented an improved and flexible pricing strategy with focus on demand and supply dynamics and price incentives, rather than maintaining a fixed gross profit margin.

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### *Appointment of new management team for sales and marketing in selected regions in the PRC*

Our Directors recognise that one of the reasons for the substantial decrease in our revenue in Eastern China and Central China was the profit margin maintaining pricing strategy amid the increasing competitive retailing wood coating market in the PRC. In order to strengthen our business presence in the PRC regions recorded decreasing revenue, we recruited a new sales general manager overseeing our sales teams in Eastern China, Southwestern China, Northwestern China and Central China in November 2015 and had a strengthened sales and marketing teams of 85 staff. New brand promotional strategies have been launched for the promotion of the existing paint and coating products in these regions. In addition, we have also strengthened our sales teams in these regions. Since April 2016, we have also established a dedicated “Price Monitoring Team” comprising five senior management and staff members from our sales, sales administration, purchasing department, marketing and finance department. The team is responsible for collecting the updated information on the latest selling prices and new products of the competitors of our Group.

### *Appointment of new distributors with streamlined distribution network*

We have established business relationships with selected distributors in each region of the PRC which have their respective distribution networks. Such business relationships have been established through a series of product presentations and networking activities with existing and potential distributors. During the Track Record Period, we participated in a number of large scale exhibition events and organized numerous sales fairs and exchange forums and promotional campaigns. For example, we participated in exhibitions such as the COAT China Chongqing 2014 (國際(重慶)塗料、油墨、膠黏劑(重慶)展覽會) in 2014, the 14th China international furniture and raw materials (Jinan) exhibition (第十四屆中國國際家具及原輔材料(濟南)博覽會) in 2015 and the 11th Shanghai international exhibition of exterior wall decoration materials and bonding technology (上海外牆裝飾材料與黏結技術展覽會) in 2015. In 2016, we held a total of 167 sales fairs, exchange forums and promotional campaigns in a number of provinces, including Anhui, Zhejiang Sichuan, Hubei, etc., in the PRC with strategic focus to boost up our sales in the Eastern China and Central China. In the sales fairs, we invited designers from renovation contractors to demonstrate and explain our product functions and features to potential distributors. During these sales fairs, we also distributed product fact-sheets and analyses in order to promote our new products and establish relationship with potential distributors.

We continue the process of appointing new distributors in the PRC for the promotion and sales of our existing and new paint and coating products. Each of the distributors can access to sufficiently large regional market for the sales of our existing and new paint and coating products. Distributors cannot sell or resell our products outside their designated distribution areas. We may impose penalties and terminate the distribution agreement for non-compliance on the part of the distributors with this requirement. From January 2017 to the Latest Practicable Date, we already held 38 sales fairs in various provinces in the PRC. Going forward, we intend to carry out in-depth feasibility studies and engage third-party consultants (where applicable) to evaluate the sales potential of each region in the PRC from time to time. Once they have been identified, we intend to organize more sales fairs and promotional activities in such regions to attract new distributors. We are currently targeting to increase our distributors in the PRC from 387 in 2016 to 424 in 2017, by organizing more sales fairs and promotional activities in such regions by the end of 2017. Leveraging on our strong product development capability, we plan to promote series of our new household cleaning products to houseware shops in Hong Kong, targeting to increase our distributors in Hong Kong by 67 in 2017.



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### *Increasing the direct sales to manufacturers and renovation contractors for property and infrastructure projects*

Our Group has well-recognised brands of paint and coating products originated from Hong Kong and has expanded into the PRC leverage our brand recognition in Hong Kong over the years. With these renowned brands, we can request for relative high average selling prices for our paint and coating products and we have focused on the retailing wood coating market over the years. This is particularly relevant that there was sufficient demand to support this marketing/pricing strategy. With the change in the PRC economy/consumer preference, our Directors consider that it would be appropriate to explore the manufacturing wood coating market. For the purpose of expanding our customer base in addition to the distributors and diversify our income, we have started strengthening the business relationship with customers in the manufacturing wood coating market which are manufacturers of a wide range of consumer goods, industrial products and home furniture and fitting and the appointment of dedicated sales personnel to explore the market. In this connection, we designated sales representatives with experience to approach potential customers and maintain relationship with existing customers. This strategy is intended to reduce our reliance on the retailing wood coating market through the sales to the distributors and promote our existing solvent-based paint and coating products, as well as the water-based and environmental-friendly paint and coating products, for direct sales to manufacturers for wood coating application. Our Directors believe that the development of new customer base will not affect or compete with the distributors because of our well-established brands and the fact that the distributors would not normally re-sell our paint and coating products to manufacturers because the manufacturing market is different from the retailing market. This target customers in the retailing market mainly include renovation contractors and household users. These customers are generally willing to pay higher prices than the manufacturers of industrial and household products. In line with the industry practice, the wholesale distributors focus on the sales of our paint and coating products to customers in the retailing market.

Due to the implementation of this initiative, our sales to manufacturers increased from HK\$9.5 million in 2015 to HK\$17.3 million in 2016, and there were 23 new customers in this market in 2016. We believe it is an industry trend that more customers in the manufacturing wood coating market to increasingly use water-based instead of solvent based paint and coating products. Since the gross profit margin of water-based industrial coating products is higher than that of the solvent-based industrial coating products, we expect that the gross profit margin in the manufacturing wood coating market will improve in the future. Our Directors believe that the manufacturing wood coating market is profitable and is one of initiatives of our Group to reduce reliance on retailing wood coating market. Thus, although our Group's overall gross profit margin may decrease as the proportion of our sales to manufacturing wood coating market increases, our Directors believe that it will bring positive impact to our Group's revenue and profit in the future.

There are regulations in the PRC requiring the use of water-based and environmental-friendly paint and coating products during the manufacturing process. The “Implementing Proposals for Comprehensive Treatment on VOC of Key Industries” (廣東省環境保護廳關於重點行業揮發性有機物綜合整治的實施方案) was issued by the Department of Environmental Protection of Guangdong Province in December 2014 which requires the furniture manufacturing industry not to use solvent-based paint products. It is also required that the percentage of using paint products with low level of VOC cannot be less than 90% and that solvent-based paint products containing more than 700 grams per litre of hazardous substance or VOC cannot be used for wood coating in Guangdong Province.

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### *Launch of new water-based paint and coating products in Hong Kong and the PRC*

In April 2015, we launched new water-based architectural paint and coating products under the brands of “Resene” and “ZICERA” in Hong Kong, primarily through the promotion of these products to the designers, architectural firms and renovation contractors for interior and exterior renovation for residential and commercial premises by our dedicated sales team. We also started launching the brand “Resene” in the PRC from the beginning of 2016 through the e-commerce stores on JD.com. The production technology of these water-based paint and coating products is licensed from an Independent Third Party in New Zealand pursuant to the Exclusive Agency Agreement, further information on which is set forth in the section headed “Business – Our products” in this [REDACTED], which is a renowned environment-friendly paint and coating product manufacturer. “ZICERA” has been developed by us as our new brand of water-based paint and coating products and therefore it is not licensed from the said Independent Third Party pursuant to the Exclusive Agency Agreement.

In 2016, we have launched 12 new water-based paint and coating products and one non-paint wall cleaning products in Hong Kong and the PRC, and the revenue generated from the sales of these new products amounted to HK\$7.5 million. For the year ended 31 December 2016, the new water-based paint and coating products and the non-paint wall cleaning products contributed to approximately 99.3% and 0.7% of the revenue from all new products, respectively. We have plans to increase the production of water-based paint and coating products because of the industry trend and the consumers’ preference as well as the launch of restrictive regulations similar to those Recent Regulations. We have also established a task force on promoting our water-based paint and coating products to customers in the manufacturing wood coating market and furniture manufacturers in Southern China and Eastern China.

For the existing brands, our efforts are focused on promoting the environmental protection aspect of the existing paint and coating products of the Group. In this connection, we have launched promotional campaigns on the environmental protection and safety features of the its paint and coating products, such as waterborne liquid, chromate-free, powder, low-VOC and high-solids coating products. In January 2016, we held a number of conferences and meetings with its distributors on the new water-based paint and coating products.

### **Improved performance for the year ended 31 December 2016**

As a result of the above business initiatives and the improved operating environment, our revenue in 2016 was increased by 8.0% in terms of Hong Kong dollars as compared with the revenue in 2015. As most of our sales are conducted in RMB and the reporting currency in our accountants’ report is Hong Kong dollars, given the fact that the RMB has depreciated by 6.4% during the year ended 31 December 2016, the increase in our revenue in 2016 in terms of RMB, as compared with the revenue in 2015, was 13.0%. Our gross profit margin in 2016 was 37.1% which was remained at similar level as compared with the gross profit margin in 2015.

According to *Frost & Sullivan*, solvent-based paint and coating products continue to enjoy advantages in resistance, appearance, drying rate, cost, sensitivity to environmental conditions and market acceptance while water-based paint and coating products are more environmentally friendly, safer and would receive more favourable governmental support.

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*Frost & Sullivan* also considers that the use of solvent-based wood paint and coating represents the mainstream applications, accounting for over 90% of all wood coatings and 95% of the retailing wood coatings in the PRC and around 60% in Europe and North America in terms of sales volume. Despite the global trend of shifting from solvent-based paint and coating to water-based paint and coating, the output of solvent-based wood coating is still increasing in the PRC, Europe and North America.

Third, we have been producing and selling water-based wood coating products for over 10 years. Nonetheless, the sales of the products were insignificant and were much lower than the solvent-based wood coating products due to the market demand for such paint and coating products.

Based on the above, even though the market is trending towards water-based paint and coating products, our Directors believe that solvent-based paint and coating products will still have a substantial market share in the near future. The trend in moving towards water-based paint and coating products will nevertheless continue steadily and thus, we have implemented various initiatives during the year ended 31 December 2016 to steadily switch to production and sales of water-based and environmental friendly products and for the improvement of our business.

### SENSITIVITY AND BREAK-EVEN ANALYSES

#### Sensitivity analysis

We set forth below a sensitivity analysis on the fluctuations in our average selling prices, cost of sales and cost of raw materials which illustrates the hypothetical impact on our net profit before tax with 5%, 10% and 15% increase or decrease in the respective items. Due to a number of assumptions applied, the sensitivity analysis is for illustration purpose and the actual results may differ from the illustration below:

Change in net profit for change in the average selling price			
	+/-5%	+/-10%	+/-15%
	HK\$'000	HK\$'000	HK\$'000
Year ended 31 December 2014 . . . . .	± 56,565.3	± 113,130.5	± 169,695.8
Year ended 31 December 2015 . . . . .	± 43,399.9	± 86,799.8	± 130,199.6
Year ended 31 December 2016 . . . . .	± 46,872.5	± 93,745.0	± 140,617.5

Change in net profit for change in cost of sales			
	+/-5%	+/-10%	+/-15%
	HK\$'000	HK\$'000	HK\$'000
Year ended 31 December 2014 . . . . .	± 36,870.1	± 73,741.7	± 110,612.6
Year ended 31 December 2015 . . . . .	± 27,178.7	± 54,357.3	± 81,536.0
Year ended 31 December 2016 . . . . .	± 29,504.4	± 59,008.8	± 88,513.2

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Change in net profit for change in cost of raw materials			
	+/-5%	+/-10%	+/-15%
	HK\$'000	HK\$'000	HK\$'000
Year ended 31 December 2014 . . . . .	±33,274.5	±66,549.0	±99,823.5
Year ended 31 December 2015 . . . . .	±23,530.6	±47,061.1	±70,591.7
Year ended 31 December 2016 . . . . .	±25,280.6	±50,561.2	±75,841.8

### Breakeven analysis

The following sets forth a breakeven analysis which illustrates the extent of increases/decreases in the average selling prices or cost of sales or cost of raw materials that would result in breakeven in the amount of gross profit in the relevant year (excluding the expenses for [REDACTED]):

Year ended 31 December			
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
Decrease in the average selling price of our products/tonnes . . . . .	7.8	8.3	8.1
Increase in cost of sales . . . . .	393,771	323,948	346,751
Increase in cost of raw materials . . . . .	388,469	317,743	336,400

### LIQUIDITY AND CAPITAL RESOURCES

Our liquidity requirements are primarily attributable to our working capital needs for our production requirement and the expansion and upgrade of our production facilities. Our principal sources of liquidity are cash generated from our business operations, bank borrowings and amount provided by the Remaining Group prior to completion of the Spin-Off and the [REDACTED]. As of 31 December 2016, we had cash and bank balances of HK\$102.2 million.

As of 31 December 2016, our short-term interest bearing bank and other borrowings (being classified as our current liabilities) amounted to HK\$113.3 million. We owed to the Remaining Group an amount of HK\$19.9 million, but the Remaining Group owed us HK\$106.6 million, as of 31 December 2016. As of the same date, our current assets exceeded our current liabilities by HK\$486.2 million and our long-term interest-bearing borrowing was minimal.

Further information on our net current assets as of 31 December 2014 and 2015 and 2016 is set forth in the paragraphs under “Principal components of our current assets and current liabilities” below.

## FINANCIAL INFORMATION

The following sets forth our combined statements of cash flows during the Track Record Period:

	<b>Year ended 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash flows from operating activities . . . . .	5,343	23,956	16,095
Net cash flows from/(used in) investing activities. . . . .	(101,082)	22,592	137,003
Net cash flows from/ (used in)			
financing activities . . . . .	430	12,329	(109,384)
Net increase/(decrease) in cash and			
cash equivalents . . . . .	(95,309)	58,877	43,714
Cash and cash equivalents at			
beginning of year . . . . .	247,472	145,420	193,051
Effect of foreign exchange rate			
changes, net . . . . .	(6,743)	(11,246)	(17,225)
<b>Cash and cash equivalents as stated in</b>			
<b>    the combined statements of cash flows</b>	<b>145,420</b>	<b>193,051</b>	<b>219,540</b>

## FINANCIAL INFORMATION

### Cash flows from operating activities

The following sets forth further information on our cash flow from operating activities during the Track Record Period:

	Year ended 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax . . . . .	127,341	61,631	73,267
Adjustments for:			
Finance costs . . . . .	3,076	3,098	2,050
Bank interest income . . . . .	(3,858)	(5,163)	(2,402)
Depreciation . . . . .	13,767	17,630	18,174
Amortisation of prepaid land lease payments . . . . .	562	552	524
Recognition of deferred income . . . . .	(323)	(317)	(301)
Losses/(gains) on disposal of items of property, plant and equipment . . . . .	358	(27)	142
Write-off of items of property, plant and equipment . . . . .	225	155	608
Fair value losses/(gains), net:			
Structured deposits . . . . .	(5,674)	(4,926)	(3,209)
Derivative instrument – transaction not qualify as hedge . . . . .	1	(6)	(10)
Write-down/(write-back) of inventories to net realisable value . . . . .	2,112	(2,074)	(5,731)
Provision for impairment of trade receivables . . . . .	1,348	5,465	11,694
Equity-settled share based expense . . . . .	917	–	–
Net pension benefit expenses . . . . .	163	186	145
	140,015	76,204	94,951
Decrease/(increase) in inventories . . . . .	12,242	15,883	(3,693)
Decrease/(increase) in trade and bills Receivables . . . . .	(132,106)	45,573	(151,322)
Increase in prepayments, deposits and other receivables . . . . .	(7,428)	(1,126)	(6,771)
Increase/(decrease) in trade and bills payables . . . . .	23,796	(71,732)	91,145
Increase/(decrease) in other payables and accruals . . . . .	(2,501)	(15,238)	11,753
Exchange realignment . . . . .	3,747	(3,889)	(1,415)
Cash generated from operations . . . . .	37,765	45,675	34,648
Interest paid . . . . .	(3,041)	(3,100)	(2,135)
Overseas taxes paid . . . . .	(29,381)	(18,619)	(16,418)
<b>Net cash flows from operating activities</b>	<b>5,343</b>	<b>23,956</b>	<b>16,095</b>

## FINANCIAL INFORMATION

During the Track Record Period, we derived our cash inflow from our operating activities principally from the net increase in inventories, trade and bills receivables, and prepayments, deposits and other receivables. Our cash outflow from the operating activities was principally attributable to the net increase in trade and bills payables, other payables and accruals.

Net cash from operating activities amounted to HK\$5.3 million in 2014 as compared to HK\$24.0 million in 2015. Changes in cash flows from operating activities were due to (i) the net decrease in trade and bills receivables and (ii) the net decrease in trade and bills payables.

Net cash inflow from operating activities was decreased from of HK\$24.0 million for the year ended 31 December 2015 to HK\$16.1 million for the year ended 31 December 2016, due to (i) the net increase in trade and bills receivables and (ii) the net increase in trade and bills payables.

### Cash flows generated from/(used in) investing activities

The following sets forth further information on our cash flow used in investing activities during the Track Record Period:

	Year ended 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of items of property, plant and equipment . . . . .	(9,220)	(26,840)	(22,044)
Proceeds from disposal of items of property, plant and equipment. . . . .	311	209	512
Investments in structured deposits. . . . .	(655,504)	(408,816)	(231,709)
Proceeds from structured deposits. . . . .	621,659	452,683	286,393
Interest received . . . . .	3,858	5,163	2,395
Deposits paid for purchase of property, and plant and equipment . . . . .	(765)	(1,557)	(2,127)
Increase in restricted time deposits with original maturity of less than three months when acquired . . . . .	–	(11,935)	–
Decrease in restricted time deposits with original maturity of less than three months when acquired . . . . .	–	–	11,935
Decrease/(increase) in time deposits with original maturity of more than three months when acquired . . . . .	(64,010)	33,673	81,569
Decrease/(increase) in amounts due from the Remaining Group . . . . .	<u>2,589</u>	<u>(19,988)</u>	<u>10,079</u>
<b>Net cash flows from/(used in) in investing activities</b>	<u>(101,082)</u>	<u>22,592</u>	<u>137,003</u>

Cash inflows from our investing activities are primarily attributable to proceeds from disposal of structured deposits. The proceeds from disposal of structured deposits for the Track Record Period amounted to HK\$621.7 million, HK\$452.7 million and HK\$286.4 million, respectively.

## FINANCIAL INFORMATION

Our cash outflows from investing activities are primarily attributable to cash paid for purchases of items of property, plant and equipment, and investments in structured deposits and time deposits. Cash paid for purchases of items of property, plant and equipment, and investments in structured deposits and time deposits for the three years ended 31 December 2016 amounted to HK\$728.7 million, HK\$447.6 million and HK\$253.8 million, respectively. The decrease in cash paid for purchase of investments in structured deposits and time deposits from 2014 to 2015 was primarily due to the increase of amount due from the Remaining Group (HK\$91.1 million in 2014 less HK\$111.0 million in 2015). Cash paid for purchase of investments in structured deposits and time deposits decreased from HK\$420.8 million for the year ended 31 December 2015 to HK\$231.7 million for the year ended in 2016, primarily due to our need to maintain sufficient cash and cash equivalents for daily operation as the balance of trade and bills receivables increased substantially.

### *Cash flows generated from/(used in) financing activities*

The following sets forth further information on our cash flow generated from/(used in) financing activities during the Track Record Period:

	Year ended 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
New bank loans. . . . .	164,995	226,670	109,772
Repayment of bank loans . . . . .	(159,874)	(206,390)	(162,115)
Decrease in amounts due to the			
Remaining Group . . . . .	(4,475)	(7,763)	(56,861)
Capital element of finance			
lease rental payments . . . . .	(216)	(188)	(180)
<b>Net cash flows from/(used in) financing activities</b>	<u>430</u>	<u>12,329</u>	<u>(109,384)</u>

Our cash inflows from financing activities are primarily attributable to proceeds from new bank loans. The proceeds from bank loans for the three years ended 31 December 2016 amounted to HK\$165.0 million, HK\$226.7 million and HK\$109.8 million, respectively.

Our cash outflows from financing activities are primarily attributable to repayment of bank loans and the amount due to the Remaining Group. The repayment of bank loans and the amount due to the Remaining Group for the three years ended 31 December 2016 amounted to HK\$164.3 million, HK\$214.2 million and HK\$219.0 million, respectively.

### WORKING CAPITAL

We believe that we will be able to settle our commitments and repay our borrowings by using funds from a combination of sources including internally generated cash flows, primarily being cash generated through payment from our customers, and the net proceeds from the [REDACTED].



## **FINANCIAL INFORMATION**

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As of 31 December 2014, 2015 and 2016, our aggregate cash and cash equivalent amounted to HK\$145.4 million, HK\$193.1 million and HK\$219.5 million, respectively. The increase in our cash and cash equivalents as of 31 December 2016 was primarily due to the relative high level of trade bill receivables in the middle of the calendar year and the repayment of short-term bank borrowings and the amount due to the Remaining Group during the period.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any undue difficulty in obtaining banking facilities or withdrawal of banking facilities from banks or any default in payment of bank loans or other borrowings or breach of any covenants.

Taking into account the estimated amount of net proceeds from the [REDACTED], the available banking facilities and the cash flows generated from our operating activities, our Directors are of the opinion that we have sufficient working capital for our present requirement for at least the next 12 months from the date in this [REDACTED].

## FINANCIAL INFORMATION

### PRINCIPAL COMPONENTS OF OUR CURRENT ASSETS AND CURRENT LIABILITIES

Our net current asset represents the differences between our current assets and our current liabilities. As of 31 December 2014, 2015 and 2016, we had net current asset of HK\$452.7 million, HK\$468.3 million and HK\$486.2 million, respectively. The following sets forth the components of our current assets and current liabilities as of 31 December 2014, 2015, 2016 and 30 April 2017:

	As of 31 December			As of 30 April
	2014	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)
<b>CURRENT ASSETS</b>				
Inventories . . . . .	71,683	54,886	60,955	74,325
Trade and bills receivables . . . . .	392,882	325,788	445,513	357,961
Prepayments, deposits and other receivables . . . . .	40,904	40,374	44,702	62,412
Due from the Remaining Group . . . . .	91,058	111,046	106,555	107,726
Structured deposits . . . . .	203,037	157,224	98,666	62,235
Restricted cash . . . . .	74,958	71,610	—	—
Cash and cash equivalents . . . . .	185,704	214,945	219,540	155,131
<b>Total current assets</b>	<b>1,060,226</b>	<b>975,873</b>	<b>975,931</b>	<b>819,790</b>
<b>CURRENT LIABILITIES</b>				
Trade and bills payables . . . . .	196,110	115,790	199,635	105,149
Other payables and accruals . . . . .	155,490	134,939	139,797	110,197
Derivative financial instrument . . . . .	16	10	—	—
Due to the Remaining Group . . . . .	96,020	77,735	19,853	29,106
Interest-bearing bank and other borrowings . . . . .	145,230	165,349	113,344	114,738
Tax payable . . . . .	14,661	13,751	17,088	10,835
<b>Total current liabilities</b>	<b>607,527</b>	<b>507,574</b>	<b>489,717</b>	<b>370,025</b>
<b>NET CURRENT ASSETS</b>	<b>452,699</b>	<b>468,299</b>	<b>486,214</b>	<b>449,765</b>

Based on our unaudited combined financial statements as of 30 April 2017, our net current assets slightly decreased by 8.1% to HK\$449.8 million from HK\$486.2 million as of 31 December 2016. The slight decreased was primarily due to the seasonal impact on our performance during the first quarter of each calendar year.

## FINANCIAL INFORMATION

### Inventories

Our inventory consists of raw materials and spare parts, work-in-progress and finished goods. The following sets forth an analysis of the balance of our inventories as of 31 December 2014, 2015 and 2016:

	As of 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
Raw materials and spare parts . . . . .	44,640	36,535	40,805
Work-in-progress . . . . .	6,278	5,248	5,363
Finished goods . . . . .	20,765	13,103	14,787
<b>Total</b>	<b>71,683</b>	<b>54,886</b>	<b>60,955</b>

As of 31 December 2014, 2015 and 2016, we devoted our efforts to reduce the amount of inventory of finished goods in order to reduce the amount of working capital required for the inventory as well as the obsolete level of inventory. The balance of our inventory significantly decreased by 23.4% to HK\$54.9 million from HK\$71.7 million as of 31 December 2015. The balance of our inventory increased by 11.1% to HK\$61.0 million from HK\$54.9 million as of 31 December 2016. The decreases in the closing stock of finished goods during the Track Record Period was due to our business strategies to reduce the closing stock so as to release the working capital deployed for the purpose.

Our inventory turnover days were 39 days, 42 days and 36 days during the Track Record Period, respectively. The inventory turnover days are based on the average of the beginning and ending balance of inventories of a given year divided by the cost of sales for that corresponding year and multiplied by 365 days for the Track Record Period. As of the Latest Practicable Date, we consumed 89.6% of our inventory balance as of 31 December 2016.

### Trade and bills receivables

The following sets forth our trade and bills receivables as of 31 December 2014, 2015 and 2016:

	As of 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
Trade and bills receivables . . . . .	406,363	344,125	473,796
Impairment . . . . .	(13,481)	(18,337)	(28,283)
<b>Total</b>	<b>392,882</b>	<b>325,788</b>	<b>445,513</b>

## FINANCIAL INFORMATION

We generally offer our customers a credit period ranging from 30 days to 90 days from the end of the months during which the invoice was issued. We may require upfront payment before delivery for certain of our customers and new customers. Payments are settled by bank acceptance bills, bank transfer or letters of credit. We make assessment on the credibility of our customers and their purchase volume to decide the credit period to be offered. Our trade receivable turnover days were 107 days, 151 days and 150 days during the Track Record Period, respectively. The trade receivable turnover days are based on the average of the beginning and the ending balance of trade receivables of a given year divided by revenue for that corresponding year multiplied by 365 days.

Our trade receivable turnover days in 2014 were 107 days. During the year ended 31 December 2014, we expanded the geographical reach of our distribution network by appointing new distributors. As such, we provided them with a credit period of up to 90 days to these distributors.

Starting from the beginning of 2015, because of the slowdown in the real estate market in the PRC and the sluggish demand for solvent-based paint and coating products following the Tianjin explosions, most of the distributors in the PRC requested for an extension of the credit period even though it was stated in the relevant annual distribution agreements that the credit period could not be more than 90 days. Our Directors also noticed that our competitors had also granted extended credit period to their own distributors. After performing detailed assessments, we have extended the credit period for most of the distributors in the PRC and Hong Kong to 150 days in order to remain competitive and to demonstrate to distributors that we are committed to the industry and are prepared to share part of the financial burden in an unfavourable industry environment. The extension of the credit period affected the trade receivable turnover days during the two years ended 31 December 2016. Based on the management information, our Directors believe that the trade receivable turnover days after the Track Record Period will decrease.

In addition to the approval of the extension of the credit period, our Directors have taken a prudent approach and have made provision for doubtful debts. During the Track Record Period, the amount of provision for doubtful debts was HK\$1.3 million, HK\$5.5 million and HK\$11.7 million, respectively.

The following sets forth the ageing analysis of our trade and bills receivables that are not impaired as of 31 December 2014, 2015 and 2016:

	As of 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
Within three months . . . . .	326,278	230,267	406,710
Over three months and within six months . . . . .	52,805	39,744	22,724
Over six months . . . . .	13,799	55,777	16,079
<b>Total</b>	<b>392,882</b>	<b>325,788</b>	<b>445,513</b>

## FINANCIAL INFORMATION

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

	As of 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
Carrying amount at the beginning			
of year . . . . .	12,439	13,481	18,337
Amount written off as uncollectible . . . . .	–	–	(301)
Impairment losses recognised . . . . .	1,348	5,465	11,694
Exchange realignment . . . . .	(306)	(609)	(1,447)
Carrying amount at the end			
of year . . . . .	<u>13,481</u>	<u>18,337</u>	<u>28,283</u>

As of 31 December 2014, 2015 and 2016, as part of the above provision for impairment of trade and bills receivables, there was provision for individually impaired trade receivables of HK\$13.5 million, HK\$18.3 million and HK\$28.3 million with an aggregate carrying amount before provision of HK\$18.2 million, HK\$32.4 million and HK\$35.6 million, respectively. Our Directors review the trade receivables on a timely basis, to ensure that impairment losses would be recognised once necessary. Impairment losses recognised during the Track Record Period were HK\$1.3 million, HK\$5.5 million and HK\$11.7 million, respectively. The significant increase in impairment losses during the two years ended 31 December 2016 was mainly due to the increase in long aged trade receivables in the relevant years. Up to the Latest Practicable Date, an amount of HK\$251.0 million representing 56.3% of the carrying amount of the trade and bills receivables as of 31 December 2016 has been settled subsequent to the end of the Track Record Period.

The individually impaired trade receivables are related to customers that were in financial difficulties or were in default in payment and only a portion of the receivables is expected to be recovered.

The amount of revenue generated from the sales to customers who were in financial difficulties, aged for more than one year, or defaulted in payments was HK\$21.4 million, HK\$15.2 million and HK\$10.7 million during the Track Record Period, respectively. As of the Latest Practicable Date, our Directors were not aware of any major customers who were in default of payments in material aspect.

The ageing analysis of the trade and bills receivables that are not individually nor collectively considered to be impaired is as follows:

	As of 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
Neither past due nor impaired . . . . .	230,348	179,798	296,551
Within three months past due . . . . .	117,712	69,015	104,899
Over three months and within six			
months past due . . . . .	30,382	30,423	22,658
Over six months . . . . .	<u>9,684</u>	<u>32,442</u>	<u>14,075</u>
<b>Total</b>	<u><b>388,126</b></u>	<u><b>311,678</b></u>	<u><b>438,183</b></u>

## FINANCIAL INFORMATION

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with us. Based on past experience, our Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

As of the Latest Practicable Date, an aggregate amount of HK\$251.0 million, or 56.3%, of our total trade and bills receivables as of 31 December 2016 had been collected.

### Prepayments, deposits and other receivables

The following table sets forth details of our prepayments, deposits and other receivables as of 31 December 2014, 2015 and 2016:

	As of 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
Prepayments . . . . .	4,064	2,625	9,179
Deposits and other receivables . . . . .	36,840	37,749	35,523
<b>Total</b>	<b>40,904</b>	<b>40,374</b>	<b>44,702</b>

The constant increases in our deposits and other receivables during the Track Record Period were due to the prepayment of PRC value-added tax which would be offset by receiving the suppliers' invoices.

### Structured deposits

During the Track Record Period, we invested in principal protected and guaranteed structured products issued by banks in the PRC. These deposits have a maturity date up to 90 days. We normally invest one-third of our cash and bank balances to structured deposits in order to receive additional investment return which was categorised as our fair value gain and part of the income arising from our ordinary course of business. During the Track Record Period, we recorded HK\$5.7 million, HK\$4.9 million and HK\$3.2 million as the fair value gain on the structured deposits.

Structured deposits were stated at fair value and represented several wealth management products issued by banks. As of 31 December 2014, 2015 and 2016, the aggregate principal of deposits was fully guaranteed by the banks while the rates of return were not guaranteed. We use the structured deposits primarily to enhance the return on investment.

Our Directors confirm that our treasury policy is to invest in capital protected investment products with guaranteed return rates throughout the live of the products. We will also maintain not less than HK\$100 million cash or cash equivalent from time to time for our general working and daily business operations purposes.

## FINANCIAL INFORMATION

### Cash and cash equivalents and restricted cash

As of 31 December 2014, 2015 and 2016, the balance of our cash and cash equivalents amounted to HK\$185.7 million, HK\$214.9 million and HK\$219.5 million. We normally maintain cash and cash equivalents of around HK\$200.0 million for our general working capital purpose. Our Directors confirm that balance of our cash and cash equivalents was maintained at a prudent level for the purpose of meeting the requirements for our daily business operations. As of 31 December 2016, the balance of our cash and cash equivalents was HK\$219.5 million which was higher than the previous year-end balance because of the reduction in the investments in structured deposits.

### Trade and bills payables

Our trade and bills payables primarily consist of the amount due to our suppliers for our purchase of raw materials, which is unsecured and non-interest bearing. As of 31 December 2014, 2015 and 2016, our trade and bills payables were HK\$196.1 million, HK\$115.8 million and HK\$199.6 million, respectively. The changes in the balance of trade and bills payable as of 31 December 2014, 2015 and 2016 were generally consistent with the changes in our cost of raw materials.

The payment arrangements with our suppliers are either cash payment upon delivery or we are granted a credit period up to 60 days from the end of the month during which the invoice was received. The following sets forth an ageing analysis of trade and bills payables as of 31 December 2014, 2015 and 2016:

	As of 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
Within three months . . . . .	196,101	114,855	198,074
Over three months and within six months . . . . .	1	924	1,549
Over six months . . . . .	8	11	12
<b>Total</b>	<b>196,110</b>	<b>115,790</b>	<b>199,635</b>

The trade and bills payable are unsecured, non-interest-bearing and are normally settled within two months. As of 31 December 2014, bills payable with an aggregate carrying amount of HK\$0.9 million were secured by certain investment properties owned by the Remaining Group. Such bank facilities will be re-granted to us by the relevant banks in Hong Kong upon completion of the Spin-Off and the [REDACTED], further information on which is set forth in the paragraphs under “Indebtedness” below.

## FINANCIAL INFORMATION

Our trade payable turnover days were 92 days, 105 days and 98 days during the Track Record Period respectively. The trade payable turnover days are based on the average of the beginning and the ending balance of trade payables of a given year divided by the cost of sales for that corresponding year multiplied by 365 days. Our trade payable turnover days remained relatively stable during the Track Record Period with no material amount of overdue payments to our suppliers.

As of the Latest Practicable Date, an aggregate amount of HK\$174.3 million, or 87.3%, of our trade and bills payable as of 31 December 2016 had been settled.

### Other payables and accruals

Other payables and accruals primarily consisted of the expenses and the PRC VAT payable by us as part of our ordinary course of business. The following sets forth further information on our other payables and accruals as of 31 December 2014, 2015 and 2016:

	As of 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
Deferred income . . . . .	333	318	297
Other payables . . . . .	29,979	30,031	43,564
Accruals and receipts in advance . . . . .	125,178	104,590	95,936
<b>Total</b>	<b>155,490</b>	<b>134,939</b>	<b>139,797</b>

The amount of other payables and accruals decreased during the Track Record Period because of the decrease in the amount of sales rebates to customers as a result of the decreased amount of revenue in the year.



## FINANCIAL INFORMATION

### Interest-bearing bank and other borrowings

The following sets forth our interest-bearing bank and other borrowings as of 31 December 2014, 2015 and 2016:

	As of 31 December								
	2014			2015			2016		
	Effective interest rate (%)	Maturity	HK\$'000	Effective interest rate (%)	Maturity	HK\$'000	Effective interest rate (%)	Maturity	HK\$'000
<b>Current</b>									
Finance lease payables	0.0-1.6	2015	188	–	2016	10	2.5	2017	364
Bank loans									
– secured	1.4-3.4	2015	136,000	1.4-3.1	2016	162,000	1.4-2.4	2017	109,000
Import loans									
– secured	1.3-1.9	2015	9,042	0.4-2.0	2016	3,339	1.5-2.5	2017	3,980
			<u>145,230</u>			<u>165,349</u>			<u>113,344</u>
<b>Non-current</b>									
Finance lease payables	0.0-1.6	2016–2018	22	–	2017–2018	12	2.5	2018–2021	1,388
<b>Total</b>			<u><u>145,252</u></u>			<u><u>165,361</u></u>			<u><u>114,732</u></u>

### As of 31 December

	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
Analysed into:			
Bank loans repayable:			
Within one year or on demand	<u>145,042</u>	<u>165,339</u>	<u>112,980</u>
Analysed into:			
Other borrowings repayable:			
Within one year	188	10	364
In the second year	10	10	374
In the third to fifth years, inclusive	<u>12</u>	<u>2</u>	<u>1,014</u>
	<u>210</u>	<u>22</u>	<u>1,752</u>
<b>Total</b>	<u><u>145,252</u></u>	<u><u>165,361</u></u>	<u><u>114,732</u></u>

## FINANCIAL INFORMATION

Our secured bank borrowings are secured by (a) certain of our land and buildings and (b) certain investment properties and land and buildings of the Remaining Group. Such bank facilities will be re-granted to us by the relevant banks in Hong Kong upon completion of the Spin-Off and the [REDACTED], further information on which is set forth in the paragraphs under “Indebtedness” below.

### Amounts due to and due from the Remaining Group

As of 31 December 2014, 2015 and 2016, the amounts were unsecured, interest-free and had no fixed terms of repayment. These amounts were non-trade in nature.

The following sets forth further information on and the movements of the amounts due from related companies as of 31 December 2014, 2015 and 2016:

	As of 31 December		
	2014	2015	2016
Due from related companies	HK\$'000	HK\$'000	HK\$'000
Wise Crest Enterprises Limited. . . . .	133	—	—
CNT (Singapore) Limited . . . . .	25	30	—
CNT (Malaysia) Limited . . . . .	25	30	—
The China Paint Manufacturing			
Company (1946) Limited . . . . .	25	31	—
CNT (1932) Limited . . . . .	37	42	—
CNT Iron And Steel Limited. . . . .	42,975	42,201	—
Hainuowei Special Coating (Xinfeng) Company Limited . . . .	47,838	68,712	100,970
深圳北海裕聯投資諮詢公司. . . . .	—	—	5,585
<b>Total</b>	<b>91,058</b>	<b>111,046</b>	<b>106,555</b>

Prior to the Spin-Off and the [REDACTED], we declared and paid a special interim dividend of HK\$180 million to members of the Remaining Group, part of which has been repaid to us for the settlement of the above amount. Before the [REDACTED], the above amount will be fully settled.

## FINANCIAL INFORMATION

The following sets forth further information on and the movement of amounts due to related companies as of 31 December 2014, 2015 and 2016:

Due to related companies	As of 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
Conley Investment Limited . . . . .	6,659	6,659	6,659
CNT Group Limited . . . . .	82,103	61,791	2,128
AVANZAR Media Limited . . . . .	–	–	3,351
Fan Ball Development Limited . . . . .	4,708	7,715	7,715
Arran Investment Company Limited . . . . .	2,550	1,570	–
<b>Total</b>	<b>96,020</b>	<b>77,735</b>	<b>19,853</b>

Before the [REDACTED], the above amount has been fully settled.

### Tax payable

Tax payable as of 31 December 2014, 2015 and 2016 amounted to HK\$14.7 million, HK\$13.8 million and HK\$17.1 million, respectively. The amount of the tax payable consisted of PRC EIT payable by members of our Group in the PRC.

## PRINCIPAL COMPONENTS OF OUR NON-CURRENT ASSETS AND NON-CURRENT LIABILITIES

The following sets forth the principal components of our non-current assets and liabilities:

	As of 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment . . . . .	193,729	195,730	188,041
Prepaid land lease payments . . . . .	21,682	20,181	18,389
Unlisted club membership debenture . . . . .	300	300	300
Deposits for purchases of property, plant and equipment . . . . .	8,603	8,318	8,662
Net pension scheme assets . . . . .	2,853	2,178	2,372
Deferred tax assets . . . . .	9,083	7,854	7,470
<b>Total non-current assets</b>	<b>236,250</b>	<b>234,561</b>	<b>225,234</b>

## FINANCIAL INFORMATION

	As of 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings . . . . .	22	12	1,388
Deferred tax liabilities . . . . .	31,037	31,713	29,343
Deferred income . . . . .	3,265	2,813	2,346
<b>Total non-current liabilities</b>	<b>34,324</b>	<b>34,538</b>	<b>33,077</b>

### Property, plant and machinery

Property, plant and equipment, other than construction in progress, are stated at cost 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.

The following sets forth an analysis of our property, plant and machinery as of 31 December 2014, 2015 and 2016:

	As of 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
Leasehold land and buildings . . . . .	120,582	142,073	125,132
Construction in progress . . . . .	38,336	–	15,800
Leasehold improvements . . . . .	1,075	4,280	3,057
Plant and machinery . . . . .	22,663	38,199	31,749
Furniture, fixtures and equipment . . . . .	7,118	6,911	7,056
Motor vehicles . . . . .	3,955	4,267	5,247
<b>Total</b>	<b>193,729</b>	<b>195,730</b>	<b>188,041</b>

### Net pension scheme assets

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

## **FINANCIAL INFORMATION**

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

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

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

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

	<b>As of 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Major categories of the fair value of the scheme assets:			
Equities, quoted in active markets . . . . .	7,364	5,992	6,250
Bonds . . . . .	1,788	1,478	1,629
Money market instruments . . . . .	563	606	186
	<u>9,715</u>	<u>8,076</u>	<u>8,065</u>
Less: Defined benefit obligations . . . . .	(6,862)	(5,898)	(5,693)
Balance as of the year end . . . . .	<u><u>2,853</u></u>	<u><u>2,178</u></u>	<u><u>2,372</u></u>

During the Track Record Period, the amounts charged to our combined statements of profit or loss, representing the pension cost, were HK\$0.2 million, HK\$0.2 million and HK\$0.1 million, respectively. We recorded the net pension scheme assets of HK\$2.9 million, HK\$2.2 million and HK\$2.4 million as of 31 December 2014, 2015 and 2016, respectively.

## **FINANCIAL INFORMATION**

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### **Deferred tax assets and deferred tax liabilities**

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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.

## FINANCIAL INFORMATION

The following sets forth the movements in the deferred tax assets and the deferred tax liabilities and the amount of deferred tax charged/credited to our combined statements of profit or loss:

Deferred tax assets	As of 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
Balance brought forward from the previous year end . . . . .	3,326	9,083	7,854
Depreciation in excess of related depreciation allowance . . . . .	458	37	364
Accruals . . . . .	5,441	(870)	(252)
Amount credited/(charged) to combined statements of profit or loss . . . . .	5,899	(833)	112
Exchange realignment . . . . .	(142)	(396)	(496)
Balance carried forward at the year end . . . . .	<u>9,083</u>	<u>7,854</u>	<u>7,470</u>
Deferred tax liabilities	As of 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
Balance brought forward from the previous year end . . . . .	24,761	31,037	31,713
Revaluation of properties . . . . .	—	—	—
Withholding tax . . . . .	6,276	676	(2,370)
Amount charged/(credited) to combined statements of profit or loss . . . . .	6,276	676	(2,370)
Balance carried forward at the year end . . . . .	<u>31,037</u>	<u>31,713</u>	<u>29,343</u>

## FINANCIAL INFORMATION

### OPERATING LEASE AND FINANCE LEASE

We lease certain motor vehicles and office equipment. These leases are classified as finance leases and have remaining lease terms ranging from one to five years. All leases are on a fixed repayment basis and no arrangements have been made for contingent rental payments. The following table sets forth our lease commitments under finance leases and their present values as of 31 December 2014, 2015 and 2016:

	Minimum lease payments as of 31 December			Present value of minimum lease payments as of 31 December		
	2014	2015	2016	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts payable:						
Within one year . . . . .	191	10	440	188	10	364
In the second year . . . . .	10	10	431	10	10	374
In the third to fifth years, inclusive . . . . .	12	2	1,075	12	2	1,014
Total minimum finance lease payments . . . . .	213	22	1,946	210	22	1,752
Future finance charges . . . . .	(3)	–	(194)			
Total net finance lease payables . . . . .	210	22	1,752			
Portion classified as current liabilities . . . . .	(188)	(10)	(364)			
Non-current portion . . . . .	22	12	1,388			

We had total future minimum lease payments under non-cancellable operating leases falling due as of 31 December 2014, 2015 and 2016 as follows:

	As of 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
Within one year . . . . .	2,827	1,955	1,291
In the second to fifth years, inclusive . . . . .	1,300	979	76
<b>Total</b>	<b>4,127</b>	<b>2,934</b>	<b>1,367</b>



## FINANCIAL INFORMATION

### CAPITAL EXPENDITURE AND CAPITAL COMMITMENTS

#### Capital expenditure

##### *Historical*

Our capital expenditure primarily relates to the purchase of plant and machinery. We have funded our historical capital expenditure through cash flows generated from operating activities, advances from the Remaining Group and bank borrowings. The following sets forth our capital expenditure for the Track Record Period:

	Year ended 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
Property, plant and equipment. . . . .	9,220	26,840	22,044
Deposit for purchase of property, plant and equipment . . . . .	765	1,557	2,127
<b>Total</b>	<b>9,985</b>	<b>28,397</b>	<b>24,171</b>

##### *Planned*

We currently expect that our capital expenditure for the two years ending 31 December 2017 and 2018 will be HK\$9.8 million and HK\$68.7 million, which are expected to be incurred principally on the purchase of additional production and processing plant and machinery in order to further expand our production capacity. We intend to fund our planned capital expenditures through a combination of the net proceeds from the [REDACTED] and the cash flows generated from our operating activities.

## FINANCIAL INFORMATION

### Capital commitments

In addition to the operating lease and finance lease commitments, we had the following capital commitments as of 31 December 2014, 2015 and 2016:

	As of 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
Contracted, but not provided for:			
Purchases of land use rights . . . . .	1,951	1,864	1,744
Construction and purchases of items of property, plant and equipment . . . . .	7,473	23,447	9,825
<b>Total</b>	<b>9,424</b>	<b>25,311</b>	<b>11,569</b>

### RELATED PARTY TRANSACTIONS

The following sets forth an analysis of our related party transactions for the Track Record Period:

	Year ended 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
Recurring:			
Rental expenses paid to the Remaining Group. . . . .	17,514	15,364	5,219
Non-recurring:			
Advertising expenses paid to the Remaining Group. . . . .	9,448	7,419	3,619

The transactions were conducted on terms and conditions mutually agreed between the relevant parties. Our Directors are of the opinion that those related party transactions were conducted in the ordinary course of our business.

## FINANCIAL INFORMATION

### INDEBTEDNESS

The following sets forth an analysis of our outstanding loans and borrowings as of 31 December 2014, 2015, 2016 and 30 April 2017:

	As of 31 December			As of 30 April 2017
	2014	2015	2016	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)
<b>Current</b>				
Financial lease payables . . . . .	188	10	364	376
Bank loans – Secured . . . . .	136,000	162,000	109,000	109,000
Import loans – Secured . . . . .	9,042	3,339	3,980	5,362
	145,230	165,349	113,344	114,738
<b>Non-current</b>				
Financial lease payables . . . . .	22	12	1,388	1,271
<b>Total</b>	<u>145,252</u>	<u>165,361</u>	<u>114,732</u>	<u>116,009</u>

Our bank loans and other borrowings during the Track Record Period were denominated in HK dollars, RMB and USD. As of 31 December 2014, 2015 and 2016 and 30 April 2017, the outstanding bank loans and other borrowings amounted to HK\$145.3 million, HK\$165.4 million, HK\$114.7 million and HK\$116.0 million, respectively.

Our unutilised banking facilities amounted to HK\$234.6 million as of 30 April 2017. Of these unutilised banking facilities, HK\$167.7 million were share with a company in the Remaining Group and HK\$17.2 million were committed and unrestricted. We did not encounter any difficulties in obtaining bank loans and other borrowings during the Track Record Period and up to the Latest Practicable Date.

Certain bank loans and other borrowings were secured by our leasehold land and buildings with an aggregate carrying amount of HK\$7.8 million (unaudited) as of 30 April 2017. Besides, certain of banking facilities were, among other terms, secured by corporate guarantees and/or other securities provided by the Remaining Group, which will be released upon [REDACTED].

The material covenants of certain of our borrowings include that (i) we must maintain the net tangible worth of China Paint (1932) in Hong Kong at not less than HK\$150 million on a consolidation basis and (ii) we must maintain the net tangible worth of China Paint Shenzhen in China at not less than RMB60 million. There are no additional material covenants relating to our outstanding bank loans and other borrowings. During the Track Record Period and up to the Latest Practicable Date, we had not defaulted on our repayments or other obligations in any material respect under our loan agreements. We do not expect any material changes in the financial market which would affect our ability to obtain external financing going forward. We confirm that we have not had any material defaults in the payment of trade and non-trade payables and bank loans and other loans.

## FINANCIAL INFORMATION

Increase in loans and borrowings for the year ended 31 December 2014 and 2015 was mainly due to the start of construction work for our Xinfeng Production Plant. As construction work was substantially completed, the Group repaid the loan for construction during the year ended 31 December 2016 as such the bank loans decreased accordingly.

The following sets forth the effective interest rates of bank loans and other borrowings as of 31 December 2014, 2015 and 2016 and 30 April 2017:

	As of 31 December			As of 30 April 2017
	2014	2015	2016	2017
	%	%	%	%
				(Unaudited)
Effective interest rates . . . . .	0.0 – 3.4	0.4 – 3.1	1.4 – 2.5	1.2 – 2.5

The following sets forth an analysis of our bank loans and other borrowings by maturity date as of 31 December 2014, 2015 and 2016 and 30 April 2017:

	As of 31 December			As of 30 April 2017
	2014	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)
Analysed into:				
Bank loans repayable:				
Within one year or on demand. . . . .	145,042	165,339	112,980	114,362
Analysed into:				
Other borrowings repayable:				
Within one year . . . . .	188	10	364	376
In the second year . . . . .	10	10	374	385
In the third to fifth years, inclusive . . . .	12	2	1,014	886
	210	22	1,752	1,647
<b>Total</b>	<b>145,252</b>	<b>165,361</b>	<b>114,732</b>	<b>116,009</b>

We expect to seek and to be able to obtain bank loans and other borrowings on terms similar to the bank loans and other borrowings that we secured and utilised during the Track Record Periods. We expect such cash generated from financing activities to be used primarily for general working capital, purchase of raw materials as well as repay the existing bank loans and other borrowings. The secured bank loans of HK\$109.0 million as of 30 April 2017 were acquired for the use of our working capital. In addition, we expect to generate cash from our operating activities to repay such bank loans and other borrowings.

We confirm that there had been no material change in our indebtedness position since 30 April 2017, being the date for determining our indebtedness, and that we do not have any plan to raise significant amount of external debt financing following the [REDACTED].

## **FINANCIAL INFORMATION**

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### **CONTINGENT LIABILITIES**

A subsidiary of our Company has provided corporate guarantees to banks to secure certain banking facilities granted to the Remaining Group, and the utilisation of such facilities amounted to HK\$34.9 million, HK\$28.4 million, HK\$42.4 million and HK\$23.0 million (unaudited) as of 31 December 2014, 2015, 2016 and 30 April 2017, respectively.

Except as disclosed in above and other than intra-group liabilities disclosed in the [REDACTED], we did not have any outstanding loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, debentures, mortgage, charges, finance leases, liabilities under acceptance credits (other than normal trade-related bills), hire purchase commitment, guarantees or other material contingent liabilities as of the Latest Practicable Date. As of the same date, we had not guaranteed the indebtedness or any Independent Third Parties.

### **OFF-BALANCE SHEET ARRANGEMENTS**

As of the Latest Practicable Date, we did not have any material off-balance sheet arrangements or contingencies except as disclosed in the paragraphs under “Capital commitments” and “Indebtedness” above.

## FINANCIAL INFORMATION

### KEY FINANCIAL RATIOS

	Notes	Year ended 31 December		
		2014	2015	2016
Revenue growth (%) . . . . .	(1)	2.8	(23.3)	8.0
Gross profit margin (%) . . . . .	(2)	34.8	37.4	37.1
Net profit growth (%) . . . . .	(3)	(12.6)	(56.8)	32.3
Net profit margin (%) . . . . .	(4)	8.6	4.8	5.9
Return on equity (%) . . . . .	(5)	14.9	6.3	8.2
Return on total assets (%) . . . . .	(6)	7.5	3.5	4.6
		As of 31 December		
		2014	2015	2016
Gearing ratio (%) . . . . .	(7)	22.6	25.1	17.2
Current ratio (times) . . . . .	(8)	1.7	1.9	2.0
Quick ratio (times) . . . . .	(9)	1.6	1.8	1.9

*Notes:*

- (1) Revenue growth is calculated based on the difference in our revenue of each reporting year from our revenue of the previous reporting year divided by our revenue of previous year and multiplied by 100%.
- (2) Gross profit margin is calculated based on the gross profit for each reporting year divided by total revenue for each reporting year and multiplied by 100%.
- (3) Net profit growth is calculated based on the difference in our net profit of each reporting year from the net profit of the previous reporting year divided by the profit of previous year and multiplied by 100%.
- (4) Net profit margin is calculated based on the net profit for each reporting year divided by the total revenue for each reporting year and multiplied by 100%.
- (5) Return on equity is calculated based on our net profit for each reporting year divided by equity attributable to our Shareholders as of the end of each reporting year and multiplied by 100%.
- (6) Return on total assets is calculated based on our net profit for each reporting year divided by total assets as of the end of each reporting year and multiplied by 100%.
- (7) Gearing ratio is calculated based on our bank borrowings and other borrowings divided by equity attributable to owners of our Company less leasehold land and building revaluation reserve as of the end of each reporting year and multiplied by 100%.
- (8) Current ratio is calculated based on total current assets divided by the total current liabilities as of the end of each reporting year.

## **FINANCIAL INFORMATION**

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- (9) Quick ratio is calculated based on our total current assets excluding inventories divided by the total current liabilities as of the end of each reporting year.
- (10) Calculation of return on equity and return on total assets is on a full year basis.

Further information on our revenue growth, net profit growth, gross profit margin, net profit margin during the Track Record Period is set forth in the paragraphs under “Our operating results” above.

### **Return on equity**

Our return on equity for the Track Record Period was 14.9%, 6.3% and 8.2%. The decrease in the return on equity in 2015 was due to the decrease in net profit by 56.8%. In 2016, our profit experienced a growth of 32.3%, and this resulted in a substantial improvement in the return on equity.

### **Return on total assets**

The return on total assets during the Track Record Period was 7.5%, 3.5% and 4.6%, respectively. The decrease in the return on the total assets in 2015 was primarily due to decrease in our net profit after tax by 56.8%. In 2016, our profit had a growth of 32.3%, therefore there is a slight increase in the return on total assets..

### **Gearing ratio**

There was a modest increase in the gearing ratio as of 31 December 2015, as compared with that as of 31 December 2014. The gearing ratio as of 31 December 2016 significantly decreased to 17.2% because of the net repayment of bank loans in the aggregate amount of HK\$52.3 million.

### **Current ratio**

As of 31 December 2014, 2015 and 2016, the current ratio was 1.7, 1.9 and 2.0, respectively. The continuous increase was due to the overall increase in our net current asset during the Track Record Period.

### **Quick ratio**

As of 31 December 2014, 2015 and 2016, the quick ratio was 1.6, 1.8 and 1.9, respectively. The continuous increase was due to the overall increase in our cash and cash equivalents and decrease in our total current liabilities, during the Track Record Period.

## **FINANCIAL INFORMATION**

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### **MARKET RISKS**

Our principal financial instruments comprise interest-bearing bank and other borrowings and cash and cash equivalents. The main purpose of these financial instruments is to finance our operations. The Group has various other financial assets and liabilities, such as structured deposits, pledged deposits, restricted cash, trade and bills receivables, deposits and other receivables, available-for-sale investments, an amount due to an associate, trade and bills payables, other payables and a derivative financial instrument, which arise directly from our operations.

We also enter into derivative transactions. The purpose is to manage the interest rate risk arising from our operations and our source of finance.

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

#### **Interest rate risk**

We are 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. We are therefore exposed to interest rate risk. Our policy is to obtain the most favourable interest rates available.



## FINANCIAL INFORMATION

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of our profit before tax (through the impact on deposits with banks and floating rate borrowings after taking into account the effect of the interest rate swap). There is no impact on our equity, except on the retained profits.

	<u>Increase/ (decrease) in basis points</u>	<u>Increase/ (decrease) in profit before tax HK\$'000</u>
<b>31 December 2014</b>		
HK\$ .....	50	(594)
RMB .....	50	487
HK\$ .....	(50)	594
RMB .....	(50)	(487)
	<u>                    </u>	<u>                    </u>
<b>31 December 2015</b>		
HK\$ .....	50	(681)
RMB .....	50	514
HK\$ .....	(50)	681
RMB .....	(50)	(514)
	<u>                    </u>	<u>                    </u>
<b>31 December 2016</b>		
HK\$ .....	50	(460)
RMB .....	50	337
HK\$ .....	(50)	460
RMB .....	(50)	(337)
	<u>                    </u>	<u>                    </u>

## FINANCIAL INFORMATION

### Foreign currency risk

We have transactional currency exposures. Those exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Our main operating subsidiaries are located in Hong Kong and the PRC and our sales and purchases were mainly conducted in HK\$ and RMB. We also have significant investments in the PRC and our statement of financial position, with a portion of our bank loans denominated in RMB included, can be affected by movements in the exchange rate between HK\$ and RMB.

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

	Increase/ (decrease) in RMB rate <hr/> %	Increase/ (decrease) in profit before tax <hr/> HK\$'000
<b>31 December 2014</b>		
If HK\$ weakens against RMB . . . . .	5	(3,703)
If HK\$ strengthens against RMB . . . . .	(5)	3,703
	<hr/> <hr/>	<hr/> <hr/>
<b>31 December 2015</b>		
If HK\$ weakens against RMB . . . . .	5	(3,249)
If HK\$ strengthens against RMB . . . . .	(5)	3,249
	<hr/> <hr/>	<hr/> <hr/>
<b>31 December 2016</b>		
If HK\$ weakens against RMB . . . . .	5	873
If HK\$ strengthens against RMB . . . . .	(5)	(873)
	<hr/> <hr/>	<hr/> <hr/>

### Credit risk

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

## **FINANCIAL INFORMATION**

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The credit risk of our other financial assets, which comprise cash and cash equivalents, pledged deposits, restricted cash, structured deposits, amounts due from the Remaining Group and deposits and other receivables, arise from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

### **Limitations of sensitivity analysis**

While we consider that sensitivity analysis provides us with a valid estimation of financial risk exposure, we recognise that there are certain limitations in its use. Our sensitivity analysis is an estimate based on a fixed point in the past. Nearly all of our assets and liabilities are subject to financial risk from fluctuating interest rates and foreign exchange rates. These fluctuations cannot be foreseen and could vary suddenly. The quantitative risk measures provided by the sensitivity analysis are a snapshot, delineating the potential losses to investments under a particular set of assumptions and parameters, which, though reasonably possible, may differ considerably from actual losses we may experience in the future.

### **Liquidity risk**

Our objective is to maintain a balance between continuity of funding and flexibility through the use of bank borrowings. Our policy is to regularly monitor the current and expected liquidity requirements, to ensure that we maintain sufficient reserves of cash and available banking facilities to meet our liquidity requirements in the short and long terms.

The maturity profile of our financial liabilities as of 31 December 2014, 2015 and 2016, based on the contractual and undiscounted payments, is as follows:

## FINANCIAL INFORMATION

	On demand or no fixed terms <i>HK\$'000</i>	Less than one year <i>HK\$'000</i>	One to five years <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>31 December 2014</b>				
Due to the Remaining Group. . . . .	96,020	–	–	96,020
Trade and bills payables . . . . .	–	196,110	–	196,110
Financial liabilities included in other payables and accruals. . . . .	–	51,231	–	51,231
Derivative financial instrument. . . . .	–	16	–	16
Interest-bearing bank and other borrowings . . . . .	–	145,187	–	145,187
Finance lease payables . . . . .	–	191	22	213
Guarantees given to banks in connection with facilities granted to the Remaining Group . . . . .	34,947	–	–	34,947
	<u>130,967</u>	<u>392,735</u>	<u>22</u>	<u>523,724</u>
<b>31 December 2015</b>				
Due to the Remaining Group. . . . .	77,735	–	–	77,735
Trade and bills payables . . . . .	–	115,790	–	115,790
Financial liabilities included in other payables and accruals. . . . .	–	45,227	–	45,227
Derivative financial instrument. . . . .	–	10	–	10
Interest-bearing bank and other borrowings . . . . .	–	165,424	–	165,424
Finance lease payables . . . . .	–	10	12	22
Guarantees given to banks in connection with facilities granted to the Remaining Group . . . . .	28,405	–	–	28,405
	<u>106,140</u>	<u>326,461</u>	<u>12</u>	<u>432,613</u>
<b>31 December 2016</b>				
Due to the Remaining Group. . . . .	19,853	–	–	19,853
Trade and bills payables . . . . .	–	199,635	–	199,635
Financial liabilities included in other payables and accruals. . . . .	–	46,914	–	46,914
Interest-bearing bank and other borrowings . . . . .	–	112,980	–	112,980
Finance lease payables . . . . .	–	440	1,506	1,946
Guarantees given to banks in connection with facilities granted to the Remaining Group . . . . .	42,402	–	–	42,402
	<u>62,255</u>	<u>359,969</u>	<u>1,506</u>	<u>423,730</u>

## **FINANCIAL INFORMATION**

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### **Capital management**

The primary objectives of our capital management are to safeguard our ability to continue as a going concern and to maintain healthy capital ratios in order to support our business and maximise our Shareholders' value.

We manage our capital structure and make adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, we 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 Track Record Period.

We monitor capital using a gearing ratio, which is bank and other borrowings divided by the adjusted capital, being equity attributable to owners of the parent less leasehold land and building revaluation reserve. The gearing ratio as of 31 December 2014, 2015 and 2016 is 22.6%, 25.1% and 17.2%, respectively.

### **[REDACTED] EXPENSES**

[REDACTED] expenses directly attributable to issuing new Shares are recognised in equity, while other [REDACTED] expenses are recognised as administrative expenses.

Assuming that the [REDACTED] is not exercised, the total amount of expenses incurred for the [REDACTED] is estimated to be HK\$[REDACTED] million (based on the mid-point of the indicative range of the [REDACTED] of HK\$[REDACTED]). We incurred and charged to our combined statements of profit or loss a total of HK\$[REDACTED] million for the [REDACTED] during the year ended 31 December 2016. We expect that a total amount of HK\$6.9 million will be charged to our combined statements of profit or loss for the year ending 31 December 2017. The remaining balance of HK\$[REDACTED] million accounted for as a deduction from equity after the [REDACTED] for the year ending 31 December 2017.

### **DIVIDENDS**

We did not declare and pay any dividend during the Track Record Period and hence, there was no dividend pay-out ratio. Prior to the Spin-Off and the [REDACTED], we declared and paid a special interim dividend of HK\$180 million. After completion of the [REDACTED] and the Capitalisation Issue, our Shareholders will be entitled to receive dividends declared by our Company.

## **FINANCIAL INFORMATION**

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Any amount of dividends to be declared and paid by our Company will be at the discretion of our Directors taking into consideration our future operations and earnings, our business development, capital requirements and surplus, general financial conditions, contractual restrictions and such other factors as our Directors consider appropriate. We will not have any dividend policy or fixed dividend pay-out ratio following the [REDACTED]. Any declaration and payment as well as the amount of dividends will be subject to the Articles and the Cayman Companies Law. Any declaration of final dividends will also require the approval of our Shareholders in general meeting. No dividend shall be declared or paid except out of our distributable profit and lawfully available for distribution under the Cayman Companies Law.

### **DISTRIBUTABLE RESERVE**

Our reserves available for distribution to Shareholders consist of share premium and retained earnings. Under the Cayman Companies Law and subject to compliance with the Articles, the share premium account may be applied by our Company for paying distributions of dividends to our Shareholders if immediately following the date on which the distribution or dividend is proposed to be paid, we will be able to pay off our debts as they fall due in the ordinary course of business. As of 31 December 2016, our Company had no reserve which is available for distribution to our Shareholders.

### **UNAUDITED PRO FORMA NET TANGIBLE ASSETS**

The following unaudited pro forma statement of net tangible assets prepared in accordance with paragraph 29 of Chapter 4 of the Listing Rules is set forth to illustrate the effect of the [REDACTED] on our net tangible assets as of 31 December 2016 as if it had taken place on 31 December 2016. The unaudited pro forma statement of net tangible assets has been prepared for illustration purpose only and, because of its hypothetical nature, it may not give a true picture of our net tangible assets as of 31 December 2016 or any future date following completion of the [REDACTED]. It is based on our audited net assets as of 31 December 2016 as set forth in the Accountants' Report, the text of which is set forth in Appendix I to this [REDACTED] and adjusted as described below. The unaudited pro forma statement of net tangible assets does not form part of the Accountants' Report, the text of which is set forth in Appendix I to this [REDACTED].

## FINANCIAL INFORMATION

	Audited combined net tangible assets of attributable to owners of our Company as of 31 December 2016 HK\$'000 (Note 1)	Estimated net proceeds from the [REDACTED] HK\$'000 (Note 2)	Unaudited pro forma adjusted combined net tangible assets of attributable to owners of our Company HK\$'000	Unaudited pro forma adjusted combined net tangible assets of attributable to owners of our Company for each Share HK\$ (Note 3 and 4)
Based on an [REDACTED] of HK\$[REDACTED] for each Share	<u>678,371</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>
Based on an [REDACTED] of HK\$[REDACTED] for each Share	<u>678,371</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>

*Notes:*

- (1) The amount is calculated based on audited combined net assets of attributable to owners of our Company as of 31 December 2016 amounting to HK\$678,371,000 extracted from the accountants' report, the text of which is set forth in Appendix I of this [REDACTED].
- (2) The estimated net proceeds from the [REDACTED] are based on [REDACTED] Shares at the [REDACTED] of HK\$[REDACTED] and HK\$[REDACTED] for each Share, being the high-end and low-end of the indicative range of the [REDACTED], respectively, after deduction of the estimated [REDACTED] fees and other related expenses expected to be incurred by us subsequent to 31 December 2016 and does not take into account of any Shares which may be issued upon the exercise of the [REDACTED].
- (3) The unaudited pro forma adjusted combined net tangible assets for each Share is calculated based on [REDACTED] Shares, being the number of Shares expected to be in issue immediately following completion of the [REDACTED] and the Capitalisation Issue without taking into account of any Shares which may be allotted and issued pursuant to the exercise of the [REDACTED].
- (4) The unaudited pro forma adjusted combined net tangible assets attributable to owners of our Company does not take into account a special interim dividend of HK\$180 million declared and paid by our Company prior to completion of the Spin-Off and the [REDACTED]. Had the special interim dividend been taken into account, the unaudited pro forma adjusted combined net tangible assets for each Share would be HK\$[REDACTED] (based on the high-end of the indicative range of the [REDACTED] of HK\$[REDACTED]) and HK\$[REDACTED] (based on the low-end of the indicative range of the [REDACTED] of HK\$[REDACTED]).

### NO DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that, as of the Latest Practicable Date, there were no circumstances which would have given rise to any disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules had the Shares been listed on the Stock Exchange on that date.

## **DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

### **BOARD OF DIRECTORS**

Our Board consists of eight Directors, comprising three executive Directors, two non-executive Directors and three independent non-executive Directors. The powers and duties of our Board include formulating and determining our business plans, preparing our annual budgets and financial reports, formulating proposals for profit distribution and increase or decrease of our capitalisation and convening general meetings for the purpose of reporting to our Shareholders. The powers, functions and duties of our Board are set forth in the Articles. We have entered into a service contract with each of our executive Directors and a letter of appointment with each of our non-executive Directors and independent non-executive Directors.

The following sets forth certain information on our Directors:

#### **Members of our Board**

<b>Name</b>	<b>Age</b>	<b>Date of joining us</b>	<b>Date of appointment as Director</b>	<b>Position</b>	<b>Roles and responsibilities</b>	<b>Relationship with other Directors and senior management</b>	<b>Role in CNT</b>
Mr. LAM Ting Ball, Paul (林定波).....	75	8 May 1973	11 November 2016	Non-executive Director and Chairman	Supervisory role in our overall business and strategic development	N/A	Executive director and chairman
Mr. TSUI Ho Chuen, Philip (徐浩銓).....	53	27 September 1985	19 September 2016	Executive Director and Managing Director	Formulating the strategic planning and overseeing business administration of our Group	N/A	Executive director, executive deputy chairman and managing director
Mr. LI Guangzhong (李廣中) .....	48	1 January 1993	11 November 2016	Executive Director and Sales Director	Formulating and implementing the sales strategies of our Group	N/A	Nil
Mr. WONG Anders (王詩遠) .....	44	16 December 2008	11 November 2016	Executive Director and Finance Director	Overseeing the financial management of our Group	N/A	Nil
Mr. CHONG Chi Kwan (莊志坤) .....	49	28 November 2005	11 November 2016	Non-executive Director	Supervisory role in our financial matters	N/A	Executive director and finance director



## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Name	Age	Date of joining us	Date of appointment as Director	Position	Roles and responsibilities	Relationship with other Directors and senior management	Role in CNT
Ms. CHIU Kam Hing Kathy (趙金卿) .....	68	N/A	[REDACTED]	Independent Non-executive Director	Supervising and providing independent advice to our Board	N/A	Nil
Mr. CHUA Joo Bin (蔡裕民) .....	64	N/A	[REDACTED]	Independent Non-executive Director	Supervising and providing independent advice to our Board	N/A	Nil
Mr. XIA Jun (夏軍) .....	61	N/A	[REDACTED]	Independent Non-executive Director	Supervising and providing independent advice to our Board	N/A	Nil

### *Chairman and Non-executive Director*

**Mr. LAM Ting Ball, Paul** (林定波), aged 75, is our Chairman and non-executive Director. Mr. LAM has been working in the CNT Group since May 1973. Mr. LAM is the chairman and an executive director of CNT. Upon completion of the Spin-Off and the [REDACTED], Mr. LAM will take a supervising role in overall business and strategic development concerning our Group. Mr. LAM has more than 44 years of experience in management and the paint and coating industry. Mr. LAM received a bachelor of arts degree in chemistry from the University of California, Berkeley in September 1966.

Mr. LAM was a director of Wise Crest Enterprises Limited 智峰企業有限公司, a company incorporated in the BVI with limited liability. The issued share of Wise Crest Enterprises Limited was held by CP Industries during the period from 4 July 2008 to 1 November 2015. The company was struck off on 1 November 2015 because of non-payment of BVI annual licence fees and registered office and registered agent fees. Wise Crest Enterprises Limited did not carry on any business activities throughout the Track Record Period. This company was not declared insolvent at the time of strike-off.

Mr. LAM was a director of Whole Rich Investment Limited 珍利投資有限公司, a company incorporated in Hong Kong and was engaged in restaurant operation. Whole Rich Investment Limited had been put into compulsory creditors’ winding-up on 22 February 1995 and was dissolved on 23 July 1999. This company was insolvent at the time of winding up.

### *Executive Directors*

**Mr. TSUI Ho Chuen, Philip** (徐浩銓), aged 53, is our executive Director and managing Director. Mr. TSUI will be re-designated as a non-executive director of CNT. Mr. TSUI is responsible for the overall strategic planning and business administration of our Group. Before completion of the Spin-Off and the [REDACTED], Mr. TSUI was the executive director, executive deputy chairman and managing director of CNT. Mr. TSUI joined the CNT Group in September 1985 and has 32 years of experience in the paint and coating industry. Mr. TSUI graduated from The University of Hull with a bachelor of law degree in July 1989 and was admitted as a Hong Kong solicitor in March 1993. Mr. TSUI is also a substantial shareholder of CNT. Mr. TSUI is appointed as a committee member of the eighth and eleventh sessions of the Chinese People’s Political Consultative Conference of Jiangsu Province (江蘇省中國人民政治協商會議委員).

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## **DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

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In December 1999, Mr. TSUI was informed by the Listing Committee that he was in breach of the Model Code for Securities Transactions by Directors of Listed Companies as set forth in Appendix 10 to the Listing Rules, Rule 3.13 of the Listing Rules and the Declaration and Undertaking with regard to Directors given by him to the Stock Exchange in the form set out in Appendix 5B to the Listing Rules because of dealings in CNT Shares. As disclosed in the circular of CNT dated 28 April 2006, the incident was relating to dealings in the CNT Shares by the trustee of a discretionary trust in which Mr. TSUI was a discretionary object during the dealing prohibition period. As a result of the breach, in December 1999, the Stock Exchange confirmed to Mr. TSUI that he would be censured. The censure statement was issued by the Stock Exchange on 13 December 1999. Other than the public censure, Mr. TSUI was not subject to any other penalty or disqualification order under the Listing Rules or the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong) (which has been repealed on 1 April 2003) because of the breach.

The Sponsor has reviewed the information on the incident and the censure statement of the Stock Exchange and is of the view that the incident does not affect Mr. TSUI's suitability to be our Director because of following reasons:

- (1) The breach was happened 17 years ago and was allegedly due to an inadvertent mistake on the part of the trustee of a discretionary trust in which Mr. TSUI was a discretionary object. Mr. TSUI was not involved in the relevant transactions being the subject matter of the censure, and the Sponsor is satisfied that the breach was unrelated to the integrity of Mr. TSUI as a director of a Hong Kong listed company;
- (2) Mr. TSUI has been a director of CNT since April 1991 and the incident has no impact on the qualification and the suitability of Mr. TSUI as a director of a Hong Kong listed company;
- (3) Mr. TSUI has not committed any breach of the Listing Rules or the relevant securities-related legislation or rules and regulations in Hong Kong and elsewhere other than the incident; and
- (4) for the purpose of the appointment as our Director, Mr. TSUI has attended a training session on the up-to-date requirements under the Listing Rules, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Takeovers Code and the SFO conducted by the Hong Kong legal adviser to the Company.

Mr. TSUI was a director of Wise Crest Enterprises Limited 智峰企業有限公司, a company incorporated in the BVI with limited liability. The issued share of Wise Crest Enterprises Limited was held by CP Industries during the period from 4 July 2008 to 1 November 2015. The company was struck off on 1 November 2015 because of non-payment of BVI annual licence fees and registered office and registered agent fees. Wise Crest Enterprises Limited did not carry on any business activities throughout the Track Record Period. This company was not declared insolvent at the time of strike-off.

Mr. TSUI was also a director of the following companies incorporated in Hong Kong that had been put into receiverships or creditors' or compulsory winding up: (1) Champion Rich Investment Limited 冠傑投資有限公司 (property holding and investment, appointment of receivers over charged properties of HK\$64,803,777.28 plus costs of interests on 25 May 1999 and settlement and cessation of receiverships on 29 December 1999); (2) Chrysanthemum Chinese Restaurant Limited 菊花閣有限公司 (restaurant operation, commencement of creditors' voluntary winding up on 5 February 1999 and dissolution on 15 May 2001); and (3) Happy Trade Limited 喜港有限公司 (investment holding, appointment of receivers over charged property and commencement of compulsory winding up on 10 September 1999 and 17 November 1999 respectively and dissolution on 7 June 2003). These companies were insolvent at the time of winding-up or appointment of receivers.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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**Mr. LI Guangzhong (李廣中)**, aged 48, is our executive Director and sales Director. Mr. LI is responsible for formulating and implementing the sales strategies for our paint and coating products in the PRC, especially in Southern China. Mr. LI has 23 years of experience in the paint and coating industry in the PRC. Mr. LI joined China Paint Shenzhen in January 1993 and has served various positions in China Paint Shenzhen. Mr. LI is currently the Deputy Sales Director of China Paint Shenzhen. Mr. LI obtained a master degree in software engineering from Beijing University of Posts and Telecommunications (北京郵電大學) in July 2005.

**Mr. WONG Anders (王詩遠)**, aged 44, is our executive Director and Finance Director. Mr. WONG is responsible for overseeing the financial management of our Group. Mr. WONG has been the Financial Controller (Costing) of the Paint Business since December 2008. Mr. WONG obtained a honours diploma in accounting from Hong Kong Shue Yan College (currently known as Hong Kong Shue Yan University) in July 1995 and a master of business administration degree from Hong Kong Baptist University in November 2004. Mr. WONG has over 21 years of experience in finance and accounting. Prior to joining us, Mr. WONG served as a financial manager and an accounting officer at Suncorp Industrial (China) Limited, which was previously a subsidiary of Suncorp Technologies Limited, a company listed on the Stock Exchange (stock code: 01063), during the period from December 2006 to August 2008 and from April 2001 to June 2005, a management accountant and an assistant accounting officer at York International (Northern Asia) Ltd from January 2000 to October 2000 and from June 1998 to December 1999 respectively, an accountant II and accountant I at Deloitte Touche Tohmatsu (formerly known as Kwan Wong Tan & Fong) from May 1997 to August 1997 and from August 1997 to April 1998, and an audit trainee at Lawrence Tse & Co. from August 1995 to April 1997. Mr. WONG has been a fellow member of the Association of International Accountants in the United Kingdom since October 2004 and a fellow member of the Hong Kong Institute of Certified Public Accountants since October 2012.

### *Non-executive Director*

**Mr. CHONG Chi Kwan (莊志坤)**, aged 49, is our non-executive Director. Mr. CHONG has been working in the CNT Group since November 2005 and is currently an executive director and the finance director of CNT. Mr. CHONG has over 24 years of experience in auditing, finance, accounting and management. Prior to joining us, Mr. CHONG was the chief accountant at Rich China Industries Holdings Limited from October 1997 to October 2005. During the employment with Rich China Industries Holdings Limited, Mr. CHONG was seconded to RCI Wing Fai Printing (China) Limited as a financial controller during the period from March 2003 to February 2004. Mr. CHONG worked as an accountant and audit supervisor in H. L. Leung & Co. during the period from May 1994 to May 1997, an audit trainee, audit intermediate and semi-senior in W. S. Wong & Co. during the period from July 1990 to April 1993, respectively. Mr. CHONG obtained a master degree in professional accounting from The Hong Kong Polytechnic University in November 2003 and has been an associate member and a fellow member of the Hong Kong Institute of Certified Public Accountants since May 1999 and February 2007, respectively, and an associate member and a fellow member of The Association of Chartered Certified Accountants since April 1999 and April 2004, respectively.

### *Independent non-executive Directors*

**Ms. CHIU Kam Hing Kathy (趙金卿)**, aged 68, is our independent non-executive Director. Ms. CHIU has over 29 years of banking experience in Canada and the Asia Pacific Region.

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## **DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

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Ms. CHIU was a senior vice president at the Republic National Bank of New York and was responsible for the management and investment of third party client's funds. Ms. CHIU has been an associate and a fellow of the Institute of Canadian Bankers since July 1975 and August 1976 respectively. Ms. CHIU was appointed as a Justice of the Peace by the Hong Kong government in July 1992 and as a Cavaliere by the Italian Government in December 1998. Ms. CHIU is the chairlady of Prime Investments Group Limited and is currently an independent non-executive director of National Agricultural Holdings Limited (stock code: 01236) and Sau San Tong Holdings Limited (stock code: 08200), whose shares are both listed on the Stock Exchange. Ms. CHIU is licenced to carry out asset management business under Type 9 regulated activity under the SFO.

**Mr. CHUA Joo Bin (蔡裕民)**, aged 64, is our independent non-executive Director. Mr. CHUA has over 40 years of finance and accounting experience. Mr. CHUA has been the managing partner of J B Chua & Co, a firm of chartered accountants in Singapore, for more than 30 years. Prior to establishing his own firm, Mr. CHUA held various positions including audit assistant, audit supervisor, accountant and financial controller in Goh Tan & Co, SAF Enterprises (Pte) Ltd. and Eriks Private Limited. Mr. CHUA obtained a bachelor degree in commerce (major in accounting) from Nanyang University (currently known as Nanyang Technological University) in Singapore in July 1973. Mr. CHUA was a registered accountant in Singapore in August 1978 and a fellow member of the Institute of Singapore Chartered Accountants since May 2005. Mr. CHUA is also an approved liquidator under the Companies Act of Singapore for more than 30 years.

**Mr. XIA Jun (夏軍)**, aged 61, is our independent non-executive Director. Mr. XIA is a qualified PRC lawyer. Mr. XIA is also a arbitrator in China International Economic and Trade Arbitration Commission. Mr. XIA has over 27 years of experience in PRC legal practice. From 1982 to 2012, he worked in various institutions, namely China Research Academy of Environmental Sciences, China National Textile Import and Export Company, China Law Society, Tianping Law Firm, Chinese Law Counseling Center and Beijing J&S Law Firm. Mr. XIA is currently a senior partner of Beijing Alliance J&S Law Firm. Since April 2014, Mr. XIA has been an independent director of Cinda Property and Casualty Insurance Co., Ltd., which is a non wholly-owned subsidiary of China Cinda Asset Management Co., Ltd. (stock code: 01359), a company listed on the Main Board. Mr. XIA obtained a bachelor of arts degree from Xiamen University in May 1982 and a master of laws degree from China University of Political Science and Law in July 1988.

### **Other disclosure pursuant to Rule 13.51(2) of the Listing Rules**

Save as disclosed above, each of our Directors confirms with respect to him or her that:

- (a) he or she did not hold other positions in any member of our Group as of the Latest Practicable Date;
- (b) he or she had no other relationship with any Directors, senior management, substantial shareholders or Controlling Shareholders as of the Latest Practicable Date;
- (c) he or she did not hold any other directorships in the three years prior to the Latest Practicable Date in any public companies of which the securities are listed on any securities market in Hong Kong and/or overseas; and

## **DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

- (d) there are no other matters concerning our Directors’ appointment that need to be brought to the attention of our Shareholders and the Stock Exchange or shall be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

As of the Latest Practicable Date, save as the interests disclosed in the paragraphs under “C. Further information about our Directors and Substantial Shareholders” in Appendix IV to this [REDACTED], each of our Directors did not have any interest in our Shares within the meaning of Part XV of the SFO.

### **SENIOR MANAGEMENT**

The following sets forth certain information on our senior management team:

<u>Name</u>	<u>Age</u>	<u>Date of joining us</u>	<u>Position</u>	<u>Roles and responsibilities</u>	<u>Relationship with our Directors and senior management</u>
Mr. FONG Yik Ming, Benedict (方奕明) .....	55	1 July 1995	Chief Chemist	Overseeing product development for our customers in manufacturing industries and our product quality and safety	N/A
Mr. CAO Hualong (曹華龍) .....	47	1 September 2015	General Manager – Production	Overseeing the production of our products	N/A
Mr. NG Cheuk Man (吳卓文) .....	65	28 August 2007	General Manager – Production	Overseeing the production of our products	N/A
Mr. DAI Junjie (戴俊杰) .....	43	23 November 2015	General Manager – Sales	Overseeing the sales of our products in PRC market	N/A
Mr. LIN Shu (林舒) .....	63	1 September 1998	Senior Assistant to Chairman	Assisting our Chairman in different projects	N/A
Mr. CHUCK Ricky Chui Hung (卓超雄) .....	69	1 June 2005	General Manager – Administration	Overseeing our administration matters	N/A



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## **DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

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**Mr. FONG Yik Ming, Benedict (方奕明)**, aged 55, is our Chief Chemist. Mr. FONG joined the CNT Group in December 1985 and is responsible for overseeing product development of paint products for customers in manufacturing industries and our product quality and safety. Since July 1995, Mr. FONG has been employed by our Group as the Chief Chemist. Mr. FONG has over 30 years of experience in industrial paint and coating products paints formulations, safety and healthy environment, toy safety regulations, quality control and assurance implementation. Mr. FONG graduated with a bachelor degree in chemical engineering from the University of London in August 1984. Mr. FONG also obtained the certificate of completion in Understanding the Transition: Waterborne Coatings Technology issued by Federation of Societies for Coatings Technology, USA in November 2002.

**Mr. CAO Hualong (曹華龍)**, aged 47, is our General Manager – Production. Mr. CAO is responsible for overseeing the procurement planning of raw materials, product sampling, the production of our paint products, equipment repair and maintenance, the fire and safety, and environmental and occupational health of workplace at our Shajing Production Plant. Mr. CAO has been working for us since September 2015 and has over 22 years of solid experience in the chemical, paint and coatings industry in the PRC. Mr. CAO completed a part-time course on “MBA Advanced Seminar for Practising Manager” (在職經理MBA高級研修班) from the Sun Yat-sen University (中山大學) in March 2005.

**Mr. NG Cheuk Man (吳卓文)**, aged 65, is our General Manager – Production. Mr. NG is responsible for overseeing the production of our products at our Ezhou Production Plant. Mr. NG joined the CNT Group in September 1972 and worked at various positions in production management. During the period between August 2007 and October 2010, Mr. NG was a Production Manager. Mr. NG was promoted to the position of Production Director in October 2010 and the position of General Manager – Production in October 2015. Mr. NG has over 40 years of experience in paint products production.

**Mr. DAI Junjie (戴俊杰)**, aged 43, is our General Manager – Sales. Mr. DAI is responsible for overseeing the sales of our products in Southwestern China, Northwestern China, Eastern China and Central China. Mr. DAI joined our Group in November 2015. Mr. DAI has over 20 years of experience in the paint and coating industry. Mr. DAI received a bachelor degree in business management from the Shanghai University (上海大學) in July 2002 and a master of business administration degree from the University of Southern Queensland in Australia in April 2006.

**Mr. LIN Shu (林舒)**, aged 63, is our Senior Assistant to Chairman. Mr. LIN first joined us in September 1998 and was promoted as the Deputy General Manager in April 2010. Mr. LIN was further promoted to Assistant to Chairman and Senior Assistant to Chairman in May 2002 and November 2015, respectively. Mr. LIN is responsible for assisting the Chairman in different projects of our Group. Mr. LIN has over 17 years of experience in the paint and coating industry. Mr. LIN received a bachelor degree of English language in Guangzhou Institute of Foreign Languages (currently known as Guangdong University of Foreign Studies) in July 1982. In December 1991, Mr. LIN obtained a professional qualification as an intermediate economist issued by Professional Technology of China National Machinery & Equipment Import & Export Corporation.

**Mr. CHUCK Ricky Chui Hung (卓超雄)**, aged 69, is our General Manager – Administration. Mr. CHUCK is responsible for overseeing the administration matters of our Group. Mr. CHUCK worked for the CNT Group during the period from March 1988 to January 1991. Mr. CHUCK rejoined the CNT Group in March 1992 and worked at various positions in office administration. Mr. CHUCK has been employed by our Group since June 2005 as our General Manager – Administration. Mr. CHUCK has over 20 years of experience in the administration of production enterprises in the PRC.

Each of the senior management has not been a director of any other publicly listed company during the Track Record Period and up to the Latest Practicable Date.

## **DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

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### **COMPANY SECRETARY**

**Ms. FOK Pik Yi, Carol (霍碧儀)**, aged 50, joined the CNT Group in July 2014 and was appointed as the company secretary of our Company in November 2016. Ms. FOK is a fellow member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. Ms. FOK obtained a MBA degree from The University of Surrey in December 1997 and a master of science degree in international shipping and transport logistics from The Hong Kong Polytechnic University in November 2004.

### **BOARD COMMITTEES**

#### **Audit committee of our Board**

We have established an audit committee on **[REDACTED]** with written terms of reference in compliance with Rule 3.21 of the Listing Rules and Corporate Governance Code as set forth in Appendix 14 to the Listing Rules. The audit committee of our Board consists of two independent non-executive Directors and one non-executive Director, namely Ms. CHIU Kam Hing Kathy, Mr. CHUA Joo Bin and Mr. CHONG Chi Kwan. Ms. CHIU Kam Hing Kathy is the chairlady of the audit committee. The primary duties of the audit committee are providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of our Group, overseeing the audit process, developing and reviewing our policies and performing other duties and responsibilities as assigned by our Board.

#### **Remuneration committee of our Board**

We have established a remuneration committee on **[REDACTED]** with written terms of reference in compliance with Rule 3.25 of the Listing Rules and Corporate Governance Code as set forth in Appendix 14 to the Listing Rules. The remuneration committee of our Board consists of three members, namely Ms. CHIU Kam Hing Kathy, Mr. CHONG Chi Kwan and Mr. XIA Jun. Ms. CHIU Kam Hing Kathy and Mr. XIA Jun are independent non-executive Directors. The remuneration committee is chaired by Ms. CHIU Kam Hing Kathy. The primary duties of the remuneration committee include (i) making recommendations to the Directors regarding our policy and structure for the remuneration of all Directors and senior management and on the establishment of a formal and transparent procedure for developing the remuneration policy; (ii) making recommendations to our Board on the remuneration of our non-executive Directors and determining the remuneration packages of individual executive Directors and senior management; and (iii) reviewing and approving the management’s remuneration proposals with reference to the goals and objectives of our Board.

During the Track Record Period, our remuneration policy for our Directors and senior management members was based on their duties and responsibilities, performance, experience, time commitment, market conditions and the corporate goals and objectives. Any discretionary bonus and other merit payments are linked to the profit performance of our Group and the individual performance of our Directors and senior management members. We intend to adopt the same remuneration policy after the **[REDACTED]**, subject to review by and the recommendations of our remuneration committee.

## **DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

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### **Nomination committee of our Board**

We have established a nomination committee on [REDACTED] with written terms of reference in compliance with Corporate Governance Code as set forth in Appendix 14 to the Listing Rules. The nomination committee of our Board consists of three members, namely Ms. CHIU Kam Hing Kathy, Mr. TSUI Ho Chuen, Philip and Mr. XIA Jun. Ms. CHIU Kam Hing Kathy and Mr. XIA Jun are our independent non-executive Directors. The chairlady of the nomination committee is Ms. CHIU Kam Hing Kathy. The primary function of the nomination committee is to recommend our Board on the appointment of members of our Board.

### **CORPORATE GOVERNANCE**

Our Directors recognise the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of our Group so as to achieve effective accountability.

Our Company has adopted the code provisions stated in the Corporate Governance Code as set forth in Appendix 14 to the Listing Rules. We are committed that our Board should include a balanced composition of executive and independent non-executive Directors so that there is a strong independent element on our Board, which can effectively exercise independent judgement and that our Board should have a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business.

### **COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT**

Our executive Directors, who are also our employees, receive, in their capacity as our employees, compensation in the form of salary and cash bonus.

The aggregate amount of remuneration including salaries, contributions to pension schemes, housing allowances and other allowances, benefits in kind and discretionary bonuses which were paid by our Group to our Directors for the Track Record Period was HK\$14.5 million, HK\$13.7 million and HK\$12.3 million, respectively.

The aggregate amount of remuneration including salaries, contributions to pension schemes, housing allowances and other allowances, benefits in kind and discretionary bonuses which were paid by our Group to the five highest paid individuals for the Track Record Period was HK\$6.4 million, HK\$6.8 million and HK\$8.9 million, respectively.

No remuneration was paid by our Group to the Directors or past Directors or the five highest paid individuals as an inducement to join or upon joining our Group or as a compensation for loss of office in respect of the Track Record Period. Further, none of our Directors waived any remuneration during the same periods.



## **DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

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Under our arrangements currently in force, the aggregate remuneration (including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind) of our Directors (including executive, non-executive and independent non-executive Directors) for the year ending 31 December 2017 is estimated to be no more than HK\$10.8 million. The amount does not include any discretionary bonus that may be payable by us to our executive Directors according to the terms of their service contracts with reference to our performance.

### **COMPLIANCE ADVISER**

We have appointed Innovax Capital as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise us in the following circumstances:

- (a) before the publication of any regulatory announcement, circular or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share buy-backs;
- (c) where we propose to use the net proceeds from the [REDACTED] in a manner different from that detailed in this [REDACTED] or where our business activities, developments or results deviate from any forecast, estimate or other information in this [REDACTED]; and
- (d) where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares.

The term of the appointment shall commence on the [REDACTED] and end on the date which we distribute our annual report of our financial results for the first full financial year commencing after the [REDACTED] and such appointment may be subject to extension by mutual agreement.

## CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

### OUR CONTROLLING SHAREHOLDERS

Assuming that all CNT Qualifying Shareholders take up the CNT Preferential Offer in full and taking no account any [REDACTED] which may be taken up under the [REDACTED] and any Shares which may be allotted and issued pursuant to the exercise of the [REDACTED], CNT will be interested in 75.0% of the total number of our Shares in issue immediately following completion of the [REDACTED] and the Capitalisation Issue.

Accordingly, CNT and CNT Enterprises are our Controlling Shareholders. CNT was incorporated in Bermuda on 25 March 1991 with limited liability, with all of its shares listed on the Main Board. CNT Enterprises was incorporated in the BVI on 14 September 2016 as a wholly-owned subsidiary of CNT and the registered holder of our Shares following completion of the Reorganisation. CNT will continue to be the holding company of the Remaining Group immediately following completion of the Spin-Off. The Remaining Group will be principally engaged in the Remaining Businesses.

So far as our Directors are aware, immediately following completion of the [REDACTED] and the Capitalisation Issue (assuming that all CNT Qualifying Shareholders take up the [REDACTED] in full and without taking into account any Shares which may be taken up under the [REDACTED] and may be issued upon the exercise of the [REDACTED]), the following persons will be our Controlling Shareholders:

Name of Shareholders	Capacity/Nature of interest	Immediately after the [REDACTED] and the Capitalisation Issue	
		Number of Shares held	Percentage of Shareholding
CNT <sup>(1)</sup> . . . . .	Corporate interest	[REDACTED]	[REDACTED]
CNT Enterprises . . . . .	Corporate interest	[REDACTED]	[REDACTED]

Note:

- (1) CNT is a company listed on the Main Board. As of the Latest Practicable Date, the following were the substantial shareholders of CNT:

## **CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS**

<b>Name</b>	<b>Capacity</b>	<b>Number of CNT Shares</b>	<b>Percentage of shareholding</b>
Prime Surplus Limited <sup>(a)</sup>	Beneficial owner	[REDACTED]	[REDACTED]
TSUI Ho Chuen, Philip <sup>(a)</sup>	Interest of controlled corporation	[REDACTED]	[REDACTED]
HO Mei Po, Mabel <sup>(b)</sup>	Interest of spouse	[REDACTED]	[REDACTED]
Chinaculture.com Limited <sup>(c)</sup>	Beneficial owner	[REDACTED]	[REDACTED]
Chuang’s China Investments Limited <sup>(c)</sup>	Interest of controlled corporation	[REDACTED]	[REDACTED]
Profit Stability Investments Limited <sup>(c)</sup>	Interest of controlled corporations	[REDACTED]	[REDACTED]
Chuang’s Consortium International Limited <sup>(c)</sup>	Interest of controlled corporations	[REDACTED]	[REDACTED]
Evergain Holdings Limited <sup>(c)</sup>	Interest of controlled corporations	[REDACTED]	[REDACTED]
CHONG Shaw Swee, Alan <sup>(c)</sup>	Interest of controlled corporations	[REDACTED]	[REDACTED]
CHONG HO Pik Yu <sup>(c)</sup>	Interest of spouse	[REDACTED]	[REDACTED]

*Notes:*

- (a) The [REDACTED] CNT Shares were beneficially owned by Prime Surplus Limited. Mr. TSUI Ho Chuen, Philip, our executive Director and Managing Director, is the sole director and shareholder of Prime Surplus Limited.
- (b) Ms. HO Mei Po, Mabel is the wife of Mr. TSUI Ho Chuen, Philip and was taken to be interested in [REDACTED] CNT Shares in which her spouse was interested under the SFO.
- (c) The references to the [REDACTED] CNT Shares relate to the same block of [REDACTED] CNT Shares beneficially interested by Chinaculture.com Limited.

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

Chuang’s China Investments Limited, Profit Stability Investments Limited, Chuang’s Consortium International Limited, Evergain Holdings Limited, Mr. CHONG Shaw Swee, Alan and Mrs. CHONG HO Pik Yu were all deemed under the SFO to be interested in these [REDACTED] CNT Shares which were owned by Chinaculture.com Limited.

## **OUR SUBSTANTIAL SHAREHOLDERS**

Save as disclosed in this section, our Company will not have any other substantial shareholders (as such term is defined under the Listing Rules) without taking into account any Shares which may be taken up under the [REDACTED] and may be issued upon the exercise of the [REDACTED].

## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

### INDEPENDENCE FROM THE REMAINING GROUP

We are satisfied that we can operate independently from the Remaining Group, the ultimate holding company of which is one of our Controlling Shareholders, after the Spin-Off and the [REDACTED] for the following reasons.

#### Clear business delineation between the business of our Group and the Remaining Group

Following completion of the Spin-Off and the [REDACTED], the Remaining Group will be engaged in the Remaining Businesses whilst our Group will be engaged in the production and sales of paint and coating products. The businesses of each of our Group and the Remaining Group differ significantly. The following sets forth the major differences between our business and the businesses of the Remaining Group:

<u>Our Group</u>	<u>Remaining Group</u>
– Production and sales of paint and coating products	– Investment Property Business
	– Trading Business
	– Other Business

As shown in the table above, there is a clear delineation between the respective business activities of our Group and the Remaining Group. Their respective business operations are independent from each other.

Members of the Remaining Group are not, and it is expected that they will not be, engaged in any business activities that compete or may likely to compete with those of our Group.

#### Our business is independent of the Remaining Group

##### *Independence of the members of our Board*

Our Group and the Remaining Group have boards of directors that function independently of each other. Save for Mr. LAM Ting Ball, Paul, who is our Chairman and a non-executive Director, Mr. TSUI Ho Chuen, Philip, who is our executive Director and Managing Director and Mr. CHONG Chi Kwan, who is our non-executive Director, there is no other Director holding concurrent position in both of our Group and the Remaining Group upon completion of the Spin-Off and the [REDACTED]. Two out of the three overlapping directors are our non-executive Directors and do not involve in our daily business operations. We have two executive Directors who do not hold any position in the Remaining Group.

## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

The independent non-executive Directors are not the same as the independent non-executive directors of CNT. Following completion of the Spin-Off and the [REDACTED], Mr. LAM Ting Ball, Paul and Mr. CHONG Chi Kwan will remain as executive directors of CNT and will be responsible for the daily operations and management of the Remaining Group. Mr. TSUI Ho Chuen, Philip will be re-designated as a non-executive director of CNT. Mr. LAM Ting Ball, Paul and Mr. CHONG Chi Kwan will not be involved in our daily operations and will act as our non-executive Directors. Our Board considers that such non-executive positions are necessary as CNT will continue to be the holding company of our Company following completion of the Spin-Off and the [REDACTED].

Hence, upon completion of the Spin-Off and the [REDACTED], our Board will consist of eight Directors, and only three of them, two of whom are our non-executive Directors, will remain as directors of CNT. There will be no common executive directors between our Company and CNT following completion of the Spin-Off and the [REDACTED]. No members of the senior management team of our Group hold office with the Remaining Group. On this basis, our Directors consider that the composition of our Board will be sufficiently independent.

In the event that there will be any potential conflict of interests arising out of any transaction to be entered into between our Group and the Remaining Group, Mr. LAM Ting Ball, Paul, Mr. TSUI Ho Chuen, Philip and Mr. CHONG Chi Kwan will abstain from voting on the relevant resolution(s) at the meetings of the boards of directors of both our Company and CNT and they will not attend such meetings for the purpose of deciding the transactions.

Mr. LAM Ting Ball, Paul, Mr. TSUI Ho Chuen, Philip and Mr. CHONG Chi Kwan confirm that they do not have any interest in business, other than the business of our business, which competes or may compete, either directly or indirectly, with our business.

Save as disclosed above, each of our Company and CNT will be managed and operated by their respective own management teams separately and independently and in the interests of their respective shareholders.

### *Independence of our senior management team*

The senior management team of our Company consists of six staff members who are in charge of different management functions. All members of our senior management team, other than Mr. CAO Hualong and Mr. DAI Junjie, have been working for the Paint Business during the Track Record Period. All members of our senior management team are currently employed by the subsidiaries of our Company. The following sets forth members of our senior management team of our Company:

Name	Position in our Group	Date of commencement of serving the Paint Business
Mr. FONG Yik Ming, Benedict (方奕明)	Chief Chemist	1 July 1995
Mr. CAO Hualong (曹華龍)	General Manager – Production	1 September 2015
Mr. NG Cheuk Man (吳卓文)	General Manager – Production	28 August 2007
Mr. DAI Junjie (戴俊杰)	General Manager – Sales	23 November 2015
Mr. LIN Shu (林舒)	Senior Assistant to Chairman	1 September 1998
Mr. CHUCK Ricky Chui Hung (卓超雄)	General Manager – Administration	1 June 2005

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### *Independence of the administrative capability*

All administrative functions of our Company are carried out independently without reliance on CNT. Our Company has its own administrative functions, which include accounting and finance, general administration, sales and marketing, procurement and human resources. Following completion of the Spin-Off and the [REDACTED], the company secretary of CNT, Ms. FOK Pik Yi, Carol, will continue to act as the company secretary of CNT and our Company. The fee for sharing of the company secretarial services will be based on the actual cost and the actual number of hours incurred on the tasks involved, which is considered by our Directors and the directors of CNT to be fair and reasonable. Our Directors are of the view that this arrangement, which is administrative in nature, will not affect the independence of our Group from the Remaining Group.

Accordingly, upon completion of the Spin-Off and the [REDACTED], our Company will be administratively independent from CNT.

In the event that any conflict of interest arises between the Remaining Group and our Group, our independent non-executive Directors will also provide checks and balances over the decisions of our Board on significant transactions, connected transactions and other transactions involving any actual or potential conflict of interests.

Our Company will also adopt corporate governance measures to manage potential conflicts of Directors’ interest after the Spin-Off in accordance with the requirements of the Listing Rules. In addition, as part of the preparation for the [REDACTED], our Directors have received training on their responsibilities as directors of a Hong Kong listed company, including on their fiduciary duties to act in the best interest of our Group.

Save for the above, none of the Directors or senior management of our Company holds any office in or is employed by the Remaining Group immediately upon [REDACTED]. On the basis of the current Board composition, it is believed that our Board will operate and manage our business independently of CNT. Our Group will therefore operate independently and in the interests of its shareholders as a whole.

Save for the above, the Remaining Group and our Group are currently engaged in and will continue to engage in certain transactions such as the leasing of office premises and warehouse and the provision of advertising supporting services, which will constitute continuing connected transactions under Chapter 14A of the Listing Rules. The leasing of office premises and warehouse will constitute non-exempt continuing connected transactions for our Company following the [REDACTED], and the provision of advertising supporting services will constitute exempt continuing connected transactions for our Company following the [REDACTED]. Our Directors consider that these transactions are not likely to impact the operational independence of our Group. Further information on these transactions is set forth in the section headed “Continuing Connected Transactions” in this [REDACTED].

Our Directors are of the view and the Sponsor concurs that these transactions will not affect the independence of our Group for the Remaining Group.

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## **RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS**

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### **Financial independence**

As of 30 April 2017, our Group had banking facilities with an aggregate principal amount of approximately HK\$366.8 million which were jointly used and guaranteed by certain members of the Remaining Group and our Group. To facilitate the working capital and ensure the financial independence of our Group, all jointly used banking facilities by the Remaining Group and our Group will be segregated. Our Group has obtained our own banking facilities but it is subject to the condition of the successful [REDACTED] of our Company.

Upon completion of the Spin-Off and the [REDACTED], we will obtain independent banking facilities of HK\$206.8 million for which our Company will provide corporate guarantee and we will use the land and building of our Shajing Production Plant as security. As of 30 April 2017, we used banking facilities of HK\$115.6 million. In light of the amount of the banking facilities that would be obtained by us independently and net proceeds from the [REDACTED], our Directors believe that we will have sufficient banking facilities for our business operations.

As of 30 April 2017, certain members of our Group provided corporate guarantees in favour of the banking facilities used by the Remaining Group of HK\$210.0 million will be released upon completion of the Spin-Off and the [REDACTED].

Save as disclosed in the sections headed under “Financial Information – Liquidity and capital resources” and “Financial Information – Indebtedness” in this [REDACTED], there are no other outstanding credit facilities or bank guarantees provided by the Remaining Group to our Group.

Having considered the above factors, our Directors consider that there is no financial dependence on the Remaining Group after [REDACTED].

### **Administrative independence**

All administration and daily operations of our Group are carried out by a team of employees of our Group, our Directors consider that we are independent in terms of the administrative capacity from the Remaining Group following the Spin-Off and the [REDACTED].

### **NO COMPETITION BETWEEN OUR GROUP AND THE REMAINING GROUP**

Having considered the independence in management, business operations, financing and administration between our Group and the Remaining Group, our Directors believe that we are independent from the Remaining Group upon completion of the Spin-Off and the [REDACTED]. Further, our Directors expect that, following the Spin-Off, we will be engaged in the Paint Business whereas the Remaining Group will focus on the Remaining Businesses. There is a clear delineation of the business activities of our Group and the Remaining Group.

Our Controlling Shareholders, i.e. CNT and CNT Enterprises, and our Directors confirm that none of them has any direct or indirect interest in any businesses or companies that engage in any business activities that compete or may compete with our business activities.

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## **RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS**

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### **CORPORATE GOVERNANCE MEASURES TO AVOID CONFLICT OF INTERESTS**

Our Directors recognise the importance of incorporating elements of good corporate governance in management conducive to the protection of the interests of our Shareholders. In particular, the following corporate governance measures in relation to managing potential conflict of interests between the Remaining Group and us will be taken:

- (a) in the event that a business opportunity relating to our business or otherwise is identified by the Remaining Group, it shall refer such opportunity to us and shall not pursue such opportunity unless our independent non-executive Directors have resolved to decline such opportunity on a case-by-case basis and have notified in writing of their decisions with relevant reasons;
- (b) any transaction (if any) between (or proposed to be made between) our Group and connected persons will be required to comply with Chapter 14A of the Listing Rules, including, where applicable, the announcement, reporting, annual review and independent shareholders' approval requirements and with those conditions imposed by the Stock Exchange for the granting of waiver from strict compliance with the relevant requirements under the Listing Rules; and
- (c) in the event that there is any conflict of interest in the operations of the Remaining Group and us, and in respect of any proposed contracts or arrangements between the Remaining Group and us, any Director, who is considered to be interested in a particular matter or the subject matter, shall disclose his interests to our Board. According to the Articles, should a Director or his/her close associate has any material interests in the matter (other than certain matters permitted under note 1 to Appendix 3 to the Listing Rules), he or she shall not vote on the resolutions at the meeting of our Board approving the same and shall not be counted in the quorum of the relevant meeting.

Our Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between the Remaining Group and our Group and to protect the interests of our Shareholders, in particular, our minority Shareholders.



**[REDACTED]**

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**[REDACTED]**

**[REDACTED]**

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**[REDACTED]**

**[REDACTED]**

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**[REDACTED]**

**The Sponsor’s independence**

The Sponsor satisfies the independence criteria applicable to sponsors set forth in Rule 3A.07 of the Listing Rules.

**[REDACTED]**

**[REDACTED]**

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**[REDACTED]**

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## **STRUCTURE AND CONDITIONS OF THE [REDACTED]**

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**[REDACTED]**

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## **STRUCTURE AND CONDITIONS OF THE [REDACTED]**

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**[REDACTED]**

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## **STRUCTURE AND CONDITIONS OF THE [REDACTED]**

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**[REDACTED]**

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## **STRUCTURE AND CONDITIONS OF THE [REDACTED]**

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**[REDACTED]**



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## **STRUCTURE AND CONDITIONS OF THE [REDACTED]**

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**[REDACTED]**

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## **STRUCTURE AND CONDITIONS OF THE [REDACTED]**

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**[REDACTED]**

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## **STRUCTURE AND CONDITIONS OF THE [REDACTED]**

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**[REDACTED]**

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## **STRUCTURE AND CONDITIONS OF THE [REDACTED]**

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**[REDACTED]**

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## **STRUCTURE AND CONDITIONS OF THE [REDACTED]**

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**[REDACTED]**

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## **STRUCTURE AND CONDITIONS OF THE [REDACTED]**

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**[REDACTED]**

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## **STRUCTURE AND CONDITIONS OF THE [REDACTED]**

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**[REDACTED]**

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## **STRUCTURE AND CONDITIONS OF THE [REDACTED]**

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**[REDACTED]**



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## **STRUCTURE AND CONDITIONS OF THE [REDACTED]**

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**[REDACTED]**

## **HOW TO APPLY FOR [REDACTED] AND [REDACTED]**

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[REDACTED]

## **HOW TO APPLY FOR [REDACTED] AND [REDACTED]**

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[REDACTED]

## **HOW TO APPLY FOR [REDACTED] AND [REDACTED]**

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## **HOW TO APPLY FOR [REDACTED] AND [REDACTED]**

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[REDACTED]

## **HOW TO APPLY FOR [REDACTED] AND [REDACTED]**

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[REDACTED]

## APPENDIX I

## ACCOUNTANTS’ REPORT

*The following is the text of a report, prepared for inclusion in this [REDACTED], received from the independent reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong.*

19 June 2017

The Directors  
CPM Group Limited  
Innovax Capital Limited

Dear Sirs,

We set out below our report on the financial information of CPM Group Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) comprising the combined statements of profit or loss, combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Group for each of the years ended 31 December 2014, 2015 and 2016 (the “Track Record Period”), and the combined statements of financial position of the Group as at 31 December 2014, 2015 and 2016, and the statement of financial position of the Company as at 31 December 2016, together with the notes thereto (the “Financial Information”), prepared on the basis of presentation set out in note 2.1 of Section II below, for inclusion in the [REDACTED] of the Company dated 19 June 2017 (the “[REDACTED]”) in connection with the [REDACTED] of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 19 September 2016. Pursuant to a group reorganisation (the “Reorganisation”) as more fully explained in the paragraph headed “Reorganisation” in the section headed “History, Development and Reorganisation” in the [REDACTED], which was completed on 8 June 2017, the Company became the holding company of the subsidiaries now comprising the Group. Apart from the Reorganisation, the Company has not commenced any business or operation since its incorporation.

As at the date of this report, no statutory financial statements have been prepared for the Company, as the Company is not subject to statutory audit requirements under the relevant rules and regulations in its jurisdiction of incorporation.

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in note 1 of Section II below. All companies now comprising the Group have adopted 31 December as their financial year end date. The statutory financial statements of the companies now comprising the Group have been prepared in accordance with the relevant accounting principles applicable to these companies in the countries in which they were incorporated and/or established. Details of their statutory auditors during the Track Record Period are set out in note 1 of Section II below.



## **APPENDIX I**

## **ACCOUNTANTS’ REPORT**

For the purpose of this report, the directors of the Company (the “Directors”) have prepared the combined financial statements of the Group (the “Underlying Financial Statements”) 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 (the “HKICPA”). The Underlying Financial Statements for each of the years ended 31 December 2014, 2015 and 2016 were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustments made thereon.

### **DIRECTORS’ RESPONSIBILITY**

The Directors are responsible for the preparation of the Underlying Financial Statements and the Financial Information that give a true and fair view in accordance with HKFRSs, and for such internal control as the Directors determine is necessary to enable the preparation of the Underlying Financial Statements and the Financial Information that are free from material misstatement, whether due to fraud or error.

### **REPORTING ACCOUNTANTS’ RESPONSIBILITY**

It is our responsibility to form an independent opinion on the Financial Information and to report our opinion thereon to you.

For the purpose of this report, we have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the HKICPA.

### **OPINION IN RESPECT OF THE FINANCIAL INFORMATION**

In our opinion, for the purpose of this report and on the basis of presentation set out in note 2.1 of Section II below, the Financial Information gives a true and fair view of the financial position of the Group as at 31 December 2014, 2015 and 2016 and of the Company as at 31 December 2016, and of the combined financial performance and the combined cash flows of the Group for each of the Track Record Period.

## APPENDIX I

## ACCOUNTANTS’ REPORT

### I. FINANCIAL INFORMATION

#### (A) COMBINED STATEMENTS OF PROFIT OR LOSS

	<i>Notes</i>	Year ended 31 December		
		2014 <i>HK\$'000</i>	2015 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
REVENUE	6	1,131,305	867,997	937,450
Cost of sales		(737,417)	(543,573)	(590,088)
Gross profit		393,888	324,424	347,362
Other income and gains, net	6	16,551	18,318	12,827
Selling and distribution expenses		(170,204)	(156,063)	(148,647)
Administrative expenses		(98,192)	(103,900)	(112,227)
Other expenses, net		(11,626)	(18,050)	(23,998)
Finance costs	8	(3,076)	(3,098)	(2,050)
PROFIT BEFORE TAX	7	127,341	61,631	73,267
Income tax expenses	11	(30,192)	(19,701)	(17,801)
PROFIT FOR THE YEAR		97,149	41,930	55,466
ATTRIBUTABLE TO:				
Owners of the Company		97,274	42,498	55,448
Non-controlling interests		(125)	(568)	18
		97,149	41,930	55,466

## APPENDIX I

## ACCOUNTANTS' REPORT

### (B) COMBINED STATEMENTS OF COMPREHENSIVE INCOME

	<i>Note</i>	Year ended 31 December		
		2014 <i>HK\$'000</i>	2015 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
PROFIT FOR THE YEAR		97,149	41,930	55,466
OTHER COMPREHENSIVE INCOME				
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:				
Exchange differences on translation of foreign operations		(18,465)	(38,266)	(53,672)
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:				
Remeasurement of net pension scheme assets	18	(281)	(489)	339
OTHER COMPREHENSIVE LOSS FOR THE YEAR		(18,746)	(38,755)	(53,333)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>78,403</u>	<u>3,175</u>	<u>2,133</u>
ATTRIBUTABLE TO:				
Owners of the Company		78,644	3,928	2,358
Non-controlling interests		(241)	(753)	(225)
		<u>78,403</u>	<u>3,175</u>	<u>2,133</u>

## APPENDIX I

## ACCOUNTANTS' REPORT

### (C) COMBINED STATEMENTS OF FINANCIAL POSITION

		As at 31 December		
		2014	2015	2016
	Notes	HK\$'000	HK\$'000	HK\$'000
NON-CURRENT ASSETS				
Property, plant and equipment	14	193,729	195,730	188,041
Prepaid land lease payments	15	21,682	20,181	18,389
Available-for-sale investment	16	300	300	300
Deposits for purchases of property, plant and equipment	17	8,603	8,318	8,662
Net pension scheme assets	18	2,853	2,178	2,372
Deferred tax assets	30	9,083	7,854	7,470
Total non-current assets		236,250	234,561	225,234
CURRENT ASSETS				
Inventories	19	71,683	54,886	60,955
Trade and bills receivables	20	392,882	325,788	445,513
Prepayments, deposits and other receivables	21	40,904	40,374	44,702
Due from the Remaining Group	27	91,058	111,046	106,555
Structured deposits	22	203,037	157,224	98,666
Restricted cash	23	74,958	71,610	—
Cash and cash equivalents	23	185,704	214,945	219,540
Total current assets		1,060,226	975,873	975,931
CURRENT LIABILITIES				
Trade and bills payables	24	196,110	115,790	199,635
Other payables and accruals	25	155,490	134,939	139,797
Derivative financial instrument	26	16	10	—
Due to the Remaining Group	27	96,020	77,735	19,853
Interest-bearing bank and other borrowings	28	145,230	165,349	113,344
Tax payable		14,661	13,751	17,088
Total current liabilities		607,527	507,574	489,717
NET CURRENT ASSETS		452,699	468,299	486,214
TOTAL ASSETS LESS CURRENT LIABILITIES		688,949	702,860	711,448

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## ACCOUNTANTS’ REPORT

		As at 31 December		
		2014	2015	2016
	Notes	HK\$’000	HK\$’000	HK\$’000
<b>NON-CURRENT LIABILITIES</b>				
Interest-bearing bank and other borrowings	28	22	12	1,388
Deferred tax liabilities	30	31,037	31,713	29,343
Deferred income	31	3,265	2,813	2,346
Total non-current liabilities		34,324	34,538	33,077
Net assets		654,625	668,322	678,371
<b>EQUITY</b>				
<b>Equity attributable to owners of the Company</b>				
Issued capital	32	–	–	–
Reserves	33	650,029	664,479	674,753
		650,029	664,479	674,753
Non-controlling interests		4,596	3,843	3,618
Total equity		654,625	668,322	678,371

## APPENDIX I

## ACCOUNTANTS’ REPORT

### (D) COMBINED STATEMENTS OF CHANGES IN EQUITY

Attributable to owners of the Company													
		Leasehold land and building											
		Issued capital	Merger reserve	Capital contribution	Contributed surplus	revaluation reserve	General reserve	Exchange fluctuation reserve	Reserve funds**	Retained profits	Non- controlling Total	Total interests	equity
Notes		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(note 32)	(note 33(b))	(note 33(c))									
At 1 January 2014		-	(6,361)	25,385	(45,710)	6,489	10,485	73,506	28,866	477,808	570,468	4,837	575,305
Profit/(loss) for the year		-	-	-	-	-	-	-	-	97,274	97,274	(125)	97,149
Other comprehensive loss for the year:													
Remeasurement of net pension scheme assets	18	-	-	-	-	-	-	-	-	(281)	(281)	-	(281)
Exchange differences on translation of foreign operations		-	-	-	-	-	-	(18,349)	-	-	(18,349)	(116)	(18,465)
Total comprehensive income/(loss) for the year		-	-	-	-	-	-	(18,349)	-	96,993	78,644	(241)	78,403
Deemed capital contribution from the ultimate holding company	34	-	-	917	-	-	-	-	-	-	917	-	917
Transfer of capital contribution upon the lapse of share options		-	-	(2,630)	-	-	-	-	-	2,630	-	-	-
At 31 December 2014		-	(6,361) <sup>#</sup>	23,672 <sup>#</sup>	(45,710) <sup>#</sup>	6,489 <sup>#</sup>	10,485 <sup>#</sup>	55,157 <sup>#</sup>	28,866 <sup>#</sup>	577,431 <sup>#</sup>	650,029	4,596	654,625

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## ACCOUNTANTS’ REPORT

Attributable to owners of the Company												
Note												
	Issued capital	Merger reserve	Capital contribution	Contributed surplus	Leasehold land and building revaluation reserve	General reserve	Exchange fluctuation reserve	Reserve funds**	Retained profits	Non- controlling Total	interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(note 32)	(note 33(b))	(note 33(c))									
At 1 January 2015	-	(6,361)	23,672	(45,710)	6,489	10,485	55,157	28,866	577,431	650,029	4,596	654,625
Profit/(loss) for the year	-	-	-	-	-	-	-	-	42,498	42,498	(568)	41,930
Other comprehensive loss for the year:												
Remeasurement of net pension scheme assets	18	-	-	-	-	-	-	-	(489)	(489)	-	(489)
Exchange differences on translation of foreign operations	-	-	-	-	-	-	(38,081)	-	-	(38,081)	(185)	(38,266)
Total comprehensive income/(loss) for the year	-	-	-	-	-	-	(38,081)	-	42,009	3,928	(753)	3,175
Contribution from the Remaining Group	-	10,522	-	-	-	-	-	-	-	10,522	-	10,522
Transfer of capital contribution upon the lapse of share options	-	-	(21,042)	-	-	-	-	-	21,042	-	-	-
At 31 December 2015	-	4,161 <sup>#</sup>	2,630 <sup>#</sup>	(45,710) <sup>#</sup>	6,489 <sup>#</sup>	10,485 <sup>#</sup>	17,076 <sup>#</sup>	28,866 <sup>#</sup>	640,482 <sup>#</sup>	664,479	3,843	668,322

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## ACCOUNTANTS’ REPORT

Attributable to owners of the Company												
Note												
	Issued capital	Merger reserve	Capital contribution	Contributed surplus	Leasehold land and building revaluation reserve	General reserve	Exchange fluctuation reserve	Reserve funds**	Retained profits	Non- controlling Total	interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(note 32)	(note 33(b))	(note 33(c))									
At 1 January 2016	-	4,161	2,630	(45,710)	6,489	10,485	17,076	28,866	640,482	664,479	3,843	668,322
Profit for the year	-	-	-	-	-	-	-	-	55,448	55,448	18	55,466
Other comprehensive income/ (loss) for the year:												
Remeasurement of net pension scheme assets	18	-	-	-	-	-	-	-	339	339	-	339
Exchange differences on translation of foreign operations		-	-	-	-	-	(53,429)	-	-	(53,429)	(243)	(53,672)
Total comprehensive income/(loss) for the year	-	-	-	-	-	-	(53,429)	-	55,787	2,358	(225)	2,133
Contribution from the Remaining Group	-	7,916	-	-	-	-	-	-	-	7,916	-	7,916
At 31 December 2016	-	12,077 <sup>#</sup>	2,630 <sup>#</sup>	(45,710) <sup>#</sup>	6,489 <sup>#</sup>	10,485 <sup>#</sup>	(36,353) <sup>#</sup>	28,866 <sup>#</sup>	696,269 <sup>#</sup>	674,753	3,618	678,371

\*\* 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.

<sup>#</sup> These reserve accounts comprise the combined reserves of HK\$650,029,000, HK\$664,479,000 and HK\$674,753,000 in the combined statements of financial position as at 31 December 2014, 2015 and 2016, respectively.



## APPENDIX I

## ACCOUNTANTS' REPORT

### (E) COMBINED STATEMENTS OF CASH FLOWS

		Year ended 31 December		
		2014	2015	2016
	Notes	HK\$'000	HK\$'000	HK\$'000
CASH FLOWS FROM				
OPERATING ACTIVITIES				
Profit before tax		127,341	61,631	73,267
Adjustments for:				
Finance costs	8	3,076	3,098	2,050
Bank interest income	6	(3,858)	(5,163)	(2,402)
Depreciation	7	13,767	17,630	18,174
Amortisation of prepaid land lease payments	7	562	552	524
Recognition of deferred income	6	(323)	(317)	(301)
Losses/(gains) on disposal of items of property, plant and equipment	7	358	(27)	142
Write-off of items of property, plant and equipment	7	225	155	608
Fair value losses/(gains), net: Structured deposits	6	(5,674)	(4,926)	(3,209)
Derivative instrument – transaction not qualifying as hedge	7	1	(6)	(10)
Write-down/(write-back) of inventories to net realisable value	7	2,112	(2,074)	(5,731)
Provision for impairment of trade receivables	7	1,348	5,465	11,694
Equity-settled share based expense	7	917	–	–
Net pension benefit expenses	7	163	186	145
		140,015	76,204	94,951
Decrease/(increase) in inventories		12,242	15,883	(3,693)
Decrease/(increase) in trade and bills receivables		(132,106)	45,573	(151,322)
Increase in prepayments, deposits and other receivables		(7,428)	(1,126)	(6,771)
Increase/(decrease) in trade and bills payables		23,796	(71,732)	91,145
Increase/(decrease) in other payables and accruals		(2,501)	(15,238)	11,753
Exchange realignment		3,747	(3,889)	(1,415)
Cash generated from operations		37,765	45,675	34,648
Interest paid		(3,041)	(3,100)	(2,135)
Overseas taxes paid		(29,381)	(18,619)	(16,418)
Net cash flows from operating activities		5,343	23,956	16,095

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## ACCOUNTANTS' REPORT

		Year ended 31 December		
		2014	2015	2016
	Note	HK\$'000	HK\$'000	HK\$'000
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of items of property, plant and equipment	14	(9,220)	(26,840)	(22,044)
Proceeds from disposal of items of property, plant and equipment		311	209	512
Investments in structured deposits		(655,504)	(408,816)	(231,709)
Proceeds from structured deposits		621,659	452,683	286,393
Interest received		3,858	5,163	2,395
Deposits paid for purchases of property, and plant and equipment		(765)	(1,557)	(2,127)
Increase in restricted time deposits with original maturity of less than three months when acquired		–	(11,935)	–
Decrease in restricted time deposits with original maturity of less than three months when acquired		–	–	11,935
Decrease/(increase) in time deposits with original maturity of more than three months when acquired		(64,010)	33,673	81,569
Decrease/(increase) in amounts due from the Remaining Group		2,589	(19,988)	10,079
Net cash flows from/(used in) investing activities		<u>(101,082)</u>	<u>22,592</u>	<u>137,003</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
New bank loans		164,995	226,670	109,772
Repayment of bank loans		(159,874)	(206,390)	(162,115)
Decrease in amounts due to the Remaining Group		(4,475)	(7,763)	(56,861)
Capital element of finance lease rental payments		(216)	(188)	(180)
Net cash flows from/(used in) financing activities		<u>430</u>	<u>12,329</u>	<u>(109,384)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS				
		<u>(95,309)</u>	<u>58,877</u>	<u>43,714</u>
Cash and cash equivalents at beginning of year		247,472	145,420	193,051
Effect of foreign exchange rate changes, net		(6,743)	(11,246)	(17,225)
CASH AND CASH EQUIVALENTS AT END OF YEAR				
		<u>145,420</u>	<u>193,051</u>	<u>219,540</u>

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## ACCOUNTANTS’ REPORT

		Year ended 31 December		
		2014	2015	2016
		HK\$'000	HK\$'000	HK\$'000
Note				
ANALYSIS OF BALANCES				
OF CASH AND				
CASH EQUIVALENTS				
Cash and bank balance	23	106,692	120,942	102,196
Non-pledged time deposits		79,012	94,003	117,344
Cash and cash equivalents as				
stated in the combined				
statements of financial position		185,704	214,945	219,540
Non-pledged time deposits with				
original maturity of more than				
three months when acquired		(40,284)	(21,894)	–
Cash and cash equivalents				
as stated in the combined				
statements of cash flows		145,420	193,051	219,540

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## ACCOUNTANTS’ REPORT

### (F) STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	<i>Notes</i>	<b>As at 31 December 2016 HK\$'000</b>
<b>CURRENT ASSETS</b>		
Prepayments		3,265
<b>CURRENT LIABILITIES</b>		
Other payables and accrual	25	2,208
Due to subsidiaries	27	14,019
Total current liabilities		16,227
Net liabilities		(12,962)
<b>EQUITY</b>		
Issued capital	32	–
Accumulated loss		(12,962)
Total equity		(12,962)

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## ACCOUNTANTS’ REPORT

### II. NOTES TO FINANCIAL INFORMATION

#### 1. CORPORATE AND GROUP INFORMATION

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

The Company is an investment holding company. During the Track Record Period, the Company’s subsidiaries were engaged in the manufacture and sale of paint products.

In the opinion of the Directors, CNT Group Limited (“CNT Group”), a company incorporated in the Bermuda and listed on the Main Board of the Stock Exchange, is the ultimate holding company of the Company.

The Company and its subsidiaries are hereafter collectively referred to as the “Group”; whereas CNT Group and its subsidiaries, but excluding the Group, are collectively referred to as the “Remaining Group”.

The Company and its subsidiaries now comprising the Group underwent the Reorganisation as set out in the paragraph headed “Reorganisation” in the section headed “History, Development and Reorganisation” in the [REDACTED].

As at the date of this report, the Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Company name	Place and date of incorporation/ registration and place of operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
CP Industries (BVI) Limited (formerly known as CNT Industries (BVI) Limited) (Note (a))	British Virgin Islands (“BVI”) 7 December 1993	US\$1,635,512	100	–	Investment holding
Majority Faith Corporation (Note (a))	BVI 16 January 1991	US\$1	–	100	Investment holding
CNT Resene Limited (Note (b))	Hong Kong 23 June 2003	HK\$2	–	100	Manufacture and sale of paint products
CNT Resene (Distribution) Limited (Note (c))	Hong Kong 6 February 2015	HK\$1	–	100	Sale of paint products
China Paint Factory Limited (Note (a))	BVI 24 September 1991	US\$1	–	100	Inactive
The China Paint Manufacturing Company (1932) Limited (Note (b))	Hong Kong 3 June 1946	Ordinary HK\$200,000 Non-voting deferred HK\$1,761,300	–	100	Manufacture and sale of paint products and investment holding

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## ACCOUNTANTS’ REPORT

Company name	Place and date of incorporation/ registration and place of operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
長頸鹿製漆 (徐州) 有限公司 Giraffe Paint Mfg. Co., (Xuzhou) Ltd.* (Note (d))	PRC/ Mainland China 9 August 2004	US\$2,000,000	–	100	Manufacture and sale of solvents and paint products
Shine Express Development Limited (Note (b))	Hong Kong 23 June 1993	HK\$2	–	100	Provision of property management services
The China Paint (Singapore) Pte. Ltd. (Note (e))	Singapore 28 May 2009	S\$2	–	100	Inactive
中華製漆 (新豐) 有限公司 The China Paint Mfg. Co., (Xinfeng) Ltd.* (Note (f))	PRC/ Mainland China 14 September 2007	US\$13,000,000	–	100	Manufacture and sale of paint products
R, J & Thomas Secretaries Limited (Note (b))	Hong Kong 23 December 1977	HK\$30,000	–	100	Investment holding
長頸鹿製漆 (上海) 有限公司 Giraffe Paint Mfg. Co., (Shanghai) Ltd.* (Note (g))	PRC/ Mainland China 13 April 2004	US\$4,000,000	–	100	Sale of paint products
湖北長頸鹿製漆有限公司 Hubei Giraffe Paint Mfg. Co., Ltd.* (Note (h))	PRC/ Mainland China 11 June 1992	RMB40,000,000	–	90.5	Manufacture and sale of paint products
中華製漆 (深圳) 有限公司 The China Paint Manufacturing (Shenzhen) Co., Ltd.* (Note (i))	PRC/ Mainland China 21 October 1991	HK\$70,000,000	–	100	Manufacture and sale of paint products

\* The English names represent management’s best effort in translating their Chinese names as no English names have been registered.

### Notes:

- (a) No audited financial statements have been prepared for these entities for the three years ended 31 December 2014, 2015 and 2016 as these entities were not subject to any statutory audit requirements under the relevant rules and regulations in their jurisdictions of incorporation.
- (b) The statutory financial statements of these entities for the three years ended 31 December 2014, 2015 and 2016 prepared under HKFRSs were audited by Ernst & Young, Hong Kong.
- (c) The statutory financial statements for the period from 6 February 2015 (date of incorporation) to 31 December 2015 and for the year ended 31 December 2016 prepared under HKFRSs were audited by Ernst & Young, Hong Kong.
- (d) The statutory financial statements for the three years ended 31 December 2014, 2015 and 2016 prepared under the People’s Republic of China Generally Accepted Accounting Principles (PRC GAAP) were audited by Jiangsu Fubang Certified Public Accountants Co., Ltd. (江蘇富邦會計師事務所有限公司), certified public accountants registered in the PRC.

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## **ACCOUNTANTS’ REPORT**

- (e) The statutory financial statements prepared in accordance with Singapore Financial Reporting Standards were audited by KK Tham & Associates, Singapore for the three years ended 31 December 2014, 2015 and 2016.
- (f) The statutory financial statements for the three years ended 31 December 2014, 2015 and 2016 prepared under PRC GAAP were audited by Shaoguan Zhong Yi Certified Public Accountants Co., Ltd. (韶關中一會計師事務所有限公司), certified public accountants registered in the PRC.
- (g) The statutory financial statements for the three years ended 31 December 2014, 2015 and 2016 prepared under PRC GAAP were audited by Shanghai Yong Cheng Certified Public Accountants Co., Ltd. (上海永誠會計師事務所有限公司), certified public accountants registered in the PRC.
- (h) The statutory financial statements for the three years ended 31 December 2014, 2015 and 2016 prepared under PRC GAAP were audited by Hubei Haiwei Certified Public Accountants Co., Ltd. (湖北海威會計師事務所有限公司), certified public accountants registered in the PRC.
- (i) The statutory financial statements for the three years ended 31 December 2014, 2015 and 2016 prepared under PRC GAAP were audited by Shenzhen Gaoxin Huayan Certified Public Accountants Co., Ltd. (深圳高信華源會計師事務所), certified public accountants registered in the PRC.

### **2.1 BASIS OF PRESENTATION**

Pursuant to the Reorganisation as more fully explained in the paragraph headed “Reorganisation” in the section headed “History, Development and Reorganisation” in the [REDACTED], the Company became the holding company of the companies now comprising the Group on 19 September 2016. The companies now comprising the Group were under the common control of the same controlling shareholders before and after the Reorganisation. Accordingly, for the purpose of this report, the Financial Information has been prepared on a combined basis by applying the principles of merger accounting as if the Reorganisation had been completed at the beginning of the Track Record Period.

For the purpose of this report, the related financial information of business and operation historically not associated with the paint business of the Group has been excluded from the Financial Information throughout the Track Record Period as such business and operation are distinct and identifiable business, which operated autonomously and were retained by the CNT Group Limited and its subsidiaries following completion of the Spin-Off and the [REDACTED], excluding members of our Group (“Remaining Group”) pursuant to the Reorganisation.

The combined statements of profit or loss, combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Group for the Track Record Period include the results and cash flows of all companies now comprising the Group from the earliest date presented or since the date when the subsidiaries and/or businesses first came under the common control of the controlling shareholders, where this is a shorter period. The combined statements of financial position of the Group as at 31 December 2014, 2015 and 2016 have been prepared to present the assets and liabilities of the subsidiaries and/or businesses using the existing book values from the controlling shareholders’ perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

Equity interests in subsidiaries and/or business held by parties other than the controlling shareholders, and changes therein, prior to the Reorganisation are presented as non-controlling interests in equity in applying the principles of merger accounting. All intra-group transactions and balances have been eliminated on combination.

### **2.2 BASIS OF PREPARATION**

The Financial Information has been prepared in accordance with HKFRSs (which include all HKFRSs, HKASs and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting period commencing from 1 January 2016, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Financial Information throughout the Track Record Period.

The Financial Information has been prepared under the historical cost convention, except for structures deposits, a derivative financial instrument and net pension scheme assets which have been measured at fair value. The Financial Information is presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest thousand except when otherwise indicated.

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### **Basis of combination**

This Financial Information includes the Financial Information of the Company and its subsidiaries now comprising the Group for the Track Record Period. As explained in note 2.1 above, the acquisition of subsidiaries and business under common control has been accounted for using merger accounting.

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

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

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

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

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 combination.

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

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



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### 2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs

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

Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i> <sup>2</sup>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts</i> <sup>2</sup>
HKFRS 9	<i>Financial Instruments</i> <sup>2</sup>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>4</sup>
HKFRS 15	<i>Revenue from Contracts with Customers</i> <sup>2</sup>
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers</i> <sup>2</sup>
HKFRS 16	<i>Leases</i> <sup>3</sup>
Amendments to HKAS 7	<i>Disclosure Initiative</i> <sup>1</sup>
Amendments to HKAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i> <sup>1</sup>
<i>Annual Improvements 2014-2016</i>	Amendments to HKFRS 12 <i>Disclosure of Interests in Other Entities</i> <sup>1</sup>
<i>Annual Improvements 2014-2016</i>	Amendments to a number of HKFRSs <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2017

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>4</sup> No mandatory effective date yet be determined but available for adoption

Further information about those HKFRSs are expected to be applicable to the Group is as follows:

The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet the employee’s tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee’s tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The Group expects to adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group’s financial statements.

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. During the Track Record Period, the Group performed a high-level assessment of the impact of the adoption of HKFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. The expected impacts on impairment arising from the adoption of HKFRS 9 are summarised as follows:

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses that are estimated based on the present value of all cash shortfalls over the remaining life of all of its trade and bills receivables. The Group will perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements, for estimation of expected credit losses on its trade and bills receivables upon the adoption of HKFRS 9. A reasonable estimate will

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be available once a detailed review has been completed. The adoption of HKFRS 9 might have an impact on the Group's financial performance and financial position, including the measurement of financial assets and disclosures. In particular, the adoption of an expected credit losses impairment model may result in earlier recognition of credit losses of the Group's trade and bills receivables.

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implement issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard.

The Group is in the process of performing a detailed assessment of the potential impact of the application of HKFRS 15 and expects to adopt HKFRS 15 on 1 January 2018. The impact to the Group is to include more comprehensive disclosure as required by the new standard. In addition, contract that contains two or more performance obligations would be accounted for separately and this might have an impact on the pattern of revenue and profit recognition.

HKFRS 16 was issued by HKICPA in May 2016, which provides a comprehensive model for the identification of lease arrangements and their accounting treatment in the financial statements of both lessors and lessees. The new standard maintains substantially the lessor accounting requirements in the current HKAS 17 *Leases*.

A lessee is required to recognise a right-of-use asset and a lease liability at the commencement of lease arrangement. Right-of-use asset includes the amount of initial measurement of lease liability, any lease payment made to the lessor at or before the lease commencement date, estimated cost to be incurred by the lessee for dismantling or removing the underlying assets from and restoring the site, as well as any other initial direct cost incurred by the lessee. Lease liability represents the present value of the lease payments. The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses, while lease liability will be subsequently increased by the interest accrual, which will be charged to profit or loss, and deducted by lease payments. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. For lessors, there is little change to the existing accounting in HKAS 17 *Leases*. The Group expects to adopt HKFRS 16 on 1 January 2019.

As disclosed in note 38 to the Financial Information, the Group had total future minimum lease payments under non-cancellable operating leases as at 31 December 2016 amounted to HK\$1,367,000. The Directors do not expect the adoption of HKFRS 16 as compared with the current accounting policy would result in a significant impact on the Group's results but it is expected that certain portion of these lease commitments will be required to be recognised in the combined statement of financial position as right-of-use assets and lease liabilities.

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Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from 1 January 2017.

Amendments to HKAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group expects to adopt the amendments from 1 January 2017.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Fair value measurement**

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

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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 Information 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 Information 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 and financial 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.

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.

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### **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.

### **Property, plant and equipment and depreciation**

Property, plant and equipment, other than construction in progress, are stated at cost 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 the 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:

Leasehold land and buildings	2% – 4% or over the lease terms, whichever rate is higher
Leasehold improvements	10% – 33% or over the lease terms, whichever rate is higher
Plant and machinery	9% – 25%
Furniture, fixtures and equipment	10% – 33%
Motor vehicles	18% – 25%

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

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

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

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

### **Leases**

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

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

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

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

### **Research and development costs**

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

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

### **Investments and other financial assets**

#### *Initial recognition and measurement*

Financial assets of the Group are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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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 fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as other expenses in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These 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.

### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss.

### *Available-for-sale financial investments*

Available-for-sale financial investments of the Group are non-derivative financial assets in unlisted club membership debenture. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in a separate component of equity until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the separate component of equity to the statement of profit or loss. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss.

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When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

### **Derecognition of financial assets**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group’s combined 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 assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.



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### *Financial assets carried at amortised cost*

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset’s original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the statement of profit or loss.

### *Assets carried at cost*

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

### *Available-for-sale financial investments*

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. “Significant” is evaluated against the original cost of the investment and “prolonged” against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is “significant” or “prolonged” requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

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### **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, and loans and borrowings, as appropriate.

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

The Group’s financial liabilities include trade and bills payables, other payables and accruals, derivative financial instruments, amounts due to the Remaining Group and interest-bearing bank and other borrowings.

#### *Subsequent measurement*

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

#### *Financial liabilities at fair value through profit or loss*

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. 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 at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

#### *Loans and borrowings*

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

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

#### *Financial guarantee contracts*

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (a) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (b) the amount initially recognised less, when appropriate, cumulative amortisation.

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### **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.

### **Derivative financial instruments**

#### *Initial recognition and subsequent measurement*

The Group uses derivative financial instruments, such as interest rate swaps, to hedge its interest rate risk. These derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and is subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss.

### **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 combined 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 combined 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.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### **Government grants**

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

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### **Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and
- (b) interest income, 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.

### **Employee benefits**

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

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

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

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

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

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

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

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

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

### **Share-based payments**

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

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

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefit expense. 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.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

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

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the CNT 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.

### **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 distribution to the Company’s shareholders is recognised as a liability in the statement of financial position when the dividends are declared and approved by the shareholders in a general meeting.

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### **Foreign currencies**

These Financial Information 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).

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

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

For the purpose of the combined 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 Information 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.

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### **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 similar nature. The Group’s management reassesses the estimation at the end of each reporting period.

#### *Provision for income taxes*

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.

#### *Impairment of trade and bills receivables*

The Group assesses at the end of each reporting period whether there is any objective evidence that a receivable is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

The Group maintains an allowance for the estimated loss arising from the inability of its debtors to make the required payments. The Group makes its estimates based on, *inter alia*, the ageing of its receivable balances, debtors’ creditworthiness, past repayment history and historical write-off experience. If the financial condition of its debtors was to deteriorate so that the actual impairment loss might be higher than expected, the Group would be required to revise the basis of making the allowance.



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### 5. OPERATING SEGMENT INFORMATION

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

#### Geographical information

##### (a) Revenue from external customers

	Year ended 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
Hong Kong	91,360	62,557	80,233
Mainland China	1,039,700	805,388	857,217
Other countries	245	52	–
	<u>1,131,305</u>	<u>867,997</u>	<u>937,450</u>

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

##### (b) Non-current assets

	Year ended 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
Hong Kong	4,117	3,734	4,256
Mainland China	219,897	220,495	210,836
	<u>224,014</u>	<u>224,229</u>	<u>215,092</u>

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

#### Information about a major customer

During the Track Record Period, no revenue from any single customer accounted for 10% or more of the total revenue of the Group.

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

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

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

	<i>Note</i>	Year ended 31 December		
		2014 HK\$'000	2015 HK\$'000	2016 HK\$'000
<b>Revenue</b>				
Sale of paint products		1,131,305	867,997	937,450
<b>Other income</b>				
Bank interest income		3,858	5,163	2,402
Government grants received from Mainland China authorities*		2,789	4,840	4,641
Recognition of deferred income	31	323	317	301
Others		3,907	3,039	2,264
		10,877	13,359	9,608
<b>Gains, net</b>				
Fair value gains, net:				
Derivative instrument – transaction not qualifying as hedge		–	6	10
Structured deposits		5,674	4,926	3,209
Gain on disposal of items of property, plant and equipment, net		–	27	–
		5,674	4,959	3,219
Total other income and gains, net		16,551	18,318	12,827

\* Various government grants have been received from the PRC local government authorities to support local companies. There are no unfulfilled conditions or contingencies relating to these grants.

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### 7. PROFIT BEFORE TAX

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

	<i>Notes</i>	Year ended 31 December		
		2014 HK\$’000	2015 HK\$’000	2016 HK\$’000
Cost of inventories sold		737,417	543,573	590,088
Depreciation	14	13,767	17,630	18,174
Amortisation of prepaid land lease payments	15	562	552	524
Minimum lease payments under operating leases in respect of land and buildings		23,930	21,064	11,215
Auditor’s remuneration:				
Audit related services		1,672	1,700	6,296
Other services		781	24	18
		<u>2,453</u>	<u>1,724</u>	<u>6,314</u>
Employee benefit expense (including directors’ remuneration ( <i>note 9</i> )):				
Wages, salaries, bonuses, allowances and welfare		160,717	159,765	165,287
Pension scheme contributions (defined contribution schemes) <sup>#</sup>		18,953	15,431	15,106
Equity-settled share based payment	34	917	–	–
Net pension benefit expenses recognised (defined benefit schemes)	18	163	186	145
		<u>180,750</u>	<u>175,382</u>	<u>180,538</u>
Foreign exchange differences, net*		655	2,256	71
Write-down/(write-back) of inventories to net realisable value <sup>@</sup>		2,112	(2,074)	(5,731)
Provision for impairment of trade receivables	20	1,348	5,465	11,694
Fair value losses/(gains), net:				
Structure deposits		(5,674)	(4,926)	(3,209)
Derivative instrument – transaction not qualifying as hedge		1	(6)	(10)
Loss/(gain) on disposal of items of property, plant and equipment*		358	(27)	142
Product improvement and development		26,004	24,681	30,201
Write-off of items of property, plant and equipment*	14	<u>225</u>	<u>155</u>	<u>608</u>

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

@ The balance is included in “Cost of sales” in the combined statements of profit or loss.

# At the end of the Track Record Period, the Group had no material forfeited contributions available to reduce its contributions to the retirement benefit schemes in future years.

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### 8. FINANCE COSTS

	Year ended 31 December		
	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000
Interest on bank loans	3,349	3,095	2,005
Interest on finance lease	11	3	45
Total interest expenses on financial liabilities	3,360	3,098	2,050
Less: Interest capitalised	(284)	–	–
	<u>3,076</u>	<u>3,098</u>	<u>2,050</u>

During the year ended 31 December 2014, the Group had capitalised borrowings costs amounting to HK\$284,000 on qualifying assets, which were capitalised at the weighted average rates of the corresponding borrowings of 7.4%.

### 9. DIRECTORS’ REMUNERATION

Tsui Ho Chuen, Philip was appointed on 19 September 2016, Wong Anders and Li Guangzhong were appointed on 11 November 2016 as executive directors of the Company. Lam Ting Ball, Paul and Chong Chi Kwan were appointed as non-executive directors of the Company on 11 November 2016. Subsequent to the end of the Track Record Period. Chiu Kam Hing Kathy, Chua Joo Bin and Xia Jun were appointed as independent non-executive directors of the Company on 9 June 2017.

Certain of the directors received remuneration from the subsidiaries now comprising the Group for their appointment as directors or officers of these subsidiaries. The remuneration of each of these directors as recorded in the financial statements of the subsidiaries is set out below:

	Year ended 31 December		
	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000
Fees	–	–	–
Other emoluments:			
Salaries, allowances and benefits in kind	11,768	11,673	10,289
Discretionary bonuses	2,218	1,495	1,509
Pension scheme contributions	501	513	492
	<u>14,487</u>	<u>13,681</u>	<u>12,290</u>
	<u>14,487</u>	<u>13,681</u>	<u>12,290</u>

During the Track Record Period, year ended 31 December 2016, no remuneration was paid or payable by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

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### Executive directors and non-executive directors

Year ended	Fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Pension scheme contributions	Total remuneration
31 December 2014	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000

#### Executive directors:

Tsui Ho Chuen, Philip	–	5,536	1,278	350	7,164
Wong Anders	–	1,062	240	17	1,319
Li Guangzhong	–	2,035	169	100	2,304
	–	8,633	1,687	467	10,787

#### Non-executive directors:

Lam Ting Ball, Paul	–	2,161	175	17	2,353
Chong Chi Kwan	–	974	356	17	1,347
	–	3,135	531	34	3,700
	–	11,768	2,218	501	14,487

Year ended	Fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Pension scheme contributions	Total remuneration
31 December 2015	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000

#### Executive directors:

Tsui Ho Chuen, Philip	–	5,565	730	350	6,645
Wong Anders	–	1,143	293	18	1,454
Li Guangzhong	–	1,830	172	109	2,111
	–	8,538	1,195	477	10,210

#### Non-executive directors:

Lam Ting Ball, Paul	–	2,161	75	18	2,254
Chong Chi Kwan	–	974	225	18	1,217
	–	3,135	300	36	3,471
	–	11,673	1,495	513	13,681

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Year ended 31 December 2016	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Discretionary bonuses HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
<b>Executive directors:</b>					
Tsui Ho Chuen, Philip	–	5,596	730	350	6,676
Wong Anders	–	1,325	324	18	1,667
Li Guangzhong	–	1,851	205	106	2,162
	–	8,772	1,259	474	10,505
<b>Non-executive directors:</b>					
Lam Ting Ball, Paul	–	1,031	50	9	1,090
Chong Chi Kwan	–	486	200	9	695
	–	1,517	250	18	1,785
	–	10,289	1,509	492	12,290

There was no arrangement under which a director waived or agreed to waive any remuneration during the Track Record Period.

During the Track Record Period, no remuneration was paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

### 10. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid employees during the years ended 31 December 2014, 2015 and 2016 included three, three and two directors, respectively, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining non-director, highest paid employees for the Track Record Period are as follows:

	<b>Year ended 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	HK\$'000	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	5,148	5,628	7,452
Discretionary bonuses	1,246	1,138	1,325
Pension scheme contributions	17	18	121
	6,411	6,784	8,898

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The number of the non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Year ended 31 December		
	2014	2015	2016
HK\$950,001 to HK\$1,000,000	–	–	–
HK\$1,000,001 to HK\$1,500,000	–	–	–
HK\$1,500,001 to HK\$2,000,000	–	–	–
HK\$2,000,001 to HK\$2,500,000	–	–	1
HK\$2,500,001 to HK\$3,000,000	–	–	–
HK\$3,000,001 to HK\$3,500,000	2	1	1
HK\$3,500,001 to HK\$4,000,000	–	1	1
	<u>2</u>	<u>2</u>	<u>3</u>

During the Track Record Period, no emoluments were paid by the Group to the directors or any of the non-director, highest paid employees 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

Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI.

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 Track Record Period.

All subsidiaries of the Group established in Mainland China are subject to the PRC corporate income tax at a standard rate of 25% for each of the Track Record Period, 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% had been applied for each of the Track Record Period.

	Year ended 31 December		
	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000
Current – Elsewhere			
Charge for the year	29,683	18,142	20,283
Underprovision in prior years	132	50	–
Deferred (note 30)	<u>377</u>	<u>1,509</u>	<u>(2,482)</u>
Total tax charge for the year	<u>30,192</u>	<u>19,701</u>	<u>17,801</u>

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A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

	<b>Year ended 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before tax	127,341	61,631	73,267
Tax at the statutory tax rate	21,011	10,169	12,089
Different tax rates for subsidiaries in the PRC, net	(4,401)	(4,815)	(3,111)
Adjustments in respect of current tax of previous periods	132	50	–
Income not subject to tax	(1,583)	(2,068)	(1,933)
Expenses not deductible for tax	1,067	1,366	8,391
Effect of withholding tax at 5% on the distributable profits of the Group’s PRC subsidiaries	8,139	3,243	1,819
Tax losses utilised from previous periods	–	–	(4,404)
Tax losses not recognised	5,759	14,660	4,324
Others	68	(2,904)	626
Tax charge at the Group’s effective tax rate	30,192	19,701	17,801

### **12. DIVIDENDS**

No dividend has been paid or declared by the Company for each of years ended 31 December 2014, 2015 and 2016.

### **13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY**

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganisation and the preparation of the results of the Group for the Track Record Period on a combined basis as disclosed in note 2.1 above.



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### 14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>31 December 2014</b>							
At 1 January 2014:							
Cost or valuation	124,498	141,347	15,758	129,658	35,586	21,912	468,759
Accumulated depreciation	(86,356)	–	(13,910)	(120,722)	(27,077)	(17,347)	(265,412)
Net carrying amount	<u>38,142</u>	<u>141,347</u>	<u>1,848</u>	<u>8,936</u>	<u>8,509</u>	<u>4,565</u>	<u>203,347</u>
At 1 January 2014, net of accumulated depreciation	38,142	141,347	1,848	8,936	8,509	4,565	203,347
Additions	–	5,519	40	1,057	1,645	959	9,220
Disposals	–	–	–	(509)	(10)	(150)	(669)
Write-off ( <i>note 7</i> )	–	–	(57)	(98)	(70)	–	(225)
Transfer from deposits for purchases of property, plant and equipment ( <i>note 17</i> )	–	–	–	597	–	–	597
Depreciation provided during the year ( <i>note 7</i> )	(6,311)	–	(740)	(2,410)	(2,933)	(1,373)	(13,767)
Transfers	89,556	(104,914)	–	15,358	–	–	–
Exchange realignment	(805)	(3,616)	(16)	(268)	(23)	(46)	(4,774)
At 31 December 2014, net of accumulated depreciation	<u>120,582</u>	<u>38,336</u>	<u>1,075</u>	<u>22,663</u>	<u>7,118</u>	<u>3,955</u>	<u>193,729</u>
At 31 December 2014:							
Cost or valuation	211,091	38,336	13,975	138,505	35,740	20,721	458,368
Accumulated depreciation	(90,509)	–	(12,900)	(115,842)	(28,622)	(16,766)	(264,639)
Net carrying amount	<u>120,582</u>	<u>38,336</u>	<u>1,075</u>	<u>22,663</u>	<u>7,118</u>	<u>3,955</u>	<u>193,729</u>

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	Leasehold land and buildings <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>31 December 2015</b>							
At 1 January 2015:							
Cost or valuation	211,091	38,336	13,975	138,505	35,740	20,721	458,368
Accumulated depreciation	(90,509)	–	(12,900)	(115,842)	(28,622)	(16,766)	(264,639)
Net carrying amount	<u>120,582</u>	<u>38,336</u>	<u>1,075</u>	<u>22,663</u>	<u>7,118</u>	<u>3,955</u>	<u>193,729</u>
At 1 January 2015, net of accumulated depreciation	120,582	38,336	1,075	22,663	7,118	3,955	193,729
Additions	–	21,644	759	915	1,929	1,593	26,840
Disposals	–	–	–	–	(3)	(179)	(182)
Write-off ( <i>note 7</i> )	–	–	(14)	(10)	(130)	(1)	(155)
Transfer from deposits for purchases of property, plant and equipment ( <i>note 17</i> )	–	–	104	610	368	369	1,451
Depreciation provided during the year ( <i>note 7</i> )	(7,146)	–	(633)	(6,209)	(2,288)	(1,354)	(17,630)
Transfers	35,273	(59,226)	3,090	20,863	–	–	–
Exchange realignment	(6,636)	(754)	(101)	(633)	(83)	(116)	(8,323)
At 31 December 2015, net of accumulated depreciation	<u>142,073</u>	<u>–</u>	<u>4,280</u>	<u>38,199</u>	<u>6,911</u>	<u>4,267</u>	<u>195,730</u>
At 31 December 2015:							
Cost or valuation	235,458	–	17,123	155,363	35,733	19,254	462,931
Accumulated depreciation	(93,385)	–	(12,843)	(117,164)	(28,822)	(14,987)	(267,201)
Net carrying amount	<u>142,073</u>	<u>–</u>	<u>4,280</u>	<u>38,199</u>	<u>6,911</u>	<u>4,267</u>	<u>195,730</u>

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	Leasehold land and buildings <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>31 December 2016</b>							
At 1 January 2016:							
Cost or valuation	235,458	–	17,123	155,363	35,733	19,254	462,931
Accumulated depreciation	(93,385)	–	(12,843)	(117,164)	(28,822)	(14,987)	(267,201)
Net carrying amount	<u>142,073</u>	<u>–</u>	<u>4,280</u>	<u>38,199</u>	<u>6,911</u>	<u>4,267</u>	<u>195,730</u>
At 1 January 2016, net of accumulated depreciation	142,073	–	4,280	38,199	6,911	4,267	195,730
Additions	–	16,600	57	902	3,902	2,493	23,954
Disposals	–	–	–	(105)	(78)	(472)	(655)
Write-off ( <i>note 7</i> )	–	–	(6)	(483)	(119)	–	(608)
Transfer from deposits for purchases of property, plant and equipment ( <i>note 17</i> )	–	–	–	550	–	640	1,190
Depreciation provided during the year ( <i>note 7</i> )	(8,948)	–	(533)	(4,918)	(2,250)	(1,525)	(18,174)
Exchange realignment	(7,993)	(800)	(741)	(2,396)	(1,310)	(156)	(13,396)
At 31 December 2016, net of accumulated depreciation	<u>125,132</u>	<u>15,800</u>	<u>3,057</u>	<u>31,749</u>	<u>7,056</u>	<u>5,247</u>	<u>188,041</u>
At 31 December 2016:							
Cost or valuation	220,560	15,800	16,117	144,145	34,881	19,574	451,077
Accumulated depreciation	(95,428)	–	(13,060)	(112,396)	(27,825)	(14,327)	(263,036)
Net carrying amount	<u>125,132</u>	<u>15,800</u>	<u>3,057</u>	<u>31,749</u>	<u>7,056</u>	<u>5,247</u>	<u>188,041</u>

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

	<b>As at 31 December</b>		
	<b>2014</b> <i>HK\$'000</i>	<b>2015</b> <i>HK\$'000</i>	<b>2016</b> <i>HK\$'000</i>
Furniture, fixtures and equipment	38	30	23
Motor vehicles	<u>367</u>	<u>–</u>	<u>1,846</u>
	<u>405</u>	<u>30</u>	<u>1,869</u>

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Certain of the Group’s leasehold land and buildings situated in Hong Kong and Mainland China were revalued at 31 December 1994 by Vigers Appraisal & Consulting Limited, independent professionally qualified valuers. The leasehold land and buildings situated in Hong Kong were revalued at open market value, based on their existing use. The leasehold land and buildings situated in Mainland China were revalued based on a combination of the market and the depreciated replacement costs. Since 31 December 1994, no further revaluations of the Group’s leasehold land and buildings have been carried out, as the Group has relied upon the exemption granted under the transitional provisions in paragraph 80A 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. Certain leasehold land and buildings of the Group which had been revalued in 1994 were classified as finance leases under paragraph 16 of HKAS 17 as the lease payments could not be allocated reliably between the land and building elements. Accordingly, the entire lease has been classified as a finance lease of the Group’s property, plant and equipment.

Had Group’s leasehold land and buildings been carried at historical cost less accumulated depreciation and impairment, their total carrying amount at 31 December 2014, 2015 and 2016 would have been HK\$3,492,000, HK\$635,000 and nil, respectively.

At 31 December 2014, 2015 and 2016, certain of the above land and buildings with aggregate net carrying amounts of HK\$9,459,000, HK\$8,774,000 and HK\$8,034,000, respectively were pledged to secure general banking facilities granted to the Group (note 28).

### **15. PREPAID LAND LEASE PAYMENTS**

	<b>As at 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Carrying amount at beginning of year	22,800	21,682	20,181
Recognised during the year ( <i>note 7</i> )	(562)	(552)	(524)
Exchange realignment	(556)	(949)	(1,268)
	<u>21,682</u>	<u>20,181</u>	<u>18,389</u>

### **16. AVAILABLE-FOR-SALE INVESTMENT**

	<b>As at 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted club membership debenture, at fair value	<u>300</u>	<u>300</u>	<u>300</u>

The available-for-sale investment consists of investment in debenture which was designated as available-for-sale financial asset and has no fixed maturity date or coupon rate. The fair value of the unlisted club membership debenture held by the Group was based on quoted market prices. At the end of each reporting period, the Group did not intend to dispose of it in the near future.

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

	As at 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
Carrying amount at beginning of year	8,658	8,603	8,318
Transfer to property, plant and equipment ( <i>note 14</i> )	(597)	(1,451)	(1,190)
Additions	765	1,557	2,127
Exchange realignment	(223)	(391)	(593)
Carrying amount at end of year	<u>8,603</u>	<u>8,318</u>	<u>8,662</u>

At the end of each Track Record Period, the carrying amount represented deposits paid for the purchases of a parcel of land in Xinfeng, Guangdong Province, the PRC, and machinery and equipment.

### 18. NET PENSION SCHEME ASSETS

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

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

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

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

The actuarial valuations of the scheme assets and the present value of the defined benefit obligations were carried out at the end of each Track Record Period, by Grant Sherman Appraisal Limited, independent professional actuarial advisor, using the projected unit credit actuarial valuation method.

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

	As at 31 December		
	2014	2015	2016
Discount rate	2.0%	1.6%	1.8%
Expected rate of salary increases	<u>2.5%</u>	<u>2.5%</u>	<u>2.5%</u>

At 31 December 2014, 2015 and 2016, the actuarial valuation showed that the market value of scheme assets was HK\$9,715,000, HK\$8,076,000 and HK\$8,065,000, respectively, and that the actuarial value of these assets represented 142%, 137% and 142%, respectively, of the benefits that had accrued to qualifying employees.

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

	Increase in rate %	Increase/ (decrease) in net pension scheme assets HK\$'000	Decrease in rate %	Increase/ (decrease) in net pension scheme assets HK\$'000
<b>At 31 December 2014</b>				
Discount rate	5	60	(5)	(61)
Future salary increase	5	(84)	(5)	83
	<u>5</u>	<u>(84)</u>	<u>(5)</u>	<u>83</u>
<b>At 31 December 2015</b>				
Discount rate	5	42	(5)	(42)
Future salary increase	5	(68)	(5)	68
	<u>5</u>	<u>(68)</u>	<u>(5)</u>	<u>68</u>
<b>At 31 December 2016</b>				
Discount rate	5	42	(5)	(40)
Future salary increase	5	(51)	(5)	51
	<u>5</u>	<u>(51)</u>	<u>(5)</u>	<u>51</u>

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

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

	<b>As at 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	HK\$'000	HK\$'000	HK\$'000
Current service cost	241	240	179
Interest cost	(78)	(54)	(34)
	<u>241</u>	<u>240</u>	<u>179</u>
Net pension benefit expenses recognised in administrative expenses	163	186	145
	<u>163</u>	<u>186</u>	<u>145</u>

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

	As at 31 December		
	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000
Carrying amount at beginning of year	6,618	6,862	5,898
Current service cost	241	240	179
Interest cost	154	128	91
Remeasurements:			
– Actuarial gains arising from changes in demographic assumptions	(20)	(103)	(12)
– Actuarial losses/(gains) arising from changes in financial assumptions	289	118	(106)
– Experience adjustments	(76)	101	(139)
Benefit paid	(344)	(1,448)	(218)
Carrying amount at end of year	<u>6,862</u>	<u>5,898</u>	<u>5,693</u>

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

### 31 December 2014

	Pension cost credited/(charged) to profit or loss				Remeasurement gains/(losses) in other comprehensive income						31 December 2014 HK\$'000
	1 January 2014 HK\$'000	Service cost HK\$'000	Net interest income/ (expense) HK\$'000	Sub-total included in profit or loss HK\$'000	Benefit paid HK\$'000	Return on scheme assets (excluding amounts included in net interest expense) HK\$'000	Actuarial changes arising from changes in demographic assumptions HK\$'000	Actuarial changes arising from changes in financial assumptions HK\$'000	Experience adjustments HK\$'000	Sub-total included in other comprehensive income HK\$'000	
Fair value of scheme assets	9,915	–	232	232	(344)	(88)	–	–	–	(88)	9,715
Defined benefit obligations	(6,618)	(241)	(154)	(395)	344	–	20	(289)	76	(193)	(6,862)
Net pension scheme assets	<u>3,297</u>	<u>(241)</u>	<u>78</u>	<u>(163)</u>	<u>–</u>	<u>(88)</u>	<u>20</u>	<u>(289)</u>	<u>76</u>	<u>(281)</u>	<u>2,853</u>

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### 31 December 2015

	Pension cost credited/(charged) to profit or loss				Remeasurement gains/(losses) in other comprehensive income						31 December 2015 HK\$'000
	1 January 2015 HK\$'000	Service cost HK\$'000	Net interest income/ (expense) HK\$'000	Sub-total included in profit or loss HK\$'000	Benefit paid HK\$'000	Return on scheme assets (excluding amounts included in net interest expense) HK\$'000	Actuarial changes arising from demographic assumptions HK\$'000	Actuarial changes arising from changes in financial assumptions HK\$'000	Experience adjustments HK\$'000	Sub-total included in other comprehensive income HK\$'000	
Fair value of scheme assets	9,715	–	182	182	(1,448)	(373)	–	–	–	(373)	8,076
Defined benefit obligations	(6,862)	(240)	(128)	(368)	1,448	–	103	(118)	(101)	(116)	(5,898)
Net pension scheme assets	<u>2,853</u>	<u>(240)</u>	<u>54</u>	<u>(186)</u>	<u>–</u>	<u>(373)</u>	<u>103</u>	<u>(118)</u>	<u>(101)</u>	<u>(489)</u>	<u>2,178</u>

### 31 December 2016

	Pension cost credited/(charged) to profit or loss				Remeasurement gains in other comprehensive income						31 December 2016 HK\$'000
	1 January 2016 HK\$'000	Service cost HK\$'000	Net interest income/ (expense) HK\$'000	Sub-total included in profit or loss HK\$'000	Benefit paid HK\$'000	Return on scheme assets (excluding amounts included in net interest expense) HK\$'000	Actuarial changes arising from changes in demographic assumptions HK\$'000	Actuarial changes arising from changes in financial assumptions HK\$'000	Experience adjustments HK\$'000	Sub-total included in other comprehensive income HK\$'000	
Fair value of scheme assets	8,076	–	125	125	(218)	82	–	–	–	82	8,065
Defined benefit obligations	(5,898)	(179)	(91)	(270)	218	–	12	106	139	257	(5,693)
Net pension scheme assets	<u>2,178</u>	<u>(179)</u>	<u>34</u>	<u>(145)</u>	<u>–</u>	<u>82</u>	<u>12</u>	<u>106</u>	<u>139</u>	<u>339</u>	<u>2,372</u>

The Group did not pay any contribution to the defined benefit pension scheme during the years ended 31 December 2014, 2015 and 2016, and does not expect to pay any contribution in the future years.

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

	As at 31 December		
	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000
Equities, quoted in active markets	7,364	5,992	6,250
Bonds	1,788	1,478	1,629
Money market instruments	563	606	186
	<u>9,715</u>	<u>8,076</u>	<u>8,065</u>

At 31 December 2014, 2015 and 2016, the weighted average duration of the defined benefit obligations at the end of the reporting period was 10 years, 11 years and 10 years, respectively.



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### 19. INVENTORIES

	As at 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
Raw materials and spare parts	44,640	36,535	40,805
Work in progress	6,278	5,248	5,363
Finished goods	20,765	13,103	14,787
	<u>71,683</u>	<u>54,886</u>	<u>60,955</u>

### 20. TRADE AND BILLS RECEIVABLES

	As at 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
Trade and bills receivables	406,363	344,125	473,796
Impairment	(13,481)	(18,337)	(28,283)
	<u>392,882</u>	<u>325,788</u>	<u>445,513</u>

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

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

	As at 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
Within three months	326,278	230,267	406,710
Over three months and within six months	52,805	39,744	22,724
Over six months	13,799	55,777	16,079
	<u>392,882</u>	<u>325,788</u>	<u>445,513</u>

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The movements in provision for impairment of trade and bills receivables are as follows:

	<i>Note</i>	<b>As at 31 December</b>		
		<b>2014</b> <i>HK\$'000</i>	<b>2015</b> <i>HK\$'000</i>	<b>2016</b> <i>HK\$'000</i>
Carrying amount at beginning of year		12,439	13,481	18,337
Amount written off as uncollectible		–	–	(301)
Impairment losses recognised	7	1,348	5,465	11,694
Exchange realignment		(306)	(609)	(1,447)
Carrying amount at end of year		<u>13,481</u>	<u>18,337</u>	<u>28,283</u>

At 31 December 2014, 2015 and 2016, included in the above provision for impairment of trade and bills receivables is a provision for individually impaired trade receivables of HK\$13,481,000, HK\$18,337,000 and HK\$28,283,000 with an aggregate carrying amount before provision of HK\$18,237,000, HK\$32,447,000 and HK\$35,613,000, respectively.

The individually impaired trade receivables relate to customers that were in financial difficulties or were in default in payment and only a portion of the receivables is expected to be recovered.

The ageing analysis of the trade and bills receivables that are not individually nor collectively considered to be impaired is as follows:

	<b>As at 31 December</b>		
	<b>2014</b> <i>HK\$'000</i>	<b>2015</b> <i>HK\$'000</i>	<b>2016</b> <i>HK\$'000</i>
Neither past due nor impaired	230,348	179,798	296,551
Within three months past due	117,712	69,015	104,899
Over three months and within six months past due	30,382	30,423	22,658
Over six months	9,684	32,442	14,075
	<u>388,126</u>	<u>311,678</u>	<u>438,183</u>

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

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### 21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December		
	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000
Prepayments	4,064	2,625	9,179
Deposits and other receivables	36,840	37,749	35,523
	<u>40,904</u>	<u>40,374</u>	<u>44,702</u>

None of the above assets are either past due or impaired. The financial assets included in the above balances related to receivables for which there was no recent history of default.

### 22. STRUCTURED DEPOSITS

Structured deposits were stated at fair value and represented several wealth management products issued by banks. As at 31 December 2014, 2015 and 2016, the aggregate principal of deposits was fully guaranteed by the banks while the rates of return were not guaranteed. The Group designated these structured deposits as investments at fair value through profit or loss on initial recognition. The Group uses the structured deposits primarily to enhance the return on investment.

### 23. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

	Note	As at 31 December		
		2014 HK\$'000	2015 HK\$'000	2016 HK\$'000
Cash and bank balances		106,692	120,942	102,196
Time deposits:				
– with original maturity of less than three months when acquired		38,728	84,044	117,344
– with original maturity of more than three months when acquired		115,242	81,569	–
		<u>260,662</u>	<u>286,555</u>	<u>219,540</u>
Less: Time deposits restricted for a short term bank facility				
– with original maturity of less than three months when acquired	28(c)	–	(11,935)	–
– with original maturity of more than three months when acquired	28(c)	(74,958)	(59,675)	–
		<u>185,704</u>	<u>214,945</u>	<u>219,540</u>

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At the end of each reporting period, the cash and bank balances and time deposits of the Group denominated in Renminbi (“RMB”) amounted to HK\$251,773,000, HK\$268,699,000 and HK\$184,891,000, respectively. The RMB is not freely convertible into other currencies, however, under Mainland China’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

### 24. 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:

	As at 31 December		
	2014 HK\$’000	2015 HK\$’000	2016 HK\$’000
Within three months	196,101	114,855	198,074
Over three months and within six months	1	924	1,549
Over six months	8	11	12
	<u>196,110</u>	<u>115,790</u>	<u>199,635</u>

Trade payables are unsecured, non-interest-bearing and are normally settled within two months. As at 31 December 2014 and 2016, bills payable with an aggregate carrying amount of HK\$869,000 and HK\$807,000 were secured by certain investment properties owned by the Remaining Group amounted to HK\$316,002,000 and HK\$334,620,000 respectively. There was no outstanding bills payable as at 31 December 2015.

### 25. OTHER PAYABLES AND ACCRUALS

	Note	As at 31 December		
		2014 HK\$’000	2015 HK\$’000	2016 HK\$’000
Deferred income	31	333	318	297
Other payables		29,979	30,031	43,564
Accruals and receipts in advance		125,178	104,590	95,936
		<u>155,490</u>	<u>134,939</u>	<u>139,797</u>

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

The other payables and accrual included in the current liabilities of the Company represented other payables of HK\$2,200,000 and an accrual of HK\$8,000 which are non-interest-bearing and have an average term of three months.

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### 26. DERIVATIVE FINANCIAL INSTRUMENT

	As at 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
Interest rate swap contract – liability	16	10	–

As at 31 December 2014 and 2015, the Group entered into an interest rate swap contract with a notional amount of HK\$20,000,000 and HK\$10,000,000, respectively to manage its exposure to movements in interest rates in relation to the Group’s floating rate term loans.

The contract is classified as a derivative held for trading as it is not designated as an effective hedging instrument as defined by HKAS 39, and is measured at fair value through profits of loss. The aggregate fair value gain/loss of the non-hedging derivative was credited/charged to the combined statement of profit or loss during the Track Record Period.

### 27. BALANCES WITH THE REMAINING GROUP

As at 31 December 2014, 2015 and 2016, the amounts were unsecured, interest-free and had no fixed terms of repayment. The carrying amounts of these balances approximate to their fair values.

The balance with the related companies as at 31 December 2016 will be settled in full prior to the [REDACTED].

The balances with related companies are unsecured, interest free and have no fixed terms of repayment.

Particulars of the amounts due from related companies are as follows:

	As at 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
<b>Due from related companies</b>			
Wise Crest Enterprises Limited*	133	–	–
CNT (Singapore) Limited*	25	30	–
CNT (Malaysia) Limited*	25	30	–
The China Paint Manufacturing Company (1946) Limited*	25	31	–
CNT (1932) Limited*	37	42	–
CNT Iron and Steel Limited*	42,975	42,201	–
Hainuowei Special Coating (Xinfeng) Company Limited*	47,838	68,712	100,970
深圳北海裕聯投資諮詢公司*	–	–	5,585
	91,058	111,046	106,555

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Particulars of the amounts due to related companies are as follows:

Due to related companies	As at 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
Conley Investment Limited*	6,659	6,659	6,659
CNT Group Limited*	82,103	61,791	2,128
AVANZAR Media Limited*	–	–	3,351
Fan Ball Development Limited*	4,708	7,715	7,715
Arran Investment Company Limited*	2,550	1,570	–
	<u>96,020</u>	<u>77,735</u>	<u>19,853</u>

\* These related companies are controlled by the controlling shareholders of the Group.

The amounts due to subsidiaries included in the Company’s current liabilities are unsecured, interest-free and are repayable on demand.

### 28. INTEREST-BEARING BANK AND OTHER BORROWINGS

	As at 31 December								
	2014			2015			2016		
	Effective interest rate (%)	Maturity	HK\$'000	Effective interest rate (%)	Maturity	HK\$'000	Effective interest rate (%)	Maturity	HK\$'000
<b>Current</b>									
Finance lease payables (note 29)	0.0-1.6	2015	188	–	2016	10	2.5	2017	364
Bank loans									
– secured	1.4-3.4	2015	136,000	1.4-3.1	2016	162,000	1.4-2.4	2017	109,000
Import loans									
– secured	1.3-1.9	2015	<u>9,042</u>	0.4-2.0	2016	<u>3,339</u>	1.5-2.5	2017	<u>3,980</u>
			<u>145,230</u>			<u>165,349</u>			<u>113,344</u>
<b>Non-current</b>									
Finance lease payables (note 29)	0.0-1.6	2016–2018	<u>22</u>	–	2017–2018	<u>12</u>	2.5	2018–2021	<u>1,388</u>
			<u>145,252</u>			<u>165,361</u>			<u>114,732</u>

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	As at 31 December		
	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000
Analysed into:			
Bank loans repayable:			
Within one year or on demand	145,042	165,339	112,980
Analysed into:			
Other borrowings repayable:			
Within one year	188	10	364
In the second year	10	10	374
In the third to fifth years, inclusive	12	2	1,014
	210	22	1,752
	145,252	165,361	114,732

*Notes:*

- (a) The Group’s bank loans and import loans are secured by:
- (i) the Group’s land and buildings with an aggregate net book value at 31 December 2014, 2015 and 2016 of HK\$9,459,000, HK\$8,774,000 and HK\$8,034,000, respectively (note 14); and
  - (ii) certain investment properties and land and buildings of the Remaining Group situated in Hong Kong.

As at 31 December 2014, 2015 and 2016, the ultimate holding company has guaranteed certain of the Group’s bank borrowings of up to HK\$392,500,000, HK\$422,500,000 and HK\$422,500,000, respectively while a subsidiary of the Remaining Group has guaranteed certain of the Group’s bank loans up to HK\$140,500,000, HK\$170,500,000 and HK\$170,500,000, respectively.

- (b) The carrying amounts of the Group’s bank and other borrowings which are denominated in the following currencies are as follows:

	As at 31 December		
	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000
United States dollars (“US\$”)	5,529	–	2,412
Euro	–	792	–
HK\$	139,723	164,569	112,320
	145,252	165,361	114,732

- (c) As at 31 December 2014 and 2015, the Group had time deposits of approximately HK\$74,958,000 and HK\$71,610,000, respectively, maintained at a bank to cover a banking facility which was restricted as to use (note 23).

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### 29. FINANCE LEASE PAYABLES

The Group leases certain of its motor vehicles and office equipment for its operations. These leases are classified as finance leases and have remaining lease terms ranging from one to five years. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments			Present value of minimum lease payments		
	As at 31 December			As at 31 December		
	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000
Amounts payable:						
Within one year	191	10	440	188	10	364
In the second year	10	10	431	10	10	374
In the third to fifth years, inclusive	12	2	1,075	12	2	1,014
	<u>213</u>	<u>22</u>	<u>1,946</u>	<u>210</u>	<u>22</u>	<u>1,752</u>
Total minimum finance lease payments	213	22	1,946	210	22	1,752
Future finance charges	(3)	–	(194)			
	<u>210</u>	<u>22</u>	<u>1,752</u>			
Total net finance lease payables	210	22	1,752			
Portion classified as current liabilities ( <i>note 28</i> )	(188)	(10)	(364)			
	<u>22</u>	<u>12</u>	<u>1,388</u>			
Non-current portion ( <i>note 28</i> )	22	12	1,388			



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### 30. DEFERRED TAX

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

#### Deferred tax liabilities

	Revaluation of properties HK\$'000	Withholding tax HK\$'000	Total HK\$'000
At 1 January 2014	458	24,303	24,761
Deferred tax charged to the combined statements of profit or loss during the year ( <i>note 11</i> )	—	6,276	6,276
Gross deferred tax liabilities recognised in the combined statements of financial position at 31 December 2014	458	30,579	31,037
At 1 January 2015	458	30,579	31,037
Deferred tax charged to the combined statements of profit or loss during the year ( <i>note 11</i> )	—	676	676
Gross deferred tax liabilities recognised in the combined statements of financial position at 31 December 2015	458	31,255	31,713
At 1 January 2016	458	31,255	31,713
Deferred tax credited to the combined statements of profit or loss during the year ( <i>note 11</i> )	—	(2,370)	(2,370)
Gross deferred tax liabilities recognised in the combined statements of financial position at 31 December 2016	458	28,885	29,343

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### Deferred tax assets

	Depreciation in excess of related depreciation allowance HK\$'000	Accruals HK\$'000	Total HK\$'000
At 1 January 2014	2,490	836	3,326
Deferred tax credited to the combined statements of profit or loss during the year (note 11)	458	5,441	5,899
Exchange realignment	(61)	(81)	(142)
Gross deferred tax assets recognised in the combined statements of financial position at 31 December 2014	<u>2,887</u>	<u>6,196</u>	<u>9,083</u>
At 1 January 2015	2,887	6,196	9,083
Deferred tax credited/(charged) to the combined statements of profit or loss during the year (note 11)	37	(870)	(833)
Exchange realignment	(129)	(267)	(396)
Gross deferred tax assets recognised in the combined statements of financial position at 31 December 2015	<u>2,795</u>	<u>5,059</u>	<u>7,854</u>
At 1 January 2016	2,795	5,059	7,854
Deferred tax credited/(charged) to the combined statements of profit or loss during the year (note 11)	364	(252)	112
Exchange realignment	(182)	(314)	(496)
Gross deferred tax assets recognised in the combined statements of financial position at 31 December 2016	<u>2,977</u>	<u>4,493</u>	<u>7,470</u>

The Group has estimated tax losses arising in Hong Kong of HK\$210,626,000, HK\$259,677,000 and HK\$282,242,000 at 31 December 2014, 2015 and 2016, respectively, subject to the agreement by the Hong Kong Inland Revenue Department, that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group has estimated tax losses arising in Mainland China of HK\$29,431,000 and HK\$12,651,000 at 31 December 2015 and 31 December 2016, respectively for offsetting against future taxable profits, that would expire in one to five years for offsetting against future taxable profits arising in Mainland China of the company in which the losses arose.

Deferred tax assets have not been recognised in respect of the losses arising in Hong Kong and Mainland China as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits would be available against which the tax losses can be utilised.

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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.

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

### 31. DEFERRED INCOME

		As at 31 December		
	Notes	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000
Carrying amount at beginning of year		4,017	3,598	3,131
Recognised during the year	6	(323)	(317)	(301)
Exchange realignment		(96)	(150)	(187)
Carrying amount at end of year		3,598	3,131	2,643
Portion classified as current liabilities	25	(333)	(318)	(297)
Non-current portion		3,265	2,813	2,346

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., (Xuahou) Ltd., a Group’s solvent manufacturing subsidiary (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 and it recorded as deferred income and is recognised in the combined statement of profit or loss over the weighted average useful life of the buildings and plant and machinery of the Xuzhou Subsidiary whose construction was financed by the Construction Loan.

### 32. SHARE CAPITAL

The Company was incorporated on 19 September 2016 with initial authorised share capital of HK\$380,000 divided into 3,800,000 shares of a par value of HK\$0.1 each. On the date of incorporation, 1 ordinary share of HK\$0.1 was allotted and issued by the Company.

On 17 November 2016, the authorised share capital of the Company increased to HK\$[REDACTED] divided into [REDACTED] shares of a par value of HK\$0.1 each by the creation of [REDACTED] new shares ranking pari passu in all respects with the existing shares.

Changes in share capital of the Company pursuant to the Reorganisation are set out in the section headed “History, Development and Reorganisation” in the [REDACTED].

### 33. RESERVES

#### (a) Group

The amounts of the Group’s reserves and the movements therein for each of the Track Record Period are presented in the combined statements of changes in equity on page I-7 to I-9.

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**(b) Merger reserve**

Merger reserve mainly represents the contribution from the Remaining Group arising from the Reorganisation.

**(c) Capital contribution**

The Capital contribution reserve represents equity-settled share option expense related to the Group’s business (note 34) granted by the ultimate holding Company, CNT Group Limited, on behalf of the Group.

### **34. SHARE BASED PAYMENT**

#### **The 2002 Scheme**

On 28 June 2002, CNT Group Limited adopted a share option scheme (the “2002 Scheme”), which was approved by the shareholders of CNT Group Limited at the special general meeting held on the same date. The 2002 Scheme was adopted by CNT Group Limited for the purpose of providing incentives to attract and retain employees of the CNT Group Limited and its subsidiaries, as well as other eligible persons, who made contributions to the CNT Group Limited and its subsidiaries.

152,800,000 share options were granted on 27 May 2010 under the 2002 Scheme to employees of the Group to subscribe for a total of 152,800,000 new shares of the CNT Group Limited of HK\$0.10 each, and vested over a period of four years from the grant date, of which 50% of the share options vested immediately on the grant date, 10% of the share options vested on 27 May 2011, 10% of the share options vested on 27 May 2012, 10% of the share options vested on 27 May 2013 and 20% of the share options vested on 27 May 2014. These share options are exercisable at HK\$0.44 per share and must be exercised within five years from the grant date, and if not so exercised, the share options shall lapse. These share options do not confer rights on the holders to dividends or to vote at shareholders’ meetings.

For the share options granted and vested on 27 May 2010, 15,280,000 share options were lapsed automatically when a grantee ceased to be an employee of the Group during the year ended 31 December 2014. 15,280,000 share options were exercised and all remaining 122,240,000 share options were lapsed upon the expiry of the exercise period during the year ended 31 December 2015, respectively.

Since the share options were granted by CNT Group Limited to employees for their services to the paint business of the Group, the share option expenses are recognised in the Group’s Financial Information with a corresponding credit to capital contribution from the CNT Group Limited.

The fair value of the share options granted on 27 May 2010 was HK\$26,302,000, of which the Group recognised an equity-settled share option expense of HK\$917,000 of during the year ended 31 December 2014. The share options granted on 27 May 2010 had fully vested during the year ended 31 December 2014, no share option expenses were recognised for the year ended 31 December 2015 and 2016.

The 2002 Scheme expired on 27 June 2012 and no further options shall be issued thereafter but, in all other respects, the 2002 Scheme shall remain in force to the extent necessary to give effect to the exercise of the outstanding options granted. All outstanding share options under 2002 Scheme will continue to be valid and exercisable in accordance with the terms of the 2002 Scheme.

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### The 2012 Scheme

The 2012 Scheme was adopted by the CNT Group Limited on 28 June 2012, pursuant to a resolution passed at the annual general meeting held on the same date. Unless terminated by a resolution in a general meeting or by the board of directors, the 2012 Scheme remains valid and effective for a period of 10 years commencing on 28 June 2012, after which period no further options will be issued but, in all other respects, the provision of the 2012 Scheme shall remain in full force and effect.

The 2012 Scheme will expire on 27 June 2022. During the Track Record Period, no share options were granted under the 2012 Scheme.

### 35. NOTES TO THE COMBINED STATEMENT OF CASH FLOWS

#### Major non-cash transactions

- (a) During the years ended 31 December 2014, 2015 and 2016, the Group completed the acquisition of certain items of property, plant and equipment, the consideration of which was partially settled by deposits previously paid with an aggregate carrying amount of HK\$597,000, HK\$1,451,000 and HK\$1,190,000, respectively.
- (b) During the year ended 31 December 2015, the Group completed the restructuring in relation to the disposal of certain subsidiaries to the Remaining Group with a consideration of HK\$10,522,000 which was settled by netting off with the amounts due to the Remaining Group.
- (c) During the year ended 31 December 2016, the Group completed the restructuring in relation to the disposal of a subsidiary to the Remaining Group with a consideration of HK\$5,585,000 which was settled by netting off with the amounts due to the Remaining Group.
- (d) During the year ended 31 December 2016, the Group completed the restructuring in relation to the disposal of an associate, with an investment cost of HK\$1,000,000, to the Remaining Group with a consideration of HK\$2,021,000 which was settled by netting off with the amounts due to the Remaining Group.
- (e) During the year ended 31 December 2016, the Group entered into finance lease arrangement in respect of property, plant and equipment with a total capital value at the inception of the leases of HK\$1,910,000.

### 36. PLEDGE OF ASSETS

Details of the Group’s bank loans and other borrowings, which are secured by certain assets of the Group, are included in note 28.

### 37. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the Financial Information was as follows:

	As at 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
Guarantees given to banks in connection with facilities granted to the Remaining Group	239,000	314,000	314,000

As at 31 December 2014, 2015 and 2016, the banking facilities granted to the Remaining Group subject to guarantees given to banks by the Group and a joint guarantee given to a bank by the Group and the ultimate holding company were utilised to the extent of approximately HK\$34,947,000, HK\$28,405,000 and HK\$42,402,000, respectively.

In determining whether financial liabilities should be recognised in respect of the Group's financial guarantee contracts, the Directors exercise judgement in the evaluation of the probability of resources outflow that will be required and the assessment of whether a reliable estimate can be made of the amount of the obligation.

In the opinion of the Directors based on the Directors’ judgement on history of default of the parties involved, Directors consider that the possibility of the default of the parties involved is remote and the fair values of the financial guarantee contracts of the Group are insignificant at initial recognition, and accordingly, no value has been recognised in the Financial Information.

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### 38. OPERATING LEASE ARRANGEMENTS

#### As lessee

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

At the end of each of the Track Record Period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December		
	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000
Within one year	2,827	1,955	1,291
In the second to fifth years, inclusive	1,300	979	76
	<u>4,127</u>	<u>2,934</u>	<u>1,367</u>

### 39. CAPITAL COMMITMENTS

At the end of each of the Track Record Period, the Group had the following capital commitments:

	As at 31 December		
	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000
Contracted, but not provided for:			
Purchases of land use rights*	1,951	1,864	1,744
Construction and purchases of items of property, plant and equipment	7,473	23,447	9,825
	<u>9,424</u>	<u>25,311</u>	<u>11,569</u>

\* On 21 January 2008, the Group entered into an agreement with the government of Xinfeng, Guangdong Province, the PRC to purchase a parcel of land located in Xinfeng at a consideration of RMB8,220,000, of which RMB6,658,000 had been paid by the Group as at 31 December 2016.

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## **ACCOUNTANTS’ REPORT**

### **40. RELATED PARTY TRANSACTIONS**

- (a) In addition to the transactions detailed elsewhere in the Financial Information, the Group had the following transactions with related parties during the Track Record Period:

	<b>Year ended 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Recurring:			
Rental expenses paid to the Remaining Group	17,514	15,364	5,219
Non-recurring:			
Advertising expenses paid to the Remaining Group	<u>9,448</u>	<u>7,419</u>	<u>3,619</u>

The transactions were conducted on terms and conditions mutually agreed between the relevant parties. The Directors are of the opinion that those related party transactions were conducted in the ordinary course of business of the Group.

- (b) The Remaining Group had given guarantees to certain banks in respect of the bank loans granted to the Group (note 28). The Remaining Group received no consideration for providing these guarantees.

- (c) Commitments with Companies of the Remaining Group are as follows:

On 1 January 2016, two subsidiaries of the Group entered into a one-year agreement ended on 31 December 2016, with CNT-Jialing Investments Limited to rent a commercial property for a fixed monthly rent of HK\$217,000. The rental expenses paid to CNT-Jialing Investments Limited for the Track Record Period are included in note 40(a) above.

On 31 March 2016, a subsidiary of the Group entered into a one-year agreement ended on 30 September 2016, with CNT Property Limited (formerly known as China Paint Property Limited) to rent a residential property as director's quarter for Mr. Lam Ting Ball, Paul for a fixed monthly rent of HK\$150,000. The rental expenses paid to CNT Property Limited for the Track Record Period are included in note 40(a) above.

On 30 November 2015, a subsidiary of the Group entered into an 1.1 year agreement ended on 31 December 2016, with Conley Investment Limited to rent an industrial property as warehouse for a fixed monthly rent of HK\$100,000. The rental expenses paid to Conley Investment Limited for the Track Record Period are included in note 40(a) above.

On 8 January 2016, a subsidiary of the Group entered into a one-year agreement ended on 31 December 2016, with AVANZAR Media Limited to provide advertising services for the Group for an annual fee of RMB3,000,000. The advertising expenses paid to AVANZAR Media Limited for the Track Record Period are included in note 40(a) above.

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## ACCOUNTANTS’ REPORT

(d) Compensation of key management personnel of the Group

	Year ended 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
Short term employment benefits	10,320	9,733	10,031
Post-employment benefits	467	477	474
	<u>10,787</u>	<u>10,210</u>	<u>10,505</u>
Total compensation paid to key management personnel	<u>10,787</u>	<u>10,210</u>	<u>10,505</u>

The above compensation of key management personnel excludes the directors’ remuneration, details of which are set out in note 9 to the Financial Information.

### 41. FINANCIAL INSTRUMENTS BY CATEGORY

All financial assets and liabilities as at the end of each of the Track Record Period are as follows:

#### 31 December 2014

##### Group

##### Financial assets

	Financial assets designated upon initial recognition at fair value through profit or loss HK\$'000	Loans and receivables HK\$'000	Available- for-sale financial asset HK\$'000	Total HK\$'000
Available-for-sale investment	–	–	300	300
Trade and bills receivables	–	392,882	–	392,882
Financial assets included in prepayments, deposits and other receivables	–	36,616	–	36,616
Due from the Remaining Group	–	91,058	–	91,058
Structured deposits	203,037	–	–	203,037
Restricted cash	–	74,958	–	74,958
Cash and cash equivalents	–	185,704	–	185,704
	<u>203,037</u>	<u>781,218</u>	<u>300</u>	<u>984,555</u>



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## ACCOUNTANTS’ REPORT

### Group

#### Financial liabilities

	Financial liabilities at fair value through profit or loss – held for trading HK\$'000	Financial liabilities at amortised cost HK\$'000	Total HK\$'000
Trade and bills payables	–	196,110	196,110
Financial liabilities included in other payables and accruals	–	51,231	51,231
Derivative financial instrument	16	–	16
Due to the Remaining Group	–	96,020	96,020
Interest-bearing bank and other borrowings	–	145,252	145,252
	<u>16</u>	<u>488,613</u>	<u>488,629</u>

31 December 2015

### Group

#### Financial assets

	Financial assets designated upon initial recognition at fair value through profit or loss HK\$'000	Loans and receivables HK\$'000	Available- for-sale financial asset HK\$'000	Total HK\$'000
Available-for-sale investment	–	–	300	300
Trade and bills receivables	–	325,788	–	325,788
Financial assets included in prepayments, deposits and other receivables	–	37,291	–	37,291
Due from the Remaining Group	–	111,046	–	111,046
Structured deposits	157,224	–	–	157,224
Restricted cash	–	71,610	–	71,610
Cash and cash equivalents	–	214,945	–	214,945
	<u>157,224</u>	<u>760,680</u>	<u>300</u>	<u>918,204</u>

### Group

#### Financial liabilities

	Financial liabilities at fair value through profit or loss – held for trading HK\$'000	Financial liabilities at amortised cost HK\$'000	Total HK\$'000
Trade and bills payables	–	115,790	115,790
Financial liabilities included in other payables and accruals	–	45,227	45,227
Derivative financial instrument	10	–	10
Due to the Remaining Group	–	77,735	77,735
Interest-bearing bank and other borrowings	–	165,361	165,361
	<u>10</u>	<u>404,113</u>	<u>404,123</u>

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## ACCOUNTANTS’ REPORT

31 December 2016

### Group

#### Financial assets

	Financial assets designated upon initial recognition at fair value through profit or loss <i>HK\$'000</i>	Loans and receivables <i>HK\$'000</i>	Available- for-sale financial asset <i>HK\$'000</i>	Total <i>HK\$'000</i>
Available-for-sale investment	–	–	300	300
Trade and bills receivables	–	445,513	–	445,513
Financial assets included in prepayments, deposits and other receivables	–	35,038	–	35,038
Due from the Remaining Group	–	106,555	–	106,555
Structured deposits	98,666	–	–	98,666
Cash and cash equivalents	–	219,540	–	219,540
	<u>98,666</u>	<u>806,646</u>	<u>300</u>	<u>905,612</u>

### Group

#### Financial liabilities

	Financial liabilities at amortised cost <i>HK\$'000</i>
Trade and bills payables	199,635
Financial liabilities included in other payables and accruals	46,914
Due to the Remaining Group	19,853
Interest-bearing bank and other borrowings	114,732
	<u>381,134</u>

### Company

#### Financial liabilities

	Financial liabilities at amortised cost <i>HK\$'000</i>
Financial liabilities included in other payables and accrual	2,208
Due to subsidiaries	14,019
	<u>16,227</u>

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## **ACCOUNTANTS’ REPORT**

### **42. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS**

Management has assessed that the fair values of cash and cash equivalents, restricted cash, 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, and interest-bearing bank and other borrowings, and balances with the Remaining Group approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group’s finance director is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, the finance director 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.

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 unlisted club membership debenture is based on quoted market prices.

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

The Group enters into a derivative financial instrument with a financial institution with high credit rating. The fair value of the derivative financial instrument is based on the mark-to-market value quoted by the financial institution.

## APPENDIX I

## ACCOUNTANTS’ REPORT

Below is a summary of significant unobservable inputs to the valuation of structured deposits together with a quantitative sensitivity analysis as at the end of each Track Record Period:

Financial instrument	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
31 December 2014				
Structured deposits	Discount cash flow method	Expected rate of return	3.6% to 4.8%	5% increase (decrease) in expected rate of return would result in increase (decrease) in fair value by HK\$182,000 (HK\$173,000)
		Discount rate	3.7% to 4.8%	5% increase (decrease) in discount rate would result in decrease (increase) in fair value by HK\$38,000 (HK\$36,000)
31 December 2015				
Structured deposits	Discount cash flow method	Expected rate of return	2.9% to 4.0%	5% increase (decrease) in expected rate of return would result in increase (decrease) in fair value by HK\$232,000 (HK\$221,000)
		Discount rate	2.9% to 4.0%	5% increase (decrease) in discount rate would result in decrease (increase) in fair value by HK\$127,000 (HK\$121,000)
31 December 2016				
Structured deposits	Discount cash flow method	Expected rate of return	2.3% to 4.0%	5% increase (decrease) in expected rate of return would result in increase (decrease) in fair value by HK\$245,000 (HK\$137,000)
		Discount rate	2.3% to 3.2%	5% increase (decrease) in discount rate would result in decrease (increase) in fair value by HK\$71,000 (HK\$68,000)

## APPENDIX I

## ACCOUNTANTS’ REPORT

### 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	Fair value measurement using Significant observable inputs (Level 2) HK\$’000	Significant unobservable inputs (Level 3) HK\$’000	Total HK\$’000
<i>Assets measured at fair value:</i>				
At 31 December 2014				
Structured deposits	–	–	203,037	203,037
Available-for-sale investment	–	300	–	300
	<u>–</u>	<u>300</u>	<u>–</u>	<u>300</u>
At 31 December 2015				
Structured deposits	–	–	157,224	157,224
Available-for-sale investment	–	300	–	300
	<u>–</u>	<u>300</u>	<u>–</u>	<u>300</u>
At 31 December 2016				
Structured deposits	–	–	98,666	98,666
Available-for-sale investment	–	300	–	300
	<u>–</u>	<u>300</u>	<u>–</u>	<u>300</u>
<i>Liability measured at fair value:</i>				
At 31 December 2014				
Derivative financial instrument	–	16	–	16
	<u>–</u>	<u>16</u>	<u>–</u>	<u>16</u>
At 31 December 2015				
Derivative financial instrument	–	10	–	10
	<u>–</u>	<u>10</u>	<u>–</u>	<u>10</u>

## **APPENDIX I**

## **ACCOUNTANTS’ REPORT**

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

	<b>Year ended 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Carrying amount at beginning of year	167,377	203,037	157,224
Purchases	655,504	408,816	231,709
Disposals	(621,659)	(452,683)	(286,393)
Net gains recognised in the combined statement of profit or loss	5,674	4,926	3,209
Exchange realignment	(3,859)	(6,872)	(7,083)
	<u>203,037</u>	<u>157,224</u>	<u>98,666</u>
Carrying amount at end of year	<u>203,037</u>	<u>157,224</u>	<u>98,666</u>

During the Track Record Period, 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.

### **43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group’s principal financial instruments comprise interest-bearing bank and other borrowings, and cash and cash equivalents. The main purpose of these financial instruments is to finance the Group’s operations. The Group has various other financial assets and liabilities, such as structured deposits, pledged deposits, restricted cash, trade and bills receivables, deposits and other receivables, available-for-sale investments, balances with Remaining Group, trade and bills payables, other payables and accruals, a derivative financial instrument, which arise directly from its operations.

The Group also enters into derivative transactions. The purpose is to manage the interest rate risk arising from the Group’s operations and its sources of finance.

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. The Group’s accounting policies in relation to derivatives are set out in note 3 to the Financial Information.

#### *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.

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## ACCOUNTANTS’ REPORT

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

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax HK\$’000
<b>31 December 2014</b>		
HK\$	50	(594)
RMB	50	487
HK\$	(50)	594
RMB	(50)	(487)
	<u>          </u>	<u>          </u>
<b>31 December 2015</b>		
HK\$	50	(681)
RMB	50	514
HK\$	(50)	681
RMB	(50)	(514)
	<u>          </u>	<u>          </u>
<b>31 December 2016</b>		
HK\$	50	(460)
RMB	50	337
HK\$	(50)	460
RMB	(50)	(337)
	<u>          </u>	<u>          </u>

### *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 combined statements of financial position, with a portion of its bank deposits, trade receivables and trade payables denominated in currencies other than the functional currencies of the operating subsidiaries, can be affected by movements in the exchange rate between HK\$ and RMB.

## APPENDIX I

## ACCOUNTANTS’ REPORT

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

	Increase/ (decrease) in RMB rate %	Increase/ (decrease) in profit before tax HK\$’000
<b>31 December 2014</b>		
If HK\$ weakens against RMB	5	(3,703)
If HK\$ strengthens against RMB	(5)	3,703
	<u>          </u>	<u>          </u>
<b>31 December 2015</b>		
If HK\$ weakens against RMB	5	(3,249)
If HK\$ strengthens against RMB	(5)	3,249
	<u>          </u>	<u>          </u>
<b>31 December 2016</b>		
If HK\$ weakens against RMB	5	873
If HK\$ strengthens against RMB	(5)	(873)
	<u>          </u>	<u>          </u>

### *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.

The credit risk of the Group’s other financial assets, which comprise cash and cash equivalents, pledged deposits, restricted cash, structured deposits, amounts due from the Remaining Group and deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

### *Liquidity risk*

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



## APPENDIX I

## ACCOUNTANTS’ REPORT

The maturity profile of financial liabilities as at the end of each of the Track Record Period, based on the contractual and undiscounted payments, is as follows:

	On demand or no fixed terms HK\$'000	Less than one year HK\$'000	One to five years HK\$'000	Total HK\$'000
<b>Group</b>				
<b>31 December 2014</b>				
Due to the Remaining Group	96,020	–	–	96,020
Trade and bills payables	–	196,110	–	196,110
Financial liabilities included in other payables and accruals	–	51,231	–	51,231
Derivative financial instrument	–	16	–	16
Interest-bearing bank and other borrowings	–	145,187	–	145,187
Finance lease payables	–	191	22	213
Guarantees given to banks in connection with facilities granted to the Remaining Group ( <i>note 37</i> )	34,947	–	–	34,947
	<u>130,967</u>	<u>392,735</u>	<u>22</u>	<u>523,724</u>

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## ACCOUNTANTS’ REPORT

	On demand or no fixed terms HK\$'000	Less than one year HK\$'000	One to five years HK\$'000	Total HK\$'000
<b>Group</b>				
<b>31 December 2015</b>				
Due to the Remaining Group	77,735	–	–	77,735
Trade and bills payables	–	115,790	–	115,790
Financial liabilities included in other payables and accruals	–	45,227	–	45,227
Derivative financial instrument	–	10	–	10
Interest-bearing bank and other borrowings	–	165,424	–	165,424
Finance lease payables	–	10	12	22
Guarantees given to banks in connection with facilities granted to the Remaining Group (note 37)	28,405	–	–	28,405
	<u>106,140</u>	<u>326,461</u>	<u>12</u>	<u>432,613</u>

### Group

#### 31 December 2016

Due to the Remaining Group	19,853	–	–	19,853
Trade and bills payables	–	199,635	–	199,635
Financial liabilities included in other payables and accruals	–	46,914	–	46,914
Interest-bearing bank and other borrowings	–	112,980	–	112,980
Finance lease payables	–	440	1,506	1,946
Guarantees given to banks in connection with facilities granted to the Remaining Group (note 37)	42,402	–	–	42,402
	<u>62,255</u>	<u>359,969</u>	<u>1,506</u>	<u>423,730</u>

### Company

#### 31 December 2016

Financial liabilities included in other payables and accrual	–	2,208	–	2,208
Due to subsidiaries	14,019	–	–	14,019
	<u>14,019</u>	<u>2,208</u>	<u>–</u>	<u>16,227</u>

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 Track Record Period.

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## ACCOUNTANTS’ REPORT

The Group monitors capital using a gearing ratio, which is bank and other borrowings divided by the adjusted capital, being equity attributable to owners of the Company less leasehold land and building revaluation reserve. The gearing ratios as at the end of each Track Record Period were as follows:

	As at 31 December		
	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000
Bank and other borrowings	145,252	165,361	114,732
Equity attributable to owners of the Company	650,029	664,479	674,753
Less: Leasehold land and building revaluation reserve	(6,489)	(6,489)	(6,489)
Adjusted capital	643,540	657,990	668,264
Gearing ratio	22.6%	25.1%	17.2%

### III. EVENTS AFTER THE REPORTING PERIOD

Pursuant to a resolution passed by the shareholders on 7 June 2017, the Company declared a special interim dividend of HK\$180,000,000 to the Remaining Group.

### IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group or any of its subsidiaries in respect of any period subsequent to 31 December 2016.

Yours faithfully,

**Ernst & Young**  
*Certified Public Accountants*  
 Hong Kong

## APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

*The information set forth in this appendix does not form part of the Accountants’ Report on the financial information of the Group for the three years ended 31 December 2016 prepared by Ernst & Young, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I to this [REDACTED] (the “Accountants’ Report”), and is included herein for illustrative purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed “Financial Information” in this [REDACTED] and the Accountants’ Report set forth in Appendix I of this [REDACTED].*

### A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED COMBINED NET TANGIBLE ASSETS

The following is an illustrative unaudited pro forma statement of adjusted combined net tangible assets of the Group which has been prepared in accordance with paragraph 29 of Chapter 4 of the Listing Rules for the purpose of illustrating the effect of the [REDACTED] on the audited combined net tangible assets attributable to owners of the Company as of 31 December 2016, as if the [REDACTED] had taken place on 31 December 2016.

The unaudited pro forma adjusted combined net tangible assets of the Group has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the combined net tangible assets attributable to owners of the Company had the [REDACTED] been completed as of 31 December 2016 or at any future dates. It is prepared based on the audited combined net tangible assets attributable to owners of the Company as of 31 December 2016 as set out in the Accountants’ Report in Appendix I to this [REDACTED], and adjusted as described below.

	Combined net tangible assets of attributable to owners of the Company as of 31 December 2016	Estimated net proceeds from the [REDACTED]	Unaudited pro forma adjusted combined net tangible assets of attributable to owners of the Company	Unaudited pro forma adjusted combined net tangible assets of attributable to owners of the Company per Share
	HK\$'000 (Note 1)	HK\$'000 (Note 2)	HK\$'000	HK\$ (Note 3 and 4)
Based on an [REDACTED] of HK\$[REDACTED] per Share	<u>678,371</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>
Based on an [REDACTED] of HK\$[REDACTED] per Share	<u>678,371</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>

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## **APPENDIX II                      UNAUDITED PRO FORMA FINANCIAL INFORMATION**

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*Notes:*

- (1) The amount is calculated based on audited combined net assets of attributable to owners of the Company as of 31 December 2016 amounting to HK\$678,371,000 extracted from the Accountants' Report of the Group set forth in Appendix I of this [REDACTED].
- (2) The estimated net proceeds from the [REDACTED] are based on [REDACTED] Shares at the [REDACTED] of HK\$[REDACTED] and HK\$[REDACTED] per Share, being the high-end and low-end of the indicative range of the [REDACTED], respectively, after deduction of the estimated [REDACTED] fees and other related expenses expected to be incurred by the Group subsequent to 31 December 2016 and does not take into account of any Shares which may be issued upon the exercise of the [REDACTED].
- (3) The unaudited pro forma adjusted combined net tangible assets per Share is calculated based on [REDACTED] Shares, being the number of Shares expected to be in issue immediately following completion of shares of the [REDACTED] without taking into account of any Shares which may be allotted and issued pursuant to the exercise of the [REDACTED].
- (4) The unaudited pro forma adjusted combined net tangible assets attributable to owners of the Company does not take into account a special interim dividend of HK\$180 million declared and paid by the Company prior to completion of the Spin-Off and the [REDACTED]. Had the special interim dividend been taken into account, the unaudited pro forma adjusted combined net tangible assets per Share would be HK\$[REDACTED] (based on the high-end of the indicative range of the [REDACTED] of HK\$[REDACTED]) and HK\$[REDACTED] (based on the low-end of the indicative range of the [REDACTED] of HK\$[REDACTED]).

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**APPENDIX II                      UNAUDITED PRO FORMA FINANCIAL INFORMATION**

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**B.      LETTER FROM REPORTING ACCOUNTANTS ON THE UNAUDITED PRO FORMA  
FINANCIAL INFORMATION**

**[REDACTED]**

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[REDACTED]

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**APPENDIX II                      UNAUDITED PRO FORMA FINANCIAL INFORMATION**

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[REDACTED]



## APPENDIX III

## SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN COMPANIES LAW

*Set forth below is a summary of certain provisions of the Memorandum and the Articles and certain aspects of the Cayman Companies Law.*

*The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 19 September 2016 under the Cayman Companies Law. The Company's constitutional documents consist of the Memorandum and the Articles.*

### 1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

### 2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on [REDACTED] with effect from the [REDACTED]. The following is a summary of certain provisions of the Articles:

#### (a) Shares

##### (i) Classes of shares

The share capital of the Company consists of ordinary shares.

##### (ii) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than

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at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

### (iii) *Alteration of capital*

The Company may by ordinary resolution of its members:

- (i) increase its share capital by the creation of new shares;
- (ii) consolidate all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

### (iv) *Transfer of shares*

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time.

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The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of that share.

The board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The board may decline to recognise any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by the Directors is paid to the Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspaper or by any other means in accordance with the requirements of the Stock Exchange, at such times and for such periods as the board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favour of the Company.

*(v) Power of the Company to purchase its own shares*

The Company is empowered by the Companies Law and the Articles to purchase its own shares subject to certain restrictions and the board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by Stock Exchange.

Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender must be limited to a maximum price determined by the Company in general meeting. If purchases are by tender, tenders must be made available to all members alike.

*(vi) Power of any subsidiary of the Company to own shares in the Company*

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

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*(vii) Calls on shares and forfeiture of shares*

The board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

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### (b) Directors

#### (i) *Appointment, retirement and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

The Directors have the power to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and members of the Company may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated if:

- (aa) he resigns by notice in writing delivered to the Company;
- (bb) he becomes of unsound mind or dies;
- (cc) without special leave, he is absent from meetings of the board for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

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(ee) he is prohibited from being a director by law; or

(ff) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed must, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

*(ii) Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued (a) with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine), or (b) on terms that, at the option of the Company or the holder thereof, it is liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of Stock Exchange and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company are at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board is obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

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*(iii) Power to dispose of the assets of the Company or any of its subsidiaries*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

*(iv) Borrowing powers*

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

*(v) Remuneration*

The ordinary remuneration of the Directors is to be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors are also entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall



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include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

*(vi) Compensation or payments for loss of office*

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

*(vii) Loans and provision of security for loans to Directors*

The Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance (Chapter 622 of the laws of Hong Kong) as if the Company were a company incorporated in Hong Kong.

*(viii) Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and upon such terms as the board may determine, and may be paid such extra remuneration therefor in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. The board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.



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No Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company must declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition does not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has himself/ themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an [REDACTED] of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the [REDACTED] or sub-[REDACTED] of the [REDACTED];
- (dd) any contract or arrangement in which the Director or his close associate(s) is/ are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or

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- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

### **(c) Proceedings of the Board**

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

### **(d) Alterations to constitutional documents and the Company's name**

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

### **(e) Meetings of members**

#### *(i) Special and ordinary resolutions*

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

Under the Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given held in accordance with the Articles.

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*(ii) Voting rights and right to demand a poll*

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorised representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

*(iii) Annual general meetings*

The Company must hold an annual general meeting of the Company every year within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of the Stock Exchange.

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*(iv) Notices of meetings and business to be conducted*

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice is exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time and place of the meeting and, in the case of special business, the general nature of that business.

In addition, notice of every general meeting must be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of the Company personally, by post to such member's registered address or by advertisement in newspapers published daily and circulating generally in Hong Kong and in accordance with the requirements of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by the Company to any member by electronic means.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each of the following business is deemed an ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

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### (v) *Quorum for meetings and separate class meetings*

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

The quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

### (vi) *Proxies*

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and is entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy is entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

### (f) **Accounts and audit**

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records must be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting. However, an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

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A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Stock Exchange, the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

At the annual general meeting or at a subsequent extraordinary general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards which may be those of a country or jurisdiction other than the Cayman Islands. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

### **(g) Dividends and other methods of distribution**

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

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Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit.

The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.



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### (h) Inspection of corporate records

Pursuant to the Articles, the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.

### (i) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

### (j) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company is wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and
- (ii) if the Company is wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The



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liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

### **(k) Subscription rights reserve**

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

### **3. CAYMAN ISLANDS COMPANY LAW**

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

#### **(a) Company operations**

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

#### **(b) Share capital**

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

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No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “**Court**”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

### **(c) Financial assistance to purchase shares of a company or its holding company**

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

### **(d) Purchase of shares and warrants by a company and its subsidiaries**

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company’s articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company is to be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted,

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directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

### **(e) Dividends and distributions**

The Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

No dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

### **(f) Protection of minorities and shareholders' suits**

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

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Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

### **(g) Disposal of assets**

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

### **(h) Accounting and auditing requirements**

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

### **(i) Exchange control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

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### **(j) Taxation**

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from date of incorporation of the Company.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

### **(k) Stamp duty on transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

### **(l) Loans to directors**

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

### **(m) Inspection of corporate records**

Members of the Company have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

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### **(n) Register of members**

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register must be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

### **(o) Register of Directors and Officers**

The Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within sixty (60) days of any change in such directors or officers.

### **(p) Winding up**

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the Court, or where the company is unable to pay its debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of the company's affairs in the future, making an order authorising civil proceedings to be brought in the name and on behalf of the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

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A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

As soon as the affairs of the company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorised by the company's articles of association and published in the Gazette.

### **(q) Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

### **(r) Take-overs**

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be

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unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

### **(s) Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

## **4. GENERAL**

Conyers Dill & Pearman, the Company's special legal counsel as to the Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Cayman Companies Law, is available for public inspection as referred to in the paragraphs under "Documents available for inspection" in Appendix V to this [REDACTED]. Any person wishing to have a detailed summary of Cayman Companies Law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.



## APPENDIX IV

## STATUTORY AND GENERAL INFORMATION

### A. FURTHER INFORMATION ABOUT OUR COMPANY

#### 1. Incorporation of our Company

Our Company was incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on 19 September 2016. Our Company has been registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 26 October 2016 and our principal place of business in Hong Kong is located at 31st Floor, CNT Tower, 338 Hennessy Road, Wanchai, Hong Kong. Mr. TSUI Ho Chuen, Philip, our executive Director, of House C7, Habitat, Off Hiram's Highway, Hebe Haven, Sai Kung, New Territories, Hong Kong, has been appointed as the authorised representative of our Company for the acceptance of service of process and notices in Hong Kong.

As our Company was incorporated in the Cayman Islands, we are subject to the relevant laws of the Cayman Islands and our constitution which comprises the Memorandum and the Articles. A summary of the relevant aspects of the Cayman Companies Law and certain provisions of the Articles is set forth in Appendix III to this [REDACTED].

#### 2. Changes in share capital of our Company

The following sets forth the changes in the share capital of the Company since the date of incorporation:

- (a) As of the date of incorporation of our Company on 19 September 2016, our authorised share capital was HK\$380,000 divided into 3,800,000 Shares having a par value of HK\$0.10 each, of which one fully-paid Share was issued and allotted to the subscriber. On the even date, such one fully-paid Share was transferred to CNT Enterprises at nominal consideration.
- (b) On 11 November 2016, the authorised share capital of our Company was increased from HK\$380,000 divided into 3,800,000 Shares each to HK\$[REDACTED] divided into [REDACTED] Shares by the creation of an additional [REDACTED] Shares.
- (c) On [REDACTED], our Company issued and allotted [REDACTED] Shares to CNT Enterprises, upon the direction of CNT, in consideration of all issued shares of CP Industries transferred from CNT to our Company on the same date.
- (d) On [REDACTED], our Shareholder, i.e. CNT Enterprises, resolved that conditional on the share premium account of our Company being credited as a result of the [REDACTED], our Directors were authorised to capitalise the sum of HK\$[REDACTED] (or any such amount any one Director may determine) from the amount standing to the credit of the share premium account of our Company and apply such sum in paying up in full at par [REDACTED] Shares (or any such number of Shares by any one Director may determine) for allotment and issue to our Shareholder whose name appeared on the register of members of our Company at close of business on [REDACTED] (or another date as our Directors may direct) in proportion to their then existing shareholdings in our Company and such Shares to be allotted and issued shall rank *pari passu* in all respects with our existing Shares in issue.
- (e) Immediately after completion of the [REDACTED] and the Capitalisation Issue (assuming that all CNT Qualifying Shareholders take up their respective [REDACTED] in full and without taking into account any Shares which may be issued pursuant to the exercise of the [REDACTED]), CNT, the CNT Qualifying Shareholders and the investors taking up our Shares under the [REDACTED] will hold [REDACTED]%, [REDACTED]% and [REDACTED]% of the enlarged number of our Shares in issue, respectively.

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## **STATUTORY AND GENERAL INFORMATION**

Save as disclosed therein and in paragraphs under "3. Written resolutions of the sole Shareholder passed on [REDACTED] and [REDACTED]" below, there has been no alteration in our Company's share capital since its incorporation.

### **3. Written resolutions of the sole Shareholder passed on [REDACTED] and [REDACTED]**

By the written resolutions of the sole Shareholder passed on [REDACTED], the authorised share capital of our Company was increased from HK\$380,000 divided into 3,800,000 Shares to HK\$[REDACTED] divided into [REDACTED] Shares by the creation of an additional of [REDACTED] Shares, each ranking equally with the Shares then in issue in all respects.

By the written resolutions of the sole Shareholder passed on [REDACTED]:

- (a) our Company approved and adopted the Memorandum and the Articles conditional upon and with effect from the [REDACTED];
- (b) conditional on (aa) the Listing Committee granting the [REDACTED] of, and permission to deal in, our Shares in issue and Shares to be issued pursuant to the [REDACTED], the Capitalisation Issue and the [REDACTED]; (bb) the [REDACTED] having been determined; (cc) the execution and delivery of the [REDACTED] on or before the date as mentioned in this [REDACTED]; and (dd) the obligations of the [REDACTED] under the [REDACTED] becoming unconditional and not being terminated in accordance with the terms of the [REDACTED] Agreements or otherwise, in each case on or before the date falling 30 days after the date of this [REDACTED]:
  - (i) the Spin-Off, the terms and conditions of the [REDACTED] and the granting of the [REDACTED] were approved and our Directors were authorised to (a) implement the Spin-Off, the [REDACTED] and the [REDACTED]; (b) to allot and issue the [REDACTED] pursuant to the [REDACTED] and the [REDACTED] and such number of Shares as may be required to be allotted and issued on and subject to the terms and conditions stated in the [REDACTED] and the relevant [REDACTED]; and (c) to do all things and execute all documents in connection with or incidental to the Spin-Off and the [REDACTED] and the [REDACTED] subject to such modifications, amendments, variations or otherwise (if any) as may be made by our Board (or any committee of our Board thereof established by our Board) in its absolute discretion, and our Board or any such committee of our Board or any one Director was authorised and directed to effect such modifications, amendments variations or otherwise as necessary or appropriate;
  - (ii) conditional further on the share premium account of our Company being credited as a result of the [REDACTED], our Directors were authorised to capitalise an amount of HK\$[REDACTED] standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par [REDACTED] Shares for allotment and issue to the persons whose names appear on the principal register of members of our Company in the Cayman Islands at the close of business on [REDACTED] (or another date as our Directors may direct) in proportion (as nearly as possible without involving fractions so that no fraction of a Share shall be allotted and issued) to their then existing shareholdings in our Company, each ranking equally in all respects with the then existing issued Shares, and our Directors were authorised to give effect to such capitalisation and distributions;

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## **STATUTORY AND GENERAL INFORMATION**

- (iii) a general unconditional mandate (the “**General Mandate**”) was given to our Directors to exercise all powers of our Company to allot, issue and deal with, otherwise than by way of rights issue, script dividend scheme or similar arrangements providing for allotment of Shares in lieu of the whole or in part of any dividend in accordance with the Articles, or on the exercise of options granted any share option scheme, or under the Spin-Off, Shares with an aggregate of not exceeding 20% of the total number of Shares in issue immediately following completion of the Spin-Off and the [REDACTED] (excluding any Shares which may be issued pursuant to the exercise of the [REDACTED]) until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles, the Cayman Companies Law or any other applicable Cayman Islands law to be held, or the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to the Directors, whichever occurs first;
- (iv) a general unconditional mandate (the “**Buy-back Mandate**”) was given to our Directors to exercise all powers of our Company to buy-back Shares on the Stock Exchange or other stock exchange on which the securities of our Company may be listed and recognised by the SFC and the Stock Exchange for this purpose, with a total number of not more than 10% of the total number of Shares in issue immediately following the completion of the Spin-Off and the [REDACTED] but excluding any Shares which may be issued pursuant to the exercise of the [REDACTED] until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles or any applicable Cayman Islands law to be held, or the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to the Directors, whichever occurs first; and
- (v) the general unconditional mandate as mentioned in paragraph (iii) above was extended by the addition to the aggregate number of Shares which may be allotted and issued or agreed to be allotted and issued by the Directors pursuant to such general mandate of an amount representing the aggregate number of Shares bought back by our Company pursuant to the mandate to buy back Shares referred to in paragraph (iv) above; provided that extended amount shall not exceed 10% of the total number of Shares immediately following the completion of the Spin-Off and the [REDACTED] (excluding any Shares which may be issued pursuant to the exercise of the [REDACTED]).

### **4. Corporate reorganisation**

The companies comprising our Group underwent a reorganisation to rationalise our Group’s structure in preparation for the [REDACTED]. Further information on the Reorganisation is set forth in the section headed “History, Development and Reorganisation” in this [REDACTED].

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### 5. Changes in share capital of subsidiaries

The subsidiaries of our Company are listed in the Accountants’ Report, the text of which is set forth in Appendix I to this [REDACTED].

Save as disclosed in the section headed “History, Development and Reorganisation” in this [REDACTED], there has been no alteration in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this [REDACTED].

### 6. Buy-back of our Shares by our Company

This paragraph includes the information required by the Stock Exchange to be included in this [REDACTED] concerning the buy-back by our Company of own securities.

#### (a) Shareholders’ approval

All proposed buy-back of securities (which must be fully paid up in the case of shares for the purpose of Rule 10.06(1)(b)(i) of the Listing Rules) by a company [REDACTED] on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

*Note:* Pursuant to the written resolutions passed by the sole Shareholder on [REDACTED], the Buy-back Mandate was given to our Directors authorising any buy-back by our Company of Shares on the Stock Exchange or any other stock exchange on which the securities of our Company may be [REDACTED] and which is recognised by the SFC and the Stock Exchange for this purpose, of up to 10.0% of the total number of Shares in issue immediately following completion of the [REDACTED] and the Capitalisation Issue but excluding any Shares which may be issued pursuant to the exercise of the [REDACTED], such mandate to expire at the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles or applicable Cayman Islands law to be held, or the passing of an ordinary resolution by Shareholders in general meeting revoking or varying the authority given to our Directors, whichever occurs first.

#### (b) Source of funds

Buy-back transactions must be paid out of funds legally available for the purpose in accordance with the Articles and the Cayman Companies Law. A listed company may not buy-back its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Under the Cayman Companies Laws, any buy-back by our Company may be made out of profits of our Company, out of our Company’s share premium account or out of the proceeds of a fresh issue of Shares made for the purpose of buy-back or, if so authorised by the Articles and subject to the provisions of the Cayman Companies Law, out of capital. Any premium payable on a redemption or purchase over the par value of the Shares to be purchased must be provided for out of either or both of the profits of our Company or the share premium account of our Company or, if authorised by the Articles and subject to the provisions of the Cayman Companies Law, out of capital.

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### *(c) Reasons for buy-back transactions*

Our Directors believe that it is in the best interest of our Company and the Shareholders for our Directors to have general authority from the Shareholders to enable our Company to buy-back Shares in the market. Such buy-back may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value for each Share and/or earnings for each Share and will only be made if our Directors believe that such buy-back will benefit our Company and our Shareholders.

### *(d) Funding of buy-back transactions*

In buying back securities, our Company may only apply funds legally available for such purpose in accordance with the Articles, the Listing Rules and the applicable laws of the Cayman Islands.

On the basis of the current financial position of our Group as disclosed in this [REDACTED] and taking into account the current working capital position of our Group, our Directors consider that, if the Buy-back Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of our Group as compared with the position disclosed in this [REDACTED]. However, our Directors do not propose to exercise the Buy-back Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Group or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Group.

The exercise in full of the Buy-back Mandate, on the basis of [REDACTED] Shares in issue immediately after the [REDACTED], would result in up to [REDACTED] Shares being bought back by our Company during the period in which the Buy-back Mandate remains in force.

### *(e) General*

Neither our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to our Company or our subsidiaries.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Buy-back Mandate in accordance with the Listing Rules, the Articles and the applicable laws of the Cayman Islands.

If, as a result of a securities buy-back, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. As a result, a Shareholder, a group of Shareholders acting in concert (within the meaning under the Takeovers Code), depending on the level of increase of such Shareholders' interest, could obtain or consolidate control of our Company and may become obliged under Rule 26 of the Takeovers Code to make a mandatory offer unless a whitewash waiver is obtained. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any buy-backs pursuant to the Buy-back Mandate.

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Our Directors will not exercise the Buy-back Mandate if the buy-back would result in the number of Shares which are in the hands of the [REDACTED] falling below [REDACTED]% of the total number of Shares in issue (or such other percentage as may be prescribed as the [REDACTED] under the Listing Rules).

No connected person (as defined in the Listing Rules) of our Company has notified us that he/she/it has a present intention to sell Shares to our Company, or has undertaken not to do so if the Buy-back Mandate is exercised.

### B. FURTHER INFORMATION ABOUT OUR BUSINESS

#### 1. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this [REDACTED] that are or may be material:

- (a) the Deed of Indemnity; and
- (b) the [REDACTED].

#### 2. Intellectual property rights

##### (a) Patents

As of the Latest Practicable Date, members of our Group were the registered proprietor of the following patents which, in the opinion of our Directors, are materials to our business:

No.	Patent	Patent number	Type	Name of registered proprietor	Place of registration	Date of application	Expiry date
1	Low odor Nitrocellulose	ZL200610062641.5	Invention Patent	China Paint Shenzhen and LAM Ting Ball Paul	PRC	13 September 2006	12 September 2026
2	A coating composition having antibacterial and air-purifying functions	ZL200810045051.0	Invention Patent	China Paint Shenzhen	PRC	25 March 2008	24 March 2028
3	An environment-friendly nitrocellulose lacquer for wood and a manufacturing method thereof	ZL201010103408.3	Invention Patent	China Paint Shenzhen	PRC	26 January 2010	25 January 2030

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<b>No.</b>	<b>Patent</b>	<b>Patent number</b>	<b>Type</b>	<b>Name of registered proprietor</b>	<b>Place of registration</b>	<b>Date of application</b>	<b>Expiry date</b>
4	A multi-functional white water-based primer and a preparation method thereof	ZL201010154767.1	Invention Patent	China Paint Shenzhen	PRC	12 April 2010	11 April 2030
5	A mosquito-repellent water-based environmental protection interior wall paint and a manufacturing method thereof	ZL201010197575.9	Invention Patent	China Paint Shenzhen	PRC	02 June 2010	01 June 2030
6	A two-component Waterborne Polyurethane Glass Transparent Thermal Insulation Coating	ZL201010201611.4	Invention Patent	China Paint Shenzhen	PRC	08 June 2010	07 June 2030
7	A formaldehyde-free metal packaging coating	ZL201110281752.6	Invention Patent	China Paint Shenzhen	PRC	21 September 2011	20 September 2031
8	A coating with characteristics of ceramic colour and quartz sand texture, and a preparation method and application thereof	ZL201210287897.1	Invention Patent	China Paint Shenzhen	PRC	14 August 2012	13 August 2032
9	An imitation marble surface treatment method and an imitation marble pattern decorative plate	ZL201210478042.7	Invention Patent	China Paint Shenzhen	PRC	22 November 2012	21 November 2032



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As of the Latest Practicable Date, members of our Group had applied for registration of the following patents which, in the opinion of our Directors, are material to our business:

<b>No.</b>	<b>Patent</b>	<b>Patent application number</b>	<b>Type</b>	<b>Name of registered proprietor</b>	<b>Place of registration</b>	<b>Date of application</b>
1	A high weathering and stain-resistant water-based outdoor wood white top coat and a preparation method thereof	201410121160.1	Invention Patent	China Paint Shenzhen	PRC	27 March 2014
2	An adaptive water-in-water multicolour granite coating and a preparation method and application thereof	201510640995.2	Invention Patent	China Paint Shenzhen	PRC	30 September 2015
3	A water-based rubbing colour treasure and a preparation, use and application thereof	201510623717.6	Invention Patent	China Paint Xinfeng	PRC	25 September 2015
4	A novel environment-friendly anticorrosive coating used in ecological environment and a preparation method thereof	201510785311.8	Invention Patent	China Paint Shenzhen	PRC	16 November 2015
5	A solvent-free modified polyurethane coating and a preparation method thereof	201510797280.8	Invention Patent	China Paint Shenzhen	PRC	18 November 2015
6	An environmental protection anticorrosion coating and a preparation method thereof	201610362622.8	Invention Patent	China Paint Shenzhen	PRC	26 May 2016
7	A coating material for electric irons and a preparation method and use thereof	201610605858.X	Invention Patent	China Paint Shenzhen	PRC	28 July 2016
8	A new fireproof wood coating and a preparation method and use thereof	201611031191.3	Invention Patent	China Paint Xinfeng	PRC	17 November 2016
9	A multifunctional wall material and a preparation method thereof	201611100001.9	Invention Patent	China Paint Shenzhen	PRC	01 December 2016
10	A slurry coating technology for the surface effect of the all-aqueous natural granite imitation	201710184543.7	Invention Patent	China Paint Shenzhen	PRC	24 March 2017
11	A nitro white finish paint and a preparation method thereof	201710329770.4	Invention Patent	China Paint Xinfeng	PRC	11 May 2017









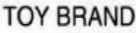




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### (b) Trademarks

As of the Latest Practicable Date, members of our Group were the registrants of the following trademarks which, in the opinion of our Directors, are material to our business:

No.	Trademark	Category	Place of registration	Trademark holder	Trademark number	Registration date	Expiry date
1		16	PRC	Majority Faith	346223	20 April 1989	19 April 2019
2		2	PRC	Majority Faith	1484291	07 December 2000	06 December 2020
3		17	PRC	Majority Faith	964035	21 March 1997	20 March 2027
4		2	PRC	Majority Faith	351782	20 June 1989	19 June 2019
5		17	PRC	Majority Faith	964034	21 March 1997	20 March 2027
6		2	PRC	Majority Faith	276521	30 January 1987	29 January 2027
7		2	PRC	Majority Faith	3332274	28 June 2004	27 June 2024
8		21	PRC	Majority Faith	5411035	28 September 2009	27 September 2019
9		8	PRC	Majority Faith	5411036	21 August 2009	20 August 2019
10		2	PRC	Majority Faith	6216563	14 March 2010	13 March 2020
11		2	PRC	Majority Faith	6216561	14 March 2010	13 March 2020
12		2	PRC	Majority Faith	6539500	14 August 2010	13 August 2020
13		2	PRC	Majority Faith	6586461	14 August 2010	13 August 2020









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No.	Trademark	Category	Place of registration	Trademark holder	Trademark number	Registration date	Expiry date
14		2	PRC	Majority Faith	7383948	07 October 2010	06 October 2020
15		2	PRC	Majority Faith	12972511	14 January 2015	13 January 2025
16		2	PRC	Majority Faith	12972500	14 January 2015	13 January 2025
17		2	PRC	Majority Faith	15825438	28 January 2016	27 January 2026
18		19	PRC	Majority Faith	15825437	28 January 2016	27 January 2026
19		8	PRC	Majority Faith	15625335	21 December 2015	20 December 2025
20		21	PRC	Majority Faith	15625334	21 December 2015	20 December 2025
21		2	PRC	Majority Faith	16129270	21 September 2016	20 September 2026
22		2	PRC	Majority Faith	16129271	21 September 2016	20 September 2026
23		2	PRC	Majority Faith	17710915	21 December 2016	20 December 2026
24		2	Hong Kong	Majority Faith	19830964	09 September 1982	08 September 2023
25		2	Hong Kong	Majority Faith	300026658	31 May 2003	30 May 2023
26		2	Hong Kong	Majority Faith	1999B07493	30 September 1997	29 September 2024
27		2	Hong Kong	Majority Faith	300909964	11 July 2007	10 July 2027
28		2	Hong Kong	Majority Faith	300909982	11 July 2007	10 July 2027
29		2, 16	Hong Kong	Majority Faith	300999848	23 November 2007	22 November 2017
30		2	Hong Kong	Majority Faith	301007739	05 December 2007	04 December 2017

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No.	Trademark	Category	Place of registration	Trademark holder	Trademark number	Registration date	Expiry date
31		5	Hong Kong	Majority Faith	301750996	01 November 2010	31 October 2020
							
32		5	Hong Kong	Majority Faith	301751021	01 November 2010	31 October 2020
							
33		1, 2	Hong Kong	Majority Faith	302136906	12 January 2012	11 January 2022
							
34		2	Hong Kong	Majority Faith	302153763	07 February 2012	06 February 2022
							
35	金菊花	2	Hong Kong	Majority Faith	302421125	31 October 2012	30 October 2022
36	ZICERA	19	Hong Kong	Majority Faith	303182175	29 October 2014	28 October 2024
37	ZICERA	2	Hong Kong	Majority Faith	303218102	28 November 2014	27 November 2024
38	TextuCote Basecoat	2, 19	Hong Kong	Majority Faith	303839653	15 July 2016	14 July 2026
39	悅亮漆	2	Macau	Majority Faith	N/004498	27 December 1999	20 April 2020
40	TextuCote Basecoat	2	Macau	Majority Faith	N/113957	27 February 2017	27 February 2024
41	TextuCote Basecoat	19	Macau	Majority Faith	N/113958	27 February 2017	27 February 2024
42	Resene Tile Filler	2	Macau	Majority Faith	N/115060	13 March 2017	13 March 2024
43	Resene Tile Filler	19	Macau	Majority Faith	N/115061	13 March 2017	13 March 2024

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As of the Latest Practicable Date, members of our Group had applied for registration of the following trademarks:

No.	Trademark	Category	Place of application	Application number	Name of applicant	Date of application
1		1	PRC	18781593	Majority Faith	04 January 2016
2		2	PRC	18781592	Majority Faith	04 January 2016
3		2	PRC	21652307	Majority Faith	24 October 2016
4		37	PRC	22717977	Majority Faith	23 January 2017
5		19	PRC	22717978	Majority Faith	23 January 2017
6		8	PRC	22717979	Majority Faith	23 January 2017
7		2	PRC	22717980	Majority Faith	23 January 2017
8		1	PRC	22717981	Majority Faith	23 January 2017
9	Resene Tile Filler	2, 19	Hong Kong	303891781	Majority Faith	02 September 2016
10		2	Hong Kong	304085460	Majority Faith	22 March 2017
11		2	Macau	N/121579	Majority Faith	27 March 2017
12		2	Macau	N/121580	Majority Faith	27 March 2017
13		2	Macau	N/121581	Majority Faith	27 March 2017
14		2	Macau	N/121582	Majority Faith	27 March 2017
15		2	Macau	N/121583	Majority Faith	27 March 2017

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No.	Trademark	Category	Place of application	Application number	Name of applicant	Date of application
16		2	Macau	N/121584	Majority Faith	27 March 2017
17		2	Macau	N/121585	Majority Faith	27 March 2017
18		2	Macau	N/121586	Majority Faith	27 March 2017

### (c) Domains

As of the Latest Practicable Date, members of our Group were the registered proprietors of the following domain names:

No.	Domain name	Registered proprietor	Date of registration	Expiry date
1	中华制漆.com	China Paint Shenzhen	27 November 2012	27 November 2022
2	chinapaint.com	China Paint (1932)	03 April 1997	04 April 2025
3	chinapaint.com.cn	China Paint Shenzhen	02 April 2004	02 April 2018
4	bluket.cn	China Paint Shenzhen	15 December 2008	15 December 2017
5	cpmgroup.com.hk	Our Company	27 October 2016	28 October 2017

## C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

### 1. Disclosure of interests

- (a) Immediately following completion of the [REDACTED] and the Capitalisation Issue (without taking into account any Shares which may be issued upon the exercise of the [REDACTED] or any Shares which may be taken up pursuant to the [REDACTED]), none of our Directors or chief executive of our Company has any interest and/or short position in our Shares, underlying shares and debentures of our Company or any of our associated corporations (within the meaning of Part XV of the SFO) which, once our Shares are [REDACTED] on the Stock Exchange, will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests or short position which they are taken or deemed to have under such provisions of the SFO) or will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, to be notified to our Company and the Stock Exchange.

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- (b) So far as is known to our Directors, immediately following completion of the [REDACTED] and Capitalisation Issue (without taking into account any Shares which may be issued upon the exercise of the [REDACTED] or any Shares which may be taken up pursuant to the [REDACTED]), the following persons (not being a Director or chief executive of our Company as disclosed in paragraph (a) above) will have interests or short positions in Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

### *Long position in our Shares*

<u>Name</u>	<u>Nature of Interest</u>	<u>Numbers of Shares</u>	<u>Percentage of shareholding</u>
CNT	Corporate interest	[REDACTED] (L) <sup>(1)</sup>	[REDACTED]%
CNT Enterprises	Corporate interest	[REDACTED] (L) <sup>(1)</sup>	[REDACTED]%

*Note:*

- (1) The letters "L" denotes the respective "long position" (as defined under Part XV of the SFO) of the relevant person/entity in such Shares.

## 2. Particulars of service contracts and letters of appointment

Each of our executive Directors has entered into a service contract with our Company. The terms and conditions of each of such service contracts are similar in all material respects. The service contracts are initially for a fixed term of three years commencing from the [REDACTED] (subject to termination in certain circumstances as stipulated in the relevant service contract). Each of these executive Directors is entitled to their respective basic salary set forth below.

The current basic annual salary of the executive Directors are as follows:

<u>Name</u>	<u>Annual salary</u> <i>HK\$'000</i>
Mr. TSUI Ho Chuen, Philip . . . . .	4,745.0
Mr. LI Guangzhong. . . . .	871.0
Mr. WONG Anders. . . . .	982.0

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Each of the non-executive Directors and independent non-executive Directors has entered into a letter of appointment with our Company. The terms and conditions of each of such letter of appointment are similar in all material respects. Each of them is appointed with an initial term of three years commencing from the [REDACTED] (subject to termination in certain circumstances as stipulated in the relevant letter of appointment) and the annual fee payable for each of our non-executive Directors and independent non-executive Directors is HK\$200,000.

Save for Directors’ fees, none of our independent non-executive Directors is expected to receive any other remuneration for holding their office as independent non-executive Director.

Save as disclosed aforesaid, none of our Directors has or is proposed to have a service contract with our Company or any of our subsidiaries other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

### **3. Directors’ remuneration**

- (a) The aggregate amount of emoluments paid (including salaries, contribution to pension schemes, allowance) and benefits in kind granted by our Group to our Directors in respect of the Track Record Period were HK\$14.5 million, HK\$13.7 million and HK\$12.3 million, respectively.
- (b) Under the arrangements currently in force, the aggregate emoluments (excluding payment pursuant to any discretionary benefits or bonus) payable by our Group to and benefits in kind receivable by our Directors (including the independent non-executive Directors in their respective capacity as Directors) for the year ending 31 December 2017 are expected to be HK\$10.8 million.
- (c) None of our Directors or any past directors of any member of our Group has been paid any sum of money for the Track Record Period (i) as an inducement to join or upon joining our Group or (ii) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.
- (d) There has been no arrangement under which a Director has waived or agreed to any emoluments for each of the Track Record Period.

### **4. Fees or commission received**

Save as disclosed in the section headed “[REDACTED] – Total commission and [REDACTED] expenses” in this [REDACTED], none of our Directors or the experts named in the paragraph under “D. Other information – 7. Consents of experts” in this Appendix had received any agency fee or commissions from our Group within the two years preceding the date of this [REDACTED].

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### **5. Connected transactions and related party transactions**

Save as disclosed in the sections headed “Continuing Connected Transactions” and “Relationship with our Controlling Shareholders” in this [REDACTED] and in note 40 to the Accountants’ Report, the text of which is set forth in Appendix I to this [REDACTED], during the two years immediately preceding the date of this [REDACTED], our Company has not engaged in any other material connected transactions or related party transactions.

### **6. Disclaimers**

Save as disclosed in this Appendix:

- (a) save as disclosed in the section headed “Controlling Shareholders and Substantial Shareholders” in this [REDACTED], and taking no account of any Shares which may be taken up or acquired under the [REDACTED] or upon the exercise of the [REDACTED], our Directors are not aware of any person (not being a Director or chief executive of our Company) who immediately following the completion of the [REDACTED] and the Capitalisation Issue will have an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who will, either directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group;
- (b) none of our Directors or chief executive of our Company has any interest or short position in any of the Shares, underlying shares or debentures of our Company or any associated corporations within the meaning of Part XV of the SFO, which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any of them is deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, in each case once the Shares are [REDACTED];
- (c) none of our Directors nor any of the parties listed in the paragraph under “D. Other information – 7. Consents of experts” in this Appendix below has been interested in the promotion of, or has any direct or indirect interest in any assets which have been, within the two years immediately preceding the date of this [REDACTED], acquired or disposed of by or leased to our Company or any of the subsidiaries of our Company, or are proposed to be acquired or disposed of by or leased to our Company or any other member of our Group nor will any Director apply for the [REDACTED] either in his own name or in the name of a nominee;
- (d) none of the Directors nor any of the parties listed in the paragraph under “D. Other information – 7. Consents of experts” in this Appendix is materially interested in any contract or arrangement subsisting at the date of this [REDACTED] which is significant in relation to business of our Group; and



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- (e) save in connection with the [REDACTED], none of the parties listed in the paragraph under “D. Other information – 7. Consents of experts” in this Appendix:
  - (i) is interested legally or beneficially in any securities of any member of our Group; or
  - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

### **D. OTHER INFORMATION**

#### **1. Tax and other indemnities**

CNT (the “**Indemnifier**”) has entered into the Deed of Indemnity in favour of our Company (for ourselves and on behalf of our subsidiaries) in respect of, among other matters:

- Hong Kong estate duty which might be payable by any member of our Group, by reason of any transfer of property (within the meaning of Section 35 of the Estate Duty Ordinance, Chapter 111 of the Laws of Hong Kong, as amended by the Revenue (Abolition of Estate Duty) Ordinance) to any member of our Group on or before the [REDACTED], or
- any Hong Kong profits tax which is finally amended as payable by any member of our Group for any period of time but has not been provided in the financial statements of our Group during the Track Record Period, or
- any payment made or required to be made by any member of our Group and any costs and expenses incurred as a result of or in connection with any claim (i) falling on any member of our Group resulting from or by reference to any income, profits or gains earned, accrued or received or deemed to occur or (ii) falling on any member of our Group in respect of their current accounting periods or any accounting period commencing on or after the Relevant Date (as defined below) unless liability for taxation would not have arisen but for any act or omission of, or transaction voluntarily effected by, any member of our Group without the prior written consent or agreement of the indemnifier(s), whether alone or in conjunction with other circumstances and whether or not such taxation is chargeable against or attributable to any other person, firm or company, or
- any non-compliance with any applicable laws and regulations by any member of our Group prior to the Relevant Date or any litigation, arbitration or claim of material importance against any member of our Group in relation to any matter, event or incident occurred prior to the [REDACTED].

CNT shall, however, not be liable under the Deed of indemnity for taxation, claim or liability to the extent that:

- (a) to the extent that provisions, reserve or allowance has been made for such taxation in audited consolidated financial statements of our Group during the Track Record Period;

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- (b) for which any member of our Group is liable as a result of any event occurring or income, profits or gains earned, accrued or received or alleged to have been earned, accrued or received or transactions entered into in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after the date on which the [REDACTED] becomes unconditional;
- (c) to the extent that such taxation or liability would not have arisen but for any act or omission by any member of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) voluntarily effected without the prior written consent or agreement of the indemnifiers, otherwise than in the ordinary course of business after the date on which the [REDACTED] becomes unconditional or carried out, made or entered into pursuant to a legally binding commitment created after the date on which the [REDACTED] becomes unconditional (the “**Relevant Date**”);
- (d) to the extent that such taxation or liability is discharged by another person who is not any member of our Group and that any member of our Group is not required to reimburse such person in respect of the discharge of the taxation or liability; and
- (e) to the extent that such claim arises or is incurred as a consequence of any retrospective change in the law or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or the tax authorities or any other authority in any part of the world coming into force after the date on which the [REDACTED] becomes unconditional or to the extent such claim arises or is increased by an increase in the rates of taxation after the date on which the [REDACTED] becomes unconditional with retrospective effect.

### **2. Litigation**

Save as disclosed in the sections headed “Business – Legal proceedings” and “Business – Non-compliance incidents”, neither our Company nor any of member of our Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to our Directors to be pending or threatened against any member of our Group that would have a material adverse effect on the operating results or financial condition of our Group.

### **3. Sponsor**

The Sponsor has, on behalf of our Company, made an application to the Stock Exchange for the [REDACTED] of, and permission to deal in, our Shares in issue and to be issued as mentioned herein and any Shares which may be issued upon the exercise of the [REDACTED] on the Stock Exchange. All necessary arrangements have been made to enable the securities to be admitted into [REDACTED].

The Sponsor has confirmed to the Stock Exchange that it satisfies the independence test as stipulated under Rule 3A.07 of the Listing Rules.

The Sponsor will also receive a fee of HK\$3.5 million to act as the sponsor to our Company in connection with the [REDACTED].

## APPENDIX IV

## STATUTORY AND GENERAL INFORMATION

### 4. Preliminary expenses

The preliminary expenses of our Company are estimated to be HK\$91,537.2 and are payable by our Company.

### 5. Promoter

Our Company does not have promoter for the purpose of the Listing Rules.

### 6. Qualifications of experts

The following are the qualifications of the experts who have given opinions and/or whose names are included in this [REDACTED]:

Name	Qualifications
Innovax Capital Limited . . . . .	A licenced corporation under the SFO permitted to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities (as defined under the SFO)
Ernst & Young . . . . .	Certified Public Accountants
Han Kun Law Offices . . . . .	PRC legal adviser
Yangsang Law Firm of Guangdong . . .	PRC legal adviser
Conyers Dill & Pearman . . . . .	Legal adviser to our Company as to Cayman Islands law
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. . . . .	An independent market research and consulting company
BMI Appraisals Limited . . . . .	Property valuer

### 7. Consents of experts

Each of Innovax Capital Limited, Ernst & Young, Han Kun Law Offices, Yangsang Law Firm of Guangdong, Conyers Dill & Pearman, Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. and BMI Appraisals Limited has given and has not withdrawn its written consent to the issue of this [REDACTED] with the inclusion of its reports, letters or opinions (as the case may be) and the references to its names or summaries of opinions included in this [REDACTED] in the form and context in which they respectively appear.

### 8. Binding effect

This [REDACTED] shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

## APPENDIX IV

## STATUTORY AND GENERAL INFORMATION

### 9. Taxation of holders of Shares

#### (a) *Hong Kong*

[REDACTED] in Shares registered on our Company’s Hong Kong branch register of members will be subject to Hong Kong stamp duty. The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty, the current rate of which is 0.2% of the consideration or, if higher, the value of our Shares being sold or transferred.

Profits from [REDACTED] in our Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

#### (b) *Cayman Islands*

No stamp duty is payable in the Cayman Islands on transfer of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

#### (c) *Consultation with professional advisers*

[REDACTED] holders of our Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or [REDACTED] in our Shares. It is emphasised that none of our Company, our Directors or other parties involved in the [REDACTED] accepts responsibility for any tax effect on, or liabilities of holders of Shares resulting from their [REDACTED] in Shares or exercising any rights attaching to them.

### 10. Miscellaneous

#### (a) Save as disclosed in this Appendix and the section headed “History, Development and Reorganisation – Our corporate history” in this [REDACTED]:

##### (i) within two years preceding the date of this [REDACTED]:

- (aa) no share or loan capital of our Company or of any of our subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;
- (bb) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries;
- (cc) no commission has been paid or payable (except for the [REDACTED] commission payable to the [REDACTED]) for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any shares in our Company or any of our subsidiaries;

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## **APPENDIX IV**

## **STATUTORY AND GENERAL INFORMATION**

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- (dd) our Group has no outstanding convertible debt securities or debentures;
- (ee) no founders, management or deferred shares of our Company or, any of its subsidiaries have been issued or agreed to be issued; and
- (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option.
- (b) Our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 31 December 2016 (being the date to which the latest audited combined financial statements of our Group were made up).
- (c) There has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this [REDACTED].

### **11. Dividends**

Our Directors confirm that there is no arrangement under which future dividends are waived or agreed to waive.

### **12. Bilingual [REDACTED]**

The English language and Chinese language versions of this [REDACTED] are being published separately in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

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## **APPENDIX V                      DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG AND AVAILABLE FOR PUBLIC INSPECTION IN HONG KONG**

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### **DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG**

The documents attached to the copy of this [REDACTED] delivered to the Registrar of Companies in Hong Kong for [REDACTED] were:

- (a) copies of the [REDACTED] and [REDACTED];
- (b) the written consents referred to in the paragraph under “D. Other information – 7. Consents of experts” in Appendix IV to this [REDACTED]; and
- (c) copies of the material contracts referred to in the paragraphs under “B. Further information about our business – 1. Summary of material contracts” in Appendix IV to this [REDACTED].

### **DOCUMENTS AVAILABLE FOR PUBLIC INSPECTION IN HONG KONG**

Copies of the following documents will be available for public inspection at the office of Squire Patton Boggs at 29th Floor, Edinburgh Tower, The Landmark, 15 Queen’s Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this [REDACTED]:

- (a) the Memorandum and the Articles;
- (b) the Accountants’ Report prepared by Ernst & Young, the text of which is set forth in Appendix I to this [REDACTED];
- (c) the audited combined financial statements of our Group for the Track Record Period;
- (d) the report prepared by Ernst & Young on the unaudited pro forma financial information of our Group, the text of which is set forth in Appendix II to this [REDACTED];
- (e) the letter of advice prepared by Conyers Dill & Pearman, summarising certain aspects of the Cayman Companies Law referred to in Appendix III to this [REDACTED];
- (f) the Cayman Companies Law;
- (g) the material contracts referred to in the paragraphs under “B. Further information about our business – 1. Summary of material contracts” in Appendix IV to this [REDACTED];
- (h) the legal opinion dated the date of this [REDACTED] issued by Han Kun Law Offices, our PRC legal adviser in respect of our business operations and property interests in the PRC;
- (i) the legal opinion dated the date of this [REDACTED] issued by Yangsan Law Firm of Guangdong, our PRC legal adviser in respect of our intellectual property and related litigation matters in the PRC;
- (j) the service contracts and the letters of appointment referred to in the paragraphs under “C. Further information about our directors and substantial shareholders – 2. Particulars of service contracts and letters of appointment” in Appendix IV to this [REDACTED];
- (k) the written consents referred to in the paragraph under “D. Other information – 7. Consents of experts” in Appendix IV to this [REDACTED];

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**APPENDIX V**

**DOCUMENTS DELIVERED TO THE REGISTRAR OF  
COMPANIES IN HONG KONG AND AVAILABLE  
FOR PUBLIC INSPECTION IN HONG KONG**

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- (l) the report dated the date of this [REDACTED] and prepared by Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., a summary of which is set forth in the section headed “Industry Overview” in this [REDACTED]; and
- (m) the rental valuation report issued by BMI Appraisals Limited on the rental amount referred to in the Master Lease Agreement.