MANFIELD

Manfield Chemical Holdings Limited
萬輝化工控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1561

Annual Report 2018

CONTENTS

Corporate Information

BOARD OF DIRECTORS

Executive Director

Dr. Li Zhong Yuan *(Chairman)*

Non-Executive Directors

Mr. Kong Muk Yin
Ms. Zuo Yi

Independent Non-Executive Directors

Mr. Li Gong
Mr. Wang Jianping
Dr. Shi Ping

AUDIT COMMITTEE

Dr. Shi Ping *(Chairman)*
Mr. Li Gong
Mr. Wang Jianping

NOMINATION COMMITTEE

Mr. Li Gong *(Chairman)*
Dr. Li Zhong Yuan
Mr. Wang Jianping

REMUNERATION COMMITTEE

Mr. Wang Jianping *(Chairman)*
Dr. Li Zhong Yuan
Mr. Li Gong

COMPANY SECRETARY

Mr. Yip Ka Ki

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

LEGAL ADVISERS

As to Hong Kong law
David Norman & Co.
Robertsons

As to PRC law
Beijing Dentons Law Offices, LLP (Shanghai)
ETR Law Firm

As to Cayman Islands law
Harneys Westwood & Riegels

PRINCIPAL BANKERS

Standard Chartered Bank (Hong Kong) Limited
China Merchants Bank, Songgang branch
Bank of China, Zengcheng branch
Agricultural Bank of China, Zhongxin branch

REGISTERED OFFICE

Harneys Fiduciary (Cayman) Limited
4th Floor, Harbour Place
103 South Church Street
P.O. Box 10240
Grand Cayman
KY1-1002
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 2A, 2nd Floor
Beverly House
93-107 Lockhart Road, Wanchai
Hong Kong
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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

Harneys Fiduciary (Cayman) Limited
4th Floor, Harbour Place
103 South Church Street
P.O. Box 10240
Grand Cayman
KY1-1002
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

STOCK CODE

1561

WEBSITE

http://www.irasia.com/listco/hk/manfield/

Chairman's Statement

On behalf of the board of Directors (the "Board") of Manfield Chemical Holdings Limited (the "Company"), I have the pleasure to present the financial results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018.

RESULTS AND FINANCIAL OVERVIEW

The Group had a consolidated turnover of HK$426,346,000 (2017: HK$374,161,000) for the year ended 31 December 2018. This represented an increase of approximately 13.95% compared with that for the previous year.

Profit attributable to shareholders of the Company for the year ended 31 December 2018 increased by approximately 40.26% to HK$8,563,000 (2017: HK$6,105,000). This is mainly attributable to (i) the increase in gross profit following the new products launched into the market; (ii) improved sales of the customers; and (iii) the increase in the goods sold to associates of the Company.

Earnings per share for the year ended 31 December 2018 amounted to HK1.4 cents (2017: HK1.0 cents).

The Group's net asset value per share as at 31 December 2018 maintained at HK$1.00 (2017: HK$1.07).

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: HK$0.025 per share).

CLOSURE OF REGISTER OF MEMBERS FOR ANNUAL GENERAL MEETING

The annual general meeting of the Company (the "Annual General Meeting") is scheduled to be held on Wednesday, 26 June 2019. For determining the eligibility to attend and vote at the Annual General Meeting, the Register of Members of the Company will be closed from Friday, 21 June 2019 to Wednesday, 26 June 2019, both dates inclusive, during which period no transfer of shares will be effected. In order to be eligible to attend and vote at the Annual General Meeting, all transfers of ordinary shares, duly accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration, no later than 4:30 p.m. on Thursday, 20 June 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

2018 was a year filled with changes and opportunities for the Group. In November 2018, Timenew Limited became the controlling shareholder and ultimate holding company of the Company, bringing on board new directors with their respective expertise and vision as well as other possible business collaboration opportunities in the new economy for the market development and the Company's consideration should appropriate opportunities arise.

Despite the changes and challenges during the year ended 31 December 2018, the overall performance of the Group improved in 2018 as a result of the increase in gross profit following the new products launched into the market; improved sales of the customers; and the increase in the goods sold to associates of the Company.

The profit margin of thermochromic paint, a new product of the Company which was being substantially manufactured in early 2018, was satisfactory. The color of this paint varies with temperature and is commonly used in toys production and the Group is developing other feasible products, such as, medical-related equipment, to broaden the applications of this paint.

Above all, the Group's gross profit for the year ended 31 December 2018 increased to HK$85,341,000 (2017: HK$65,377,000) with an overall gross margin of 20.02% (2017: 17.47%). For the year ended 31 December 2018, the Group's cost of sales with the costs of raw materials and labour accounted for the major part of total cost of sales.

Amid the intense competition due to predatory pricing practiced by other competitors, demand in electrical appliances, computers, communication and consumer electronics products of the Group dropped and hence sales from this segment decreased for the year ended 31 December 2018.

To mitigate the adverse effects from the stringent policies and regulations introduced by the local municipal government, such as, the environmental conservation, complex inspection and certification requirements which imposed great burden on the overall business of the coating plant in Shenzhen, the Group actively implemented various scale restructuring and streamlining program for cost reduction in Shenzhen plant during the year, most of the production in Shenzhen plant have been shifted to the coating plant in Guangzhou. To support the Group's growing operations, we have further expanded our existing production facilities in Guangzhou plant by engaging in phase two of construction of Guangzhou plant's production facilities. The construction of two warehouses had been completed during the year while a workshop and a technical development building are expected to be completed by the end of 2019. As at 31 December 2018, the Group had invested approximately HK$7,700,000 for phase two of construction of Guangzhou plant's production facilities.

The increase in sales of liquid coatings to outsiders of 16.89% to HK$286,017,000 (2017: HK$244,679,000) outweighed the decrease in sales of powder coatings to outsiders of 2.59% to HK$23,140,000 (2017: HK$23,756,000) and thus the overall sales increased for the year ended 31 December 2018.

Furthermore, the increase in revenue was mainly due to the increase in sales of liquid coatings to subsidiaries of an associate, CMW Holding Limited ("CMW") and the increase in supply of liquid coatings by Manfield Teknos (Changzhou) Chemical Company Limited ("MT") to Teknos Coatings (Shanghai) Co., Ltd.

As a number of toy industry customers moved away their production base from the Pearl River Delta to other overseas region recently, the Group will keep an eye on such investment opportunities in exploring a suitable place for setting up a new manufacturing plant outside the PRC in order to drive the Group to achieve its business objectives.

On the other hand, in view of the fact that additional time is required for compliance with various registration and approval procedures required for the acquisition of the land use rights of a property (the "Land Acquisition") by Springfield Chemical (Guangzhou) Company Limited (currently known as Manfield (Guangzhou) Innovative Materials Limited) ("Manfield GZ") from Zengcheng Ltd. (a connected person of the Company) (as disclosed in the section headed "Connected Transactions" in the prospectus dated 17 November 2015 and the announcement dated 5 December 2018 issued by the Company), the parties have agreed to further extend the completion date of the Land Acquisition to a date before 31 December 2019. The Group considers that the delay in completion of the Land Acquisition will not have any material adverse impact on the operations or financial position of the Company. The Company will make further announcement as to the development of the Land Acquisition as and when appropriate.

Principal Associated Company

Of the Group's 45% equity interest in CMW which is primarily engaged in the importing, distributing, manufacturing and marketing of non-stick and high temperature decorative coatings and coatings for mobile phones, during the year under review, revenue of CMW increased 3.84% to HK$620,122,000 (2017: HK$597,211,000), the overall sales of CMW also increased while the profit for the year of CMW fell. Sales of coatings for mobile phones improved as both sales to international and consumer electronics markets were satisfactory, but sales of railway coatings, non-stick and high temperature decorative coatings recorded decreases. During the year under review, the Group's share of profit derived from CMW decreased approximately 38.17% to HK$8,401,000 (2017: HK$13,587,000).

Acquisition of Third-Party Payment Business

On 2 March 2019, a wholly-owned subsidiary of the Company as purchaser, Mao Hong Holding Limited as vendor and Mr. Chen Liang and Ms. Chen Zi Jun (collectively, the "Guarantors") entered into the sale and purchase agreement (the "Sale and Purchase Agreement"), pursuant to which, subject to and upon the terms and conditions of the Sale and Purchase Agreement, the Group shall purchase 51% of the issued share capital (the "Sale Shares") of Mao Hong Information Technology Holding Limited (the "Target Company") free from all encumbrances with effect from the completion of the sale and purchase of the Sale Shares (the "Completion") (the "Acquisition"). Details of the Acquisition were disclosed in the Company's announcement dated 4 March 2019.

Chairman's Statement

The Target Company and its subsidiaries (the "Maohong Group") will undergo the reorganisation of corporate structure of Maohong Group and enter into of a series of structured contracts (the "Structured Contracts") with the Guarantors, Shanghai Maohong Information Technology Co., Ltd (the "OPCO") and Shanghai Day's Holding Company Limited (collectively, the "Reorganisation"). Upon the completion of the Reorganisation, the Target Company shall have indirect control over the management and operation of OPCO and its subsidiaries (the "OPCO Group") through the Structured Contracts.

The OPCO Group is a digital payment platform, which provides third-party payment services through the following services and products, namely, (1) Internet payment services and (2) Prepaid card issue and management services and (3) others.

The Acquisition has not been completed up to the date of this Report.

Others

In relation to the intended exercise of its right to dispose of 40% equity interest in MT, an indirect 60%-owned subsidiary of the Company, the Group submitted an arbitration application to Shanghai International Economic and Trade Arbitration Commission in September 2018. The arbitration process is ongoing and the Group is actively following up the arbitration and evaluating the potential impact and currently, the operation conditions of the Group's businesses remain normal, and the arbitration has no material impact on the Group's operation, financial position and solvency.

USE OF NET PROCEEDS FROM LISTING

Following the listing of its shares, the Company received net proceeds of approximately HK$119.9 million from the placing and public offer of its shares in December 2015 after the deduction of underwriting commissions and all related expenses. The actual use of proceeds were as follows:

Intended use of proceeds		Actual use of proceeds	
i.	Approximately HK$81.7 million to partially fund phase two of construction of Manfield GZ production facilities	i.	Approximately HK$7.7 million was used as funds for phase two of construction of Manfield GZ's production facilities
ii.	Approximately HK$12.0 million for the purchase of additional machinery and equipment	ii.	Approximately HK$8.9 million for the purchase of additional machinery and equipment
iii.	Approximately HK$3.3 million for partial settlement of the purchase price of the land for phase two of construction of Manfield GZ's production facilities	iii.	Not yet used
iv.	Approximately HK$20.0 million for repayment of a bank overdraft facility	iv.	HK$20.0 million was used as repayment of a bank overdraft facility
v.	Approximately HK$2.9 million for general working capital of the Group	v.	Approximately HK$2.9 million was used as general working capital for the Group

The Directors are not aware of any material change to the planned use of the proceeds as at the date of this Report.

FINANCIAL RESOURCES, BORROWINGS, CAPITAL STRUCTURE AND EXPOSURES TO FLUCTUATIONS IN EXCHANGE RATES

As at 31 December 2018, the Group's non-current assets of HK$309,671,000 (2017: HK$311,430,000) consisted of property, plant and equipment of HK$98,029,000 (2017: HK$95,104,000), prepaid lease payments of HK$25,960,000 (2017: HK$23,631,000), interests in associates of HK$182,587,000 (2017: HK$191,889,000) and deposits to purchase of property, plant and equipment and prepaid lease payments of HK$3,095,000 (2017: HK$806,000). These non-current assets are principally financed by the Group's shareholders' funds. As at 31 December 2018, the Group's net current assets decreased to HK$304,309,000 (2017: HK$343,932,000).

As at 31 December 2018, the Group has no bank borrowing (2017: nil).

As at 31 December 2018, the Group's leasehold land and buildings situated in Hong Kong amounting to HK$1,508,000 (2017: HK$1,585,000), were pledged to a bank for general banking facilities granted to the Group.

The Group's operations are mainly located in the PRC and its transactions and related working capital are primarily denominated in Renminbi and Hong Kong Dollars. The Group will closely monitor its foreign exchange exposure and will consider hedging significant currency exposure should the need arises.

As at 31 December 2018, the Group had capital commitment contracted for but not provided — acquisition of property, plant and equipment of HK$8,121,000 (2017: HK$2,357,000) and other commitment contracted for but not provided — proposed purchase of land of HK$8,345,000 (2017: HK$8,747,000).

As at 31 December 2018, the Group did not have any material contingent liabilities.

MATERIAL ACQUISITIONS AND DISPOSAL

Save as disclosed herein, for the year ended 31 December 2018, the Group did not make any material acquisitions and disposal of subsidiaries, significant investments or capital commitment.

EMPLOYEES AND REMUNERATION POLICIES

The Group had 641 employees as at 31 December 2018 (2017: 682). The Group ensures that its employees are remunerated in line with market conditions and individual performance and the remuneration policies are reviewed on a regular basis.

PROSPECTS AND STRATEGIES

The Group expects raw material cost, salary and wages, and other production costs will remain high in 2019 and further compounding the situation is the possibility that the Sino-US trade friction may elevate to the strategic level of curbing China's rapid rise on the world stage and hence the Group will remain conservative and prudent in view of the severe market conditions of the coating industry. With strict implementation of national measures imposed on the coating industry and its upstream suppliers and the resulting high compliance costs, the managing of the overall operating costs of the Group will continue to be challenging.

Chairman's Statement

Exploring Business Opportunities in New Economy Industry

The Company intends to continue the existing principal businesses of the Group and maintain the operational employees of the Group. Leveraging on the experience of Dr Li Zhong Yuan, the Chairman of the Company, in the new economy sector, which includes financial services, digital applications for retail and quasi-retail in general, and fintech in particular, the Company will explore possible business opportunities in the new economy industry for the Group. Referring to the announcement in relation to the acquisition of Third-Party Payment Business dated on 4 March 2019, the Company will continue to conduct a review on the business operations and financial position of the Group for the purpose of formulating business plans and strategies for the future business development of the Group. Subject to the results of the review, the Company may explore other business opportunities for the Group and consider whether any asset disposals, asset acquisitions, business rationalisation, business divestment, fund raising, restructuring of the business and/or business diversification will be appropriate in order to enhance the long-term growth potential of the Group. The Company has been reviewing, and in preliminary discussion and negotiations with multiple entities and different parties in the new economy sector to explore, possible collaboration opportunities. In the event that any such opportunities materialise, further announcement(s) will be made by the Company in accordance with the Listing Rules.

APPRECIATION

On behalf of the Board, I would like to extend my whole-hearted thanks to our shareholders for their continued support and to our staff for their contribution to the Group during the year.

Li Zhong Yuan
Chairman

Hong Kong, 31 March 2019

Biographical Details in Respect of Directors

EXECUTIVE DIRECTOR

Dr. Li Zhong Yuan ("Dr. Li"), aged 57, was appointed as an executive director and chairman of the Company on 10 December 2018 and 31 December 2018 respectively. Dr Li received a PhD in mathematics from the University of Michigan in 1990 and was employed as a CLE Moore Instructor at Massachusetts Institute of Technology (M.I.T.) for three years, responsible for researching and teaching in the frontier of mathematical sciences and their applications. Dr. Li subsequently worked for a number of years with bulge bracket Wall Street Firms in innovatively structured financial products, and has started his own independent entrepreneurship since the year of 2000. He is experienced in financial services and digital applications in general, and fintech in particular. Dr. Li had been a director of China Health Group Limited (Stock Code: 673) until June 2016. Dr. Li is also a member of the international Advisory Board of the University of California at San Diego's School of Global Policy and Strategy and its 21st Century China Center's China Leadership Board member.

NON-EXECUTIVE DIRECTORS

Mr. Kong Muk Yin ("Mr. Kong"), aged 53, has been a non-executive Director of the Company since the listing of Shares in the Company on 1 December 2015 and was the company secretary of the Company during the period from 12 June 2014 to 31 December 2018. He is also an executive director of China Medical & HealthCare Group Limited (Stock code: 383). Mr. Kong was graduated from City University of Hong Kong with a bachelor of arts degree in Business Studies. He is a fellow member of the Association of Chartered Certified Accountants, a member of the Hong Kong Institute of Certified Public Accountants and a Chartered Financial Analyst and he has extensive experience in corporate finance, financial management, accounting and auditing.

Ms. Zuo Yi ("Ms. Zuo"), aged 43, was appointed as a non-executive director of the Company on 10 December 2018. Ms. Zuo obtained a bachelor's degree from Fudan University in 1997 and received a MBA from Stanford University's Graduate School of Business in 2004. Ms. Zuo has over 10 years of experience in investment banking and private equity worked as a vice president under the investment banking division of Morgan Stanley, and then as an executive director in the investment bank division of UBS Group. In 2013, Ms. Zuo joined Crimson Private Fund to head up its China business. Ms. Zuo joined Four Seasons Education Group, a NYSE listed company, in 2017 as its Chief Financial Officer.

Biographical Details in Respect of Directors

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Li Gong ("Mr. Li"), aged 60, was appointed as an independent non-executive director of the Company on 10 December 2018. Mr. Li studied physics at Fudan University and obtained a bachelor of science and master of science in electrical engineering at the University of Houston in 1983 and 1985 respectively. He then started his career at Accenture in 1985 as a consultant and spent 30 years at Accenture. Mr. Li was a member of Accenture Global Leadership Council, a senior managing director and the Chairman of Greater China region when he decided to retire from Accenture in 2015. Mr. Li served as a member of the board of several Accenture's joint ventures in Asia including China Communications Services Software Technology Company in China. He also served as a member of advisory committee to Shanghai Municipal Government, and was a recipient of Magnolia Gold Award (白玉蘭榮譽獎) of Shanghai Municipality. Mr. Li was also an advanced leadership fellow at Harvard University from December 2015 to December 2016.

Mr. Wang Jianping ("Mr. Wang"), age 54, was appointed as an independent non-executive director of the Company on 10 December 2018. Mr. Wang has an MBA from Wuhan University in China. Mr. Wang is a senior accountant and has spent his entire career in banking and investment in the PRC before he decided to retire from China Minsheng Investment Group Corp., a company in the PRC with RMB50 billion paid-in capital, as its vice-president and chief financial officer in 2018. In his banking career, Mr. Wang served as a member of the Communist Party Committee of China Minsheng Bank headquarters and the governor of China Minsheng Bank Shanghai Branch. Prior to that, Mr. Wang assumed multiple managerial positions of China Minsheng Bank headquarters' finance departments over 10 years, including the President of Planning Finance Department and the President of Financial Management Department. Prior to China Minsheng Bank, Mr. Wang worked at the People's Bank of China — Hunan Provincial Branch. Mr. Wang has been an independent non-executive director of Aier Eye Hospital Group Co., Ltd., a company listed on the ChiNext of Shenzhen Stock Exchange (Stock Code: 300015) since 2015 and an independent non-executive director of Chongqing Lummy Pharmaceutical Co., Ltd., a company listed on the ChiNext of Shenzhen Stock Exchange (Stock Code: 300006) since 2016.

Dr. Shi Ping ("Dr. Shi"), aged 56, was appointed as an independent non-executive director of the Company on 10 December 2018. Dr. Shi received a bachelor of science in economics from Nanjing University of Finance and Economics in 1985, a master of science in economics from Nanjing University in 2006, and also a PhD in resource economics from China University of Geosciences in 2014. Dr. Shi is the Dean of Nanjing Audit University's Ruihua School of Auditing and Accounting, where Nanjing Audit University is the only university cofounded by National Audit Office of the PRC, one of the 26 Ministries and Commissions composing of the PRC State Council, and Ruihua, the branding party of the School, is a leading accounting firm in the PRC. Dr. Shi is the Chairman of Jiangsu Association of Wealth Managers and awarded with the status of consulting expert on managerial accounting by the Bureau of Finance of Jiangsu Province. Dr. Shi has been involved in financial theory and practice researches over 10 years, and chaired and participated in four research projects of provincial and ministerial levels. Dr. Shi has been an independent non-executive director of Jiangsu Huaxicun Holding Co., Ltd., a company listed on the SME Board of Shenzhen Stock Exchange (stock code: 000936) and of SVG Group Co., Ltd., a company listed on the ChiNext of Shenzhen Stock Exchange (stock code: 300331) since 2014 and an independent non-executive director of Nantong Jianghai Capacitor Co., Ltd., a company listed on the SME Board of Shenzhen Stock Exchange (stock code: 002484) and of Jiangsu Daybright Intelligent Electric Co., Ltd., a company listed on the ChiNext of Shenzhen Stock Exchange (stock code: 300670) since 2017.

Directors' Report

The board of directors (the "Board") of Manfield Chemical Holdings Limited (the "Company") presents their annual report and the audited consolidated financial statements for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 32 to the consolidated financial statements. Details and respective analysis of the main business segments of the Group during the year are set out in note 5 to the consolidated financial statements. In addition, discussions on the Group's environmental policies and performance and the Group's key relationships with its employees, customers, suppliers and others that have a significant impact on the Group's success are provided in the Environmental, Social and Governance Report of this Report.

As far as the Board and the management are aware, the Group has, in all material aspects, complied with the laws and regulations that are applicable to our business operations during the year. The relevant laws and regulations that have a significant impact on the Company include, among others, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Hong Kong Companies Ordinance (Chapter 622), the Securities and Futures Ordinance, the Company Laws of the Cayman Islands and the laws and regulations in relation to its business including environmental protection, production safety, product quality, labour contracts, employee benefits, foreign exchange, taxation and intellectual property rights.

Further discussion and analysis as required by Schedule 5 to the Hong Kong Companies Ordinance (Chapter 622) can be found in the section of "Chairman's Statement" of this Report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss on page 46.

During the year ended 31 December 2018, a final dividend in respect of the year ended 31 December 2017 of HK$15,000,000 or HK$0.025 per share and an interim dividend in respect of the period ended 30 June 2018 of HK$12,000,000 or HK$0.02 per share (2017: HK$15,000,000) were distributed to its shareholders.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: HK$0.025 per share).

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 23 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 48.

PROPERTY, PLANT AND EQUIPMENT

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

DIRECTORS AND SERVICE CONTRACTS

The Directors of the Company during the year and up to the date of this Report are:

Executive Directors:

Dr. Li Zhong Yuan *(Chairman) (Appointed on 10 December 2018)*
Mr. Yuen Shu Wah *(Resigned on 31 December 2018)*
Mr. Ko Jack Lum *(Resigned on 31 December 2018)*
Mr. Ng Kai On *(Resigned on 31 December 2018)*

Non-Executive Directors:

Mr. Kong Muk Yin
Ms. Zuo Yi *(Appointed on 10 December 2018)*
Dato' Wong Peng Chong *(Resigned on 31 December 2018)*

Independent Non-Executive Directors:

Mr. Li Gong *(Appointed on 10 December 2018)*
Mr. Wang Jianping *(Appointed on 10 December 2018)*
Dr. Shi Ping *(Appointed on 10 December 2018)*
Dr. Chui Hong Sheung, *JP (Resigned on 31 December 2018)*
Mr. Cheung Chi Wai Vidy *(Resigned on 31 December 2018)*
Mr. Yue Kwai Wa Ken *(Resigned on 31 December 2018)*

In accordance with Article 84 of the articles of association of the Company (the "Articles of Association"), Dr. Li Zhong Yuan, Ms. Zuo Yi, Mr. Li Gong, Mr. Wang Jianping and Dr. Shi Ping shall retire and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

None of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

On 10 September 2012, the Group entered into a sale and purchase agreement with a company owned by Mr. Yuen Shu Wah, former Chairman of the Company, to acquire two pieces of land located in the PRC at an aggregate cash consideration of RMB3,367,000 (equivalent to HK$4,154,000) (as disclosed in the section headed "Connected Transactions" in the prospectus dated 17 November 2015 issued by the Company). Deposit of RMB673,000 (equivalent to HK$831,000) was paid during the year ended 31 December 2012. The remaining balance of RMB2,694,000 was included as commitment as at 31 December 2017 and 2018, equivalent to HK$3,223,000 and HK$3,075,000 respectively. The purchase of these two pieces of land had not yet been completed up to 31 December 2018.

Save as disclosed above, no transactions, arrangements or contracts of significance, to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

As at 31 December 2018, the interests and short positions of the Directors and the chief executive of the Company and their associates in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Hong Kong (the "SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

1. Long positions in the shares of the Company

Name of Director	Number of ordinary shares Personal interests	Family interests	Corporate interests	Other interests	Total	Percentage of interest
Dr. Li Zhong Yuan	–	–	450,000,000 *(Note i)*	–	450,000,000	75.00%

2. Interests in the associated corporation of the Company

Name of Directors	Number of shares Personal interests	Family interests	Corporate interests	Other interests	Total	Percentage of interest
Mr. Yuen Shu Wah	–	–	–	9,168,000 *(Note ii)*	9,168,000	28.65%
Mr. Ko Jack Lum	–	–	–	4,960,000 *(Note ii)*	4,960,000	15.50%

Notes:

(i) Dr. Li Zhong Yuan is legally interested in 49% and beneficially interested in 19.0476% of the entire issued share capital of Timenew Limited, a substantial shareholder of the Company, which is interested in the 450,000,000 issued ordinary shares of the Company. Dr. Li Zhong Yuan is therefore deemed to have a corporate interest of 75% of the Company.

(ii) Mr. Yuen Shu Wah and Mr. Ko Jack Lum, as beneficial owners, have associated corporation interest in 9,168,000 and 4,960,000 non-voting class A shares of Manfield Coatings Company Limited, an indirect wholly-owned subsidiary of the Company, respectively.

(iii) Both Mr. Yuen Shu Wah and Mr. Ko Jack Lum resigned as Directors of the Company on 31 December 2018.

Save as disclosed above, as at 31 December 2018, none of the Directors, the chief executive of the Company nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Group during the year or subsisted at the end of the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares, underlying shares, or debentures of, the Company or any other body corporate.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2018, the following parties had interests or short positions in the shares and underlying shares of the Company as recorded in the register maintained by the Company pursuant to Section 336 of the SFO:

Long positions in the shares of the Company

Name	Type of interest	Capacity/Nature	Number of Shares held/ interested	Percentage of interest
Timenew Limited *(Note 1)*	Long position	Beneficial owner	450,000,000	75.00%
Mr. Li Xiao Ru *(Note 1)*	Long position	Interest of a controlled corporation	450,000,000	75.00%
Dr. Li Zhong Yuan *(Note 1)*	Long position	Interest of a controlled corporation	450,000,000	75.00%
Guang Ming Holdings Limited *(Note 2)*	Long position	Person having a security interest in shares	450,000,000	75.00%
Mezzo International Limited *(Note 2)*	Long position	Interest of a controlled corporation	450,000,000	75.00%
Mr. Lee Seng Hui *(Note 2)*	Long position	Interest of a controlled corporation	450,000,000	75.00%

Notes:

(1) Timenew Limited is legally owned as to 51% and 49% by Mr. Li Xiao Ru and Dr. Li Zhong Yuan respectively. Each of Mr. Li Xiao Ru and Dr. Li Zhong Yuan is therefore deemed to be interested in the 450,000,000 Shares held by Timenew Limited under the SFO which are subject to the deed of share mortgage executed by Timenew Limited as the mortgagor in favour of Guang Ming Holdings Limited as mortgagee over the 450,000,000 ordinary shares of HK$0.01 each in the share capital of the Company (the "Sale Shares") at completion of the sale and purchase of the Sale Shares in accordance with the conditional agreement dated 7 November 2018 entered into among Timenew Limited, Mr. Li Xiao Ru and Guang Ming Holdings Limited (the "Share Mortgage").

(2) Guang Ming Holdings Limited is owned as to 51% by Mezzo International Limited which is wholly owned by Mr. Lee Seng Hui. Mr. Lee Seng Hui is therefore deemed to be interested in the 450,000,000 Shares in which Guang Ming Holdings Limited is interested through the Share Mortgage under the SFO.

(3) As of 31 December 2018, the Company's total number of issued shares was 600,000,000.

Save as disclosed above, as at 31 December 2018, there were no other parties who had interests or short positions in the shares or underlying shares of the Company as recorded in the register maintained by the Company pursuant to Section 336 of the SFO.

CONTINUING CONNECTED TRANSACTIONS

As disclosed in the prospectus dated 17 November 2015 issued by the Company, on 13 January 2011, Teknos Coatings (Shanghai) Co., Ltd ("Teknos Coatings") and Manfield Teknos (Changzhou) Chemical Company Limited ("MT"), an indirect non-wholly-owned subsidiary of the Company, entered into the agreement ("Teknos Agreement") (which was amended and replaced by agreements dated 27 August 2012 and 3 December 2013 and supplemented by a deed of variation dated 17 June 2014 and a new agreement dated 4 May 2017) pursuant to which MT agreed to sell liquid coatings to Teknos Coatings. The price charged by MT for the sale of liquid coatings to Teknos Coatings is calculated based on a formula set out in the Teknos Agreement, which is calculated on a cost plus basis with an agreed markup rate of the cost taking into account raw material costs, packaging costs and production wages among other things, and is determined on an arm's length basis between Teknos Coatings and MT. In connection with the Teknos Agreement, the Group also purchased an insubstantial amount of raw materials from Teknos Group Oy ("Teknos") and Teknos Coatings (collectively "Teknos Group"). These are specific raw materials which are required for the manufacture of liquid coatings ordered by Teknos Coatings pursuant to the Teknos Agreement. The Group purchases such raw materials solely for the manufacture of liquid coatings for sale to Teknos Coatings under the Teknos Agreement. Since the pricing mechanism of the Teknos Agreement takes into account the cost of raw materials used in the manufacture of the goods, and, as mentioned above, the raw materials purchased by the Group from Teknos Group are solely used in the manufacture of products for Teknos Coatings pursuant to the Teknos Agreement, the cost of the raw materials is directly recovered as a component of the revenue the Group receive pursuant to the Teknos Agreement. Accordingly, the Group is not exposed to price fluctuations in such raw materials and as such, the Group does not source comparable quotes. The price paid by the Group to Teknos Group for the abovementioned raw materials was determined on an arm's length basis between MT and Teknos Group.

The aggregate amount of the sale of liquid coatings to Teknos Coatings and purchase of raw materials from Teknos Group (collectively "Teknos Group Transactions") for the year ended 31 December 2018 was HK$14,898,000 and HK$895,000 respectively.

Teknos is a 40% substantial shareholder of MT, an indirect non-wholly owned subsidiary of the Company and a connected person of the Company. Teknos Coatings is a wholly-owned subsidiary of Teknos, and therefore is an associate of Teknos and a connected person at the Company's subsidiary level. Given that Teknos and Teknos Coatings are connected persons at the Company's subsidiary level, the Teknos Group Transactions constitute continuing connected transactions of the Company which are subject to the requirements of reporting, annual review and announcement but exempt from independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Pursuant to the requirement under Chapter 14A of the Listing Rules, the Independent Non-executive Directors of the Company have reviewed the continuing connected transactions regarding the Teknos Group Transactions and have confirmed that the transactions were entered into: (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms; and (iii) in accordance with the terms of the Teknos Agreement that are fair and reasonable and in the interests of the Group and the shareholder of the Company as a whole. The Company's auditor was engaged to report on the continuing connected transaction regarding the Teknos Group Transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The Company's auditor has issued its unqualified letter confirming that nothing has come to its attention that caused it to bring to the attention of the Board pursuant to the requirement under Chapter 14A of the Listing Rules. A copy of the Company's auditor's letter has been provided by the Company to the Stock Exchange.

Save as aforesaid, none of the other related party transactions as disclosed in the Notes to the Consolidated Financial Statements as set out in this Report constitutes a discloseable connected transaction as defined under the Listing Rules.

PERMITTED INDEMNITY

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the year. The Company has taken out and maintained appropriate insurance cover in respect of potential legal actions against the Directors and officers.

NON-COMPETITION UNDERTAKING

Mr. Yuen Shu Wah and Mr. Ko Jack Lum (each a member of the senior management of the Company during the year and resigned on 31 December 2018) and Guang Ming Holdings Limited, Mezzo International Limited and Mr. Lee Seng Hui (each being a former controlling shareholder of the Company during the year), as covenanters (collectively, the "Covenanters"), have entered into a deed of non-competition in favour of the Company on 6 November 2015 (the "Non-competition Deed"), pursuant to which each of the Covenanters has irrevocably and unconditionally undertaken to and covenant with the Company (for itself and for the benefit of the members of the Group) that during the continuation of the Non-competition Deed that each of the Covenanters shall not carry on, engage in, invest or be interested or otherwise involved in any business that is similar to or in competition with or is likely to be in competition with any business carried on by any member of the Group from time to time or in which any member of the Group is engaged or has invested or is otherwise involved in any territory that the Group carries on its business from time to time.

The former controlling shareholders of the Company have provided confirmations to the Company confirming of their compliance with the Non-competition Deed for the year ended 31 December 2018.

The Independent Non-executive Directors of the Company have reviewed the confirmation provided by the former controlling shareholders of the Company confirming of their compliance with the Non-competition Deed for the year ended 31 December 2018 and have not received any claims against the controlling shareholders for their non-compliance with the Non-competition Deed from the date of appointment as directors on 10 December 2018 to the date of this Report.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2018.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2018, the aggregate amount of revenue attributable to the Group's five largest customers was approximately 41.5% of the Group's total revenue and the Group's largest customer accounted for approximately 27.5% of the Group's total revenue.

The aggregate purchases attributable to the Group's five largest suppliers were approximately 19.6% and the purchases attributable to the Group's largest supplier were approximately 5.2% during the year.

None of the Directors or any of their close associates or any shareholders of the Company (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) has any interest in any of the Group's five customers and five largest suppliers.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the Independent Non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange. The Company considers all of the Independent Non-executive Directors are independent.

EMOLUMENT POLICY

The emolument policy of the general staff of the Group is set up by the management of the Group on the basis of their merit, qualifications and competence.

The emoluments of the Directors and senior management of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Memorandum and Articles of Association or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

SUFFICIENCY OF PUBLIC FLOAT

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

DONATIONS

During the year, the Group made donations amounting to approximately HK$1,980,000 (2017: HK$1,959,000).

AUDITOR

A resolution will be submitted to the forthcoming Annual General Meeting to re-appoint Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Li Zhong Yuan
Chairman

Hong Kong, 31 March 2019

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The board of directors (the "Board") of Manfield Chemical Holdings Limited (the "Company") believes that corporate governance is essential to the success of the Company and the enhancement of shareholders' value. Accordingly, the Company has adopted various measures to ensure that a high standard of corporate governance is maintained.

Throughout the year ended 31 December 2018, the Company has applied the principles and complied with the code provisions set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") as listed out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The current practices will be reviewed and continuously updated.

To the best knowledge of the Board, throughout the year ended 31 December 2018, the Company had complied with all the code provisions set out in the CG Code, save for the code provisions A.2.1, A.6.1, A.6.5 and D.1.4 of the CG Code as described below.

CG Code A.2.1

The code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Following the resignation of Mr. Yuen Shu Wah and Mr. Ko Jack Lum as the Chairman and Chief Executive Officer respectively, the Company does not have any officer with the title of "chief executive officer". Dr. Li Zhong Yuan has been appointed as the Chairman of the Board and is responsible for formulation of corporate strategy, overseeing the management of the Group and business development. The Chairman also takes the lead to ensure that the Board works effectively and acts in the best interest of the Company by encouraging the Directors to make active contributions to the Board's affairs and promoting a culture of openness and debate. The daily operation and management of the Company is monitored by the Executive Director as well as the senior management. The Board is of the view that although there is no chief executive officer, the balance of power and authority is struck by the openness and cooperation spirit of the senior management and the Board, which comprises experienced and high-calibre individuals who would meet from time to time to discuss issues affecting operation of the Company and the Group. The structure is supported by the Company's well-established corporate governance structure and internal control policies. The Board shall nevertheless review the structure from time to time to ensure appropriate move is being taken should suitable circumstance arise.

CG Code A.6.1

According to code provision A.6.1 of the CG Code, every newly appointed director of an issuer should receive a comprehensive, formal and tailored induction on appointment. All newly appointed Directors, namely Dr. Li Zhong Yuan, Ms. Zuo Yi, Mr. Li Gong, Mr. Wang Jianping and Dr. Shi Ping, during the year ended 31 December 2018 did not receive any induction on appointment as the Company was unable to arrange an induction upon or shortly after their appointment on 10 December 2018. The induction will be provided to the newly appointed Directors in 2019 so as to ensure that they have appropriate understanding of the business and operations of the Group and that they are fully aware of their responsibilities under the Listing Rules, legal and other regulatory requirements.

CG Code A.6.5

Code provision A.6.5 of the CG Code requires all directors to participate in continuous professional development to develop and refresh their knowledge and skills. During the period from the appointment of Directors on 10 December 2018 to 31 December 2018, the newly appointed Directors did not participate in continuous professional development. To ensure that all Directors' contribution to the Board remain informed and relevant, the Company will arrange and fund suitable training, placing an appropriate emphasis on the roles, functions and duties of the Directors in 2019.

CG Code D.1.4

Under the code provision D.1.4, the Company should have formal letters of appointment for directors setting out the key terms and conditions of their appointment. The Company did not sign formal letters of appointment with the newly appointed Directors. However, the newly appointed Directors are subject to retirement by rotation at least once every three years in accordance with the articles of association of the Company. In addition, the newly appointed Directors are required to refer to the guidelines set out in "A Guide on Directors' Duties" issued by the Companies Registry and "Guidelines for Directors" and "Guide for Independent Non-executive Directors" (if applicable) published by the Hong Kong Institute of Directors in performing their duties and responsibilities as directors of the Company. The Company signed service contract or formal letters of appointment with the newly appointed Directors in April 2019.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the code of conduct regarding Directors' securities transactions as set out in the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules (the "Model Code"). A copy of the Model Code was sent to each Director and the relevant employees of the Group who are required to be provided under the Model Code. Enquiries have been made to the Directors and all the Directors have confirmed that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2018.

BOARD OF DIRECTORS

The Board currently comprises six directors (the "Directors") in total, with one Executive Director, two Non-Executive Directors and three Independent Non-Executive Directors.

The composition of the Board during the year under review and up to the date of this Report is set out as follows:

Executive Directors:

Dr. Li Zhong Yuan *(Chairman) (Appointed on 10 December 2018)*
Mr. Yuen Shu Wah *(Resigned on 31 December 2018)*
Mr. Ko Jack Lum *(Resigned on 31 December 2018)*
Mr. Ng Kai On *(Resigned on 31 December 2018)*

Non-executive Directors:

Mr. Kong Muk Yin
Ms. Zuo Yi *(Appointed on 10 December 2018)*
Dato' Wong Peng Chong *(Resigned on 31 December 2018)*

Independent Non-Executive Directors:

Mr. Li Gong *(Appointed on 10 December 2018)*
Mr. Wang Jianping *(Appointed on 10 December 2018)*
Dr. Shi Ping *(Appointed on 10 December 2018)*
Dr. Chui Hong Sheung, *JP (Resigned on 31 December 2018)*
Mr. Cheung Chi Wai Vidy *(Resigned on 31 December 2018)*
Mr. Yue Kwai Wa Ken *(Resigned on 31 December 2018)*

The Board members have no financial, business, family or other material/relevant relationships with one another. Such balanced Board composition is formed to ensure strong independence exists across the Board.

Throughout the year and up to the date of this Report, the Board has at least one-third in number of its members comprising Independent Non-Executive Directors under Rule 3.10A of the Listing Rules and at least one of the Independent Non-Executive Directors possesses appropriate professional qualifications or accounting or related financial management expertise under Rule 3.10 of the Listing Rules.

The Board has received from each Independent Non-Executive Director an annual confirmation of his independence and considers that all the Independent Non-Executive Directors are independent under the guidelines set out in Rule 3.13 of the Listing Rules. The biographical details of the Directors are set out in the section headed "Biographical Details in Respect of Directors" of this Report.

During the year, 4 Board meetings were held and the attendance of each Director at the Board meetings is set out as follows:

Directors	Number of Board meetings attended/eligible to attend	Attendance rate
Executive Directors		
Dr. Li Zhong Yuan *(Chairman) (Appointed on 10 December 2018)*	–	–
Mr. Yuen Shu Wah *(Resigned on 31 December 2018)*	4/4	100%
Mr. Ko Jack Lum *(Resigned on 31 December 2018)*	4/4	100%
Mr. Ng Kai On *(Resigned on 31 December 2018)*	4/4	100%
Non-executive Directors		
Mr. Kong Muk Yin	4/4	100%
Ms. Zuo Yi *(Appointed on 10 December 2018)*	–	–
Dato' Wong Peng Chong *(Resigned on 31 December 2018)*	3/4	75%
Independent Non-executive Directors		
Mr. Li Gong *(Appointed on 10 December 2018)*	–	–
Mr. Wang Jianping *(Appointed on 10 December 2018)*	–	–
Dr. Shi Ping *(Appointed on 10 December 2018)*	–	–
Dr. Chui Hong Sheung, *JP (Resigned on 31 December 2018)*	4/4	100%
Mr. Cheung Chi Wai Vidy *(Resigned on 31 December 2018)*	4/4	100%
Mr. Yue Kwai Wa Ken *(Resigned on 31 December 2018)*	4/4	100%

The schedule of Board meetings for a year is planned in the preceding year. At least 14 days notice of all Board meetings is given to all Directors and they can include matters for discussion in the agenda if the need arises. The company secretary of the Company (the "Company Secretary") assists the Chairman in preparing the agenda for meetings and ensures that all applicable rules and regulations are complied with. The agenda and the accompanying Board papers are sent to all Directors at least 3 days before the date of every Board meeting so that the Directors have time to review the documents.

Every Board member is entitled to have access to Board papers and related materials and has unrestricted access to the advice and services of the Company Secretary, and has the liberty to seek external professional advice if so required. The Company Secretary continuously updates all Directors on the latest development of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practices.

The Board is responsible for formulating overall strategy, monitoring and controlling the performance of the Group. In addition to its overall supervisory role, the Board also retains specific responsibilities such as approving specific senior appointments, approving financial accounts, recommending dividend payments, approving policies relating to the Board's compliance, etc. whilst managing the Group's business is the responsibility of the management of the Group (the "Management").

Corporate Governance Report

When the Board delegates aspects of its management and administration functions to the Management, it has given clear directions, to the powers of the Management, in particular, with respect to the circumstances where the Management shall report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

The Chairman met with the Non-executive Directors (including the Independent Non-executive Directors) without the presence of Executive Directors during the year.

Training

During the year, the Company has arranged training for the Directors except the newly appointed Directors to provide regular updates relating to the roles, functions and duties, corporate governance and change in regulatory requirements so as to enable the Directors to properly discharge their duties under the code provision A.6.5 of the CG Code. The Company has received confirmation from all Directors except the newly appointed directors of their respective training records for the year ended 31 December 2018.

Directors' and Officers' Liabilities Insurance

The Company has arranged appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against the Directors and officers of the Company and its subsidiaries arising out of corporate activities of the Group under the code provision A.1.8 of the CG Code.

Roles of Chairman and Chief Executive Officer

The code provision A.2.1 of the CG Code stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. During the year ended 31 December 2018, Mr. Yuen Shu Wah, the former Chairman of the Board, was primarily responsible for the leadership of the Board, ensuring that (i) all significant policy issues are discussed by the Board in a timely and constructive manner; (ii) all Directors are properly briefed on issues arising at Board meetings; and (iii) the Directors receive accurate, timely and clear information. While the functions of the Chief Executive Officer were performed by Mr. Ko Jack Lum, the Chief Executive Officer of the Company, who was responsible or the day-to-day management of the Group's business. The functions and responsibilities between the Chairman and the Chief Executive Officer were clearly segregated.

The list of Directors and their roles and functions are available on the websites of the Stock Exchange and the Company at http://www.irasia.com/listco/hk/manfield/.

Appointment and Re-election of Directors

Each of the Executive Directors has entered into a service contract with the Company and each of the Non-Executive Directors and Independent Non-Executive Directors has entered into a letter of appointment with the Company and appointed for a specific term, subject to retirement by rotation and re-election at least once every three years at the annual general meeting of the Company (the "AGM") in accordance with the articles of association of the Company (the "Articles of Association"). Any new Director appointed by the Board to fill a causal vacancy shall be subject to re-election by shareholders at the next following AGM after appointment.

Board Diversity Policy

The Board has adopted a board diversity policy which sets out the approach to achieve a sustainable and balanced development of the Company and also to enhance the quality of performance of the Company under the code provision A.5.6 of the CG Code.

The Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Dividend Policy

Subject to the results of the Group's operations, financial condition and position as well as other factors the Board may consider appropriate, dividends may be declared and paid.

Corporate Governance Function

The Board has adopted the written terms of reference on corporate governance function so as to assist the Board in supervising the management of its business and office of the Group. During the year, the Board has performed the corporate governance duties in accordance with its terms of reference.

The duties of the Board in respect of corporate governance function are summarized as follows:

(i) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

(ii) to review and monitor the training and continuous professional development of Directors and senior management;

(iii) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(iv) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(v) to review the Company's compliance with the code provisions as set out in the CG Code and its disclosure requirements in the Corporate Governance Report.

BOARD COMMITTEES

The Board has established various committees to assist it in carrying out its responsibilities. During the period from 1 January 2018 to 31 December 2018, there were four Board committees. Following the dissolution of the Executive Committee with effect from 31 December 2018, there are 3 Board Committees, including the Remuneration Committee, Nomination Committee and Audit Committee to oversee particular aspects of the Group's affairs. Each of the committees has defined terms of reference setting out its duties, powers and functions. The committees report regularly to the Board and, where appropriate, make recommendations on matters discussed.

Remuneration Committee

The Remuneration Committee was established on 6 November 2015 with its written terms of reference. The terms of reference of the Remuneration Committee are available on the websites of the Stock Exchange and the Company at http://www.irasia.com/listco/hk/manfield/.

The Remuneration Committee currently comprises three members including one Executive Director namely, Dr. Li Zhong Yuan and two Independent Non-Executive Directors, namely Mr. Li Gong and Mr. Wang Jianping. The Chairman of the Remuneration Committee is Mr. Wang Jianping. The composition of the Remuneration Committee has complied with the requirements as set out in Rule 3.25 of the Listing Rules that a majority of the members of the Remuneration Committee should be Independent Non-Executive Directors and chaired by an Independent Non-Executive Director.

Name of members	Number of meetings attended/eligible to attend	Attendance rate
Mr. Wang Jianping *(Chairman) (Appointed on 10 December 2018)*	–	–
Dr. Li Zhong Yuan *(Appointed on 10 December 2018)*	–	–
Mr. Li Gong *(Appointed on 10 December 2018)*	–	–
Mr. Yuen Shu Wah *(Resigned on 31 December 2018)*	1/1	100%
Mr. Ko Jack Lum *(Resigned on 31 December 2018)*	1/1	100%
Dr. Chui Hong Sheung, *JP (Resigned on 31 December 2018)*	1/1	100%
Mr. Cheung Chi Wai Vidy *(Resigned on 31 December 2018)*	1/1	100%
Mr. Yue Kwai Wa Ken *(Resigned on 31 December 2018)*	1/1	100%

The remuneration policy of the Group is to ensure all its employees are remunerated in line with market terms and individual performance.

The major roles and functions of the Remuneration Committee are as follows:

(i) to review annually and recommend to the Board the overall remuneration policy and structure for the Directors and senior management;

(ii) to review annually the performance of the Executive Directors and senior management and recommend to the Board specific adjustments in remuneration and/or reward payments;

(iii) to review and recommend the compensation payable to Executive Directors relating to any loss or termination of their office or appointment;

(iv) to review and recommend compensation arrangements relating to dismissal or removal of Directors for misconduct; and

(v) to be responsible for establishing formal and transparent procedures for developing remuneration policy and structure to ensure no Director or any of his associates is involved in deciding his own remuneration.

The Remuneration Committee has adopted the model that it will review the proposals made by the Management on the remuneration of Executive Directors and senior management, and make recommendations to the Board. The Board will have final authority to approve the recommendations made by the Remuneration Committee.

Nomination Committee

The Nomination Committee was established on 6 November 2015 with a set of revised written terms of reference adopted on 5 December 2018. The terms of reference of the Nomination Committee are available on the websites of the Stock Exchange and the Company at http://www.irasia.com/listco/hk/manfield/.

The Nomination Committee currently comprises three members including one Executive Director, namely Dr. Li Zhong Yuan and two Independent Non-Executive Directors, namely Mr. Li Gong and Mr. Wang Jianping. The Chairman of the Nomination Committee is Mr. Li Gong.

The meeting of the Nomination Committee shall be held at least once a year. During the year, one meeting was held and the attendance of each member at the meeting is set out as follows:

Name of members	Number of meetings attended/eligible to attend	Attendance rate
Mr. Li Gong *(Chairman) (Appointed on 10 December 2018)*	–	–
Dr. Li Zhong Yuan *(Appointed on 10 December 2018)*	–	–
Mr. Wang Jianping *(Appointed on 10 December 2018)*	–	–
Mr. Yuen Shu Wah *(Resigned on 31 December 2018)*	1/1	100%
Mr. Ko Jack Lum *(Resigned on 31 December 2018)*	1/1	100%
Dr. Chui Hong Sheung, *JP (Resigned on 31 December 2018)*	1/1	100%
Mr. Cheung Chi Wai Vidy *(Resigned on 31 December 2018)*	1/1	100%
Mr. Yue Kwai Wa Ken *(Resigned on 31 December 2018)*	1/1	100%

The Nomination Committee is responsible for formulating nomination policy for the Board's consideration and implement the Board's approved nomination policy.

The major roles and functions of the Nomination Committee are as follows:

(i) to review and monitor the structure, size and composition (including the skills, knowledge, experience and diversity of perspectives) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(ii) to identify and nominate individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

(iii) to assess the independence of Independent Non-Executive Directors;

(iv) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman; and

(v) to review and monitor policy concerning diversity of Board members and make recommendations on any proposed changes to the Board.

Audit Committee

The Audit Committee was established on 6 November 2015 with its written terms of reference. The terms of reference of the Audit Committee are available on the websites of the Stock Exchange and the Company at http://www.irasia.com/listco/hk/manfield/.

The Audit Committee currently comprises three Independent Non-Executive Directors, namely Dr. Shi Ping, Mr. Li Gong and Mr. Wang Jianping. The current Chairman of the Audit Committee is Dr. Shi Ping. The composition of the Audit Committee has complied with the requirements as set out in Rule 3.21 of the Listing Rules that majority of the members of the Audit Committee should be Independent Non-Executive Director.

The meeting of the Audit Committee shall be held at least twice a year. During the year, two meetings were held and the attendance of each member at the meetings is set out as follows:

Name of members	Number of meetings attended/eligible to attend	Attendance rate
Dr. Shi Ping *(Chairman) (Appointed on 10 December 2018)*	–	–
Mr. Li Gong *(Appointed on 10 December 2018)*	–	–
Mr. Wang Jianping *(Appointed on 10 December 2018)*	–	–
Dr. Chui Hong Sheung, *JP (Resigned on 31 December 2018)*	2/2	100%
Mr. Cheung Chi Wai Vidy *(Resigned on 31 December 2018)*	2/2	100%
Mr. Yue Kwai Wa Ken *(Resigned on 31 December 2018)*	2/2	100%

During the year and up to date of this Report, the Audit Committee had performed the following works:

(i) reviewed the financial reports for the six months ended 30 June 2018 and for the year ended 31 December 2018;

(ii) reviewed the effectiveness of the risk management and the internal control systems;

(iii) reviewed the external auditor's statutory audit plan and engagement letters;

(iv) reviewed the management letter from the external auditor in relation to the audit of the Group for the year ended 31 December 2018; and

(v) reviewed and recommended for approval by the Board the audit scope and fees for the year ended 31 December 2018.

The major roles and functions of the Audit Committee are as follows:

(i) to consider the appointment, re-appointment and removal of the external auditor, the audit fees, and any questions of resignation or dismissal of the external auditor of the Group;

(ii) to discuss with the external auditor the nature and scope of the audit;

(iii) to review the interim and annual financial statements before submission to the Board;

(iv) to discuss problems and reservations arising from the interim review and final audit, and any matters the external auditor may wish to discuss;

(v) to review the external auditor's management letter and management's response; and to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

(vi) to review the Group's financial controls, internal controls and risk management systems to ensure that they are appropriate and functioning properly; and

(vii) to consider any findings of major investigations of internal control and risk management matters and management's responses.

Executive Committee

The Executive Committee was established on 7 December 2016 with its written terms of reference. The Committee comprised three Executive Directors, namely Mr. Yuen Shu Wah, Mr. Ko Jack Lum and Mr. Ng Kai On. The Chairman of the Executive Committee was Mr. Yuen Shu Wah. The Executive Committee was dissolved in accordance with the articles of association of the Company with effect from 31 December 2018.

AUDITOR'S REMUNERATION

During the year ended 31 December 2018 under review, the remuneration paid or payable to the Group's external auditor, Messrs. Deloitte Touche Tohmatsu, is set out as follows:

Services rendered	**Fees paid/ payable** HK$'000
Audit services	1,380
Non-audit services	741
	2,121

RISK MANAGEMENT AND INTERNAL CONTROL

The main features of the risk management and internal control systems are to provide a clear governance structure, policies and procedures, as well as reporting mechanism to facilitate the Group to manage its risks across business operations.

The Group has established a risk management framework, which consists of the Board, the Audit Committee and the Risk Management Taskforce. The Board determines the nature and extent of risks that shall be taken in achieving the Group's strategic objectives, and has the overall responsibility for monitoring the design, implementation and the overall effectiveness of risk management and internal control systems.

The Group has formulated and adopted the Risk Management Policy in providing direction in identifying, evaluating and managing significant risks. At least on an annual basis, the Risk Management Taskforce identifies risks that would adversely affect the achievement of the Group's objectives, and assesses and prioritizes the identified risks according to a set of standard criteria. Risk mitigation plans and risk owners are then established for those risks considered to be significant.

In addition, the Group has engaged an external professional advisor to assist the Board and the Audit Committee in ongoing monitoring of the risk management and internal control systems of the Group. Deficiencies in the design and implementation of internal controls are identified and recommendations are proposed for improvement. Significant internal control deficiencies are reported to the Audit Committee and the Board on a timely basis to ensure prompt remediation actions are taken.

The key processes that have been established in reviewing the effectiveness of the risk management and internal control systems include the following:

a. The Remuneration Committee was established to ensure all the Directors and the senior management of the Group are remunerated in line with market terms and individual performance.

b. The Audit Committee reviews internal control issues identified by external auditor, external professional advisor, regulatory authorities and management, and evaluates the adequacy and effectiveness of the Group's risk management and internal control systems. To further enhance control awareness, the Group has also approved launching a whistleblowing policy for employees to raise any concerns about possible improprieties in any matter related to the Group.

c. The corporate reporting functions are delegated to the accounting department in terms of proper and regular reviews on the deployment of resources and financial reporting systems. The corporate governance practices and compliance with the Listing Rules, Securities and Futures Ordinance, (Chapter 571 of the Laws of Hong Kong) ("SFO") and other applicable regulations are delegated to the company secretarial department.

d. Every newly appointed director was provided with a comprehensive handout detailing the responsibilities and duties of being a director of the Company. In particular highlighting the respective applicable rules and regulation, including the Listing Rules, which a director should aware and be informed on the first occasion of his appointment with the Company.

Risk management report and internal control report are submitted to the Audit Committee and the Board at least once a year. The Board considers the Group's risk management and internal control systems are effective.

The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Procedures and Internal Controls for the Handling and Dissemination of Inside Information

The Group complies with requirements of the SFO and the Listing Rules. The Group discloses inside information to the public as soon as reasonably practicable unless the information falls within any of the Safe Harbours as provided in the SFO. Before the information is fully disclosed to the public, the Group ensures the information is kept strictly confidential. If the Group believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Group would immediately disclose the information to the public. The Group is committed to ensure that information contained in announcements is not false or misleading as to a material fact, or false or misleading through the omission of a material fact in view of presenting information in a clear and balanced way, which requires equal disclosure of both positive and negative facts.

ACCOUNTABILITY AND AUDIT

The Directors acknowledge their responsibility for the preparation of the annual reports, interim reports and the consolidated financial statements of the Company that give a true and fair view in accordance with Hong Kong Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. The statement by the independent auditor about its reporting responsibilities relating to the financial statements for the year ended 31 December 2018 is set out in the Independent Auditor's Report. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

SHAREHOLDERS' COMMUNICATION

The Company has established a communication policy with shareholders and external parties and has maintained different communication channels with its shareholders through the publication of annual and interim reports, circulars and announcements. During the year ended 31 December 2018, an annual general meeting (the "AGM") was held and the attendance of each Director at the AGM is set out as follows:

Directors	Number of AGM attended/ eligible to attend
Executive Directors	
Dr. Li Zhong Yuan *(Chairman) (Appointed on 10 December 2018)*	–
Mr. Yuen Shu Wah *(Resigned on 31 December 2018)*	1/1
Mr. Ko Jack Lum *(Resigned on 31 December 2018)*	1/1
Mr. Ng Kai On *(Resigned on 31 December 2018)*	1/1
Non-Executive Directors	
Mr. Kong Muk Yin	1/1
Ms. Zuo Yi *(Appointed on 10 December 2018)*	–
Dato' Wong Peng Chong *(Resigned on 31 December 2018)*	1/1
Independent Non-Executive Directors	
Mr. Li Gong *(Appointed on 10 December 2018)*	–
Mr. Wang Jianping *(Appointed on 10 December 2018)*	–
Dr. Shi Ping *(Appointed on 10 December 2018)*	–
Dr. Chui Hong Sheung, *JP (Resigned on 31 December 2018)*	1/1
Mr. Cheung Chi Wai Vidy *(Resigned on 31 December 2018)*	1/1
Mr. Yue Kwai Wa Ken *(Resigned on 31 December 2018)*	1/1

The AGM provides a useful forum for shareholders to exchange views with the Board. At the Company's last AGM, the former Chairman of the Board as well as the former Chairman of the Audit Committee, Remuneration Committee and Nomination Committee were present to answer shareholders' questions.

Separate resolutions are proposed at the general meeting for each substantial issue including the re-election of the retiring Directors.

The Company's last AGM was held on 6 June 2018 and notice of the AGM was sent to shareholders at least 20 clear business days prior to the meeting. The former Chairman explained the procedures for conducting a poll again at the beginning of the meeting and revealed the level of proxies voted in respect of each resolution. All shareholders are encouraged to attend the general meetings or to appoint proxies to attend and vote at the meetings on their behalf if they are unable to attend the meetings.

The forthcoming annual general meeting will be held on Wednesday, 26 June 2019, the notice of which will be sent to shareholders at least 20 clear business days before the meeting. An explanation of the detailed procedures for conducting a poll will be provided to the shareholders at the commencement of the meeting. The Chairman will answer any questions from shareholders regarding voting by way of a poll. The poll results will be published in accordance with the requirements of the Listing Rules. All shareholders are encouraged to attend the general meetings or to appoint proxies to attend and vote at the meetings on their behalf if they are unable to attend the meetings.

SHAREHOLDERS' RIGHTS

Right to put enquiries to the Board

Shareholders should direct their enquiries about their shareholdings to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong. Other shareholders' enquiries can be directed to the head office and principal place of business of the Company in Hong Kong as set out in the Corporation Information section of this Report for the attention of the Company Secretary.

Right to convene special general meeting

Pursuant to Article 58 of the Articles of Association, an extraordinary general meeting can be convened on the requisition of any one or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Company Secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition.

If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

The requisition must be signed by the requisitionists and deposited at the registered office of the Company at the office of Harneys Fiduciary (Cayman) Limited at 4th Floor, Harbour Place, 103 South Church Street, P.O. Box 10240, Grand Cayman, KY1-1002, Cayman Islands or the head office and principal place of business in Hong Kong at Unit 2A, 2nd Floor, Beverly House, 93-107 Lockhart Road, Wanchai, Hong Kong of the Company for the attention of the Company Secretary.

Right to put forward proposals at general meetings

Shareholders who wish to move a resolution may request the Company to convene a general meeting in accordance with the procedures set out in the preceding paragraph. Shareholders can also send enquiries and proposals putting forward for shareholders' consideration at shareholders' meetings to the Board in writing to the head office and principal place of business of the Company in Hong Kong at Unit 2A, 2nd Floor, Beverly House, 93-107 Lockhart Road, Wanchai, Hong Kong or directly by raising questions at the general meeting of the Company.

INVESTOR RELATIONS

The Company maintains a website at http://www.irasia.com/listco/hk/manfield/ where information and updates on the list of Directors and their roles and functions, constitutional documents, terms of reference of the Remuneration Committee, the Nomination Committee and the Audit Committee, procedures for nomination of Directors for election, announcements, circulars and reports released to the Stock Exchange and other information are posted. Information on the Company's website will be updated from time to time.

Throughout the year and up to the date of this Report, there was no significant change in the Company's constitutional documents.

On behalf of the Board
Manfield Chemical Holdings Limited

Li Zhong Yuan
Chairman

Hong Kong, 31 March 2019

Environmental, Social and Governance Report

Manfield Chemical Holdings Limited (the "Company", "We" and "Our") presents this Environmental, Social and Governance ("ESG") report (the "ESG Report") for the year ended 31 December 2018 ("Reporting Period"), in accordance with Appendix 27 Environmental, Social and Governance Reporting Guide (the "ESG Guide") of the Rules Governing the Listing of Securities on the Main Board of The Hong Kong Stock Exchange Limited (the "HKEx").

The Company is principally engaged in manufacturing customized liquid and powder coatings, and providing customers from the toy and consumer electronics industries with customized coatings for their products.

REPORTING SCOPE

In view of the production scale, the ESG risks, and the stakeholders' interest, the ESG disclosures contained in this ESG Report cover the coating manufacturing facilities in Guangzhou and Shenzhen in the People's Republic of China ("PRC").

ESG GOVERNANCE STRUCTURE

Our ESG working group has been established with senior management and department heads across different functions. The Board of Directors of the Company has the overall responsibility for our ESG reporting and strategy. The key responsibilities of the ESG working group, which reports to the management and the Board, are set out below:

- Developing ESG vision and missions of the Group;
- Managing ESG-related risks;
- Evaluating the effectiveness of the Group's ESG management systems; and
- Reporting regularly the ESG objectives achieved to the Board.

The ESG working group is authorized by the Board of Directors to perform certain tasks including stakeholder engagement and materiality assessment. The ESG working group could engage internal and external parties while assessing the material ESG issues of the Group, and could also seek professional advices at the expense of the Group.

In addition, our Board is committed to demonstrating the industry standards in its ESG policies. For example, the Board adheres to the latest laws and regulations released by the local authorities, and optimizes the standard operating procedures in order to highlight the ESG initiatives valued by the Board.

The Board reviews regularly the risk management process, discusses and assesses with the abovementioned ESG working group the Group's ESG risks. Remediation steps, including deployment of proper internal controls, will be taken immediately to mitigate the prevailing risks identified by the ESG working group. In regard to the Company's monitoring on the effectiveness of risk management and internal control systems, please refer to the section headed "Risk Management and Internal Control" in the Corporate Governance Report" for details.

Stakeholder Engagement

We aim to get prepared for the material aspects that affect our operation, through effective communication with our stakeholders who can influence or get influenced by the Group's decision. We have adopted engagement methods for the following stakeholders:

#	Relevant Stakeholders	Engagement Methods
1	Customers	• Company website • Customer service hotline • Customer survey • Business meetings
2	Suppliers and Business Partners	• Business meetings • Site visit • Supplier performance evaluation
3	Employees	• Regular meetings • Staff emails and notifications • Employee activities • Staff training • Performance appraisal
4	Investors and Stockholders	• General meetings • Annual and interim reports • Circulars and announcements
5	Government and Supervising Authorities	• Public consultation • Meetings • Seminars
6	Social Groups and Public	• Charitable activities • Community events
7	Media	• Press release

MATERIALITY ASSESSMENT

We have conducted our materiality assessment according to the ESG Reporting Guide. Our approach to the materiality assessment is as follows:

Identification of material ESG issues	We engaged our business functions through internal meetings, daily communication and questionnaires to identify and assess materiality of relevant ESG issues of our business as well as our stakeholders.
Prioritization of the ESG issues	The ESG issues were discussed and prioritized by the management of the Group ("the Management") in terms of economic, environmental and social impacts to the Group.
Validation of the material ESG issues	The material ESG issues would be summarized in this ESG Report after the Board of Directors endorsed the prioritization result.

With regard to the materiality assessment, we have identified material ESG issues as follows:

	ESG Aspect	Material ESG issues
	Environmental	
A1	Emissions	• Waste Management • Wastewater Discharge • Air Emissions • Greenhouse Gas Emissions
A2	Use of Resources	• Energy Consumption • Water Consumption • Use of Packaging Materials
A3	The Environment and Natural Resources	• Dust • Noise • Environmental Coating Products
	Social	
B1	Employment	• Employment Policies and Equal Opportunity
B2	Health and Safety	• Occupational Health and Safety
B3	Development and Training	• Staff Training and Development
B4	Labour Standards	• Anti-Child and Forced Labour
B5	Supply Chain Management	• Green Procurement
B6	Product Responsibility	• Quality Assurance • Customer Service • Data Privacy
B7	Anti-corruption	• Anti-corruption and Fraud
B8	Community Investment	• Social Responsibility

ENVIRONMENTAL

Emissions

The Company strives to continuously improve the environmental performance through the implementation of control and monitoring measures. Regarding the environmental factors identified by business units, corresponding control and monitoring procedures have been designed and implemented for mitigating the respective environmental impacts. We are also committed to complying with the relevant environmental laws and regulations such as the Atmospheric Pollution Prevention and Control Law of the PRC, Water Pollution Prevention and Control Law of the PRC, Law of the PRC on the Prevention and Control of Environment Pollution Caused by Solid Wastes, and Law of the PRC on Prevention and Control of Pollution from Environmental Noise.

Our waste and emission reduction initiatives are constantly communicated with employees for the effective implementation of our controlling measures. We understand that employees' support is the prerequisite on achieving our environmental target. Regular training is organized in order to assist the employees in developing their awareness on protecting the environment.

We believe our current practices have properly managed the compliance of the abovementioned environmental laws and regulations, and there was no material non-compliance noted during the Reporting Period.

Waste Management

In our production process, various hazardous wastes including coating scrap, sludge from wastewater treatment plant and spent solvent are generated. Our non-hazardous waste produced is principally scrap metal. During the Reporting Period, the quantity of waste disposed of is as follows:

		2018		2017	
Type	**Unit**	**Quantity**	**Intensity (per kg of coating product manufactured)**	Quantity	Intensity (per kg of coating product manufactured)
Hazardous waste	Tonnes	**14**	**0.000003**	13 (restated)	0.000002 (restated)
Non-hazardous waste	Tonnes	**36**	**0.000007**	16 (restated)	0.000003 (restated)

Compared to 2017, the quantity of hazardous waste slightly increases as a result of higher production volume of certain products. The quantity of non-hazardous waste increases by approximately 20 tonnes because of the clearance of waste accumulated in the warehouse.

We have established guidelines on handling wastes. Hazardous wastes have been identified and stored in a segregated warehouse from non-hazardous wastes. Licensed waste collector has been engaged to collect hazardous wastes. We have established a quality control mechanism specializing in exploring the measures to reduce coating scrap.

We have educated our employees on treatment and reduction principles about non-hazardous waste which is sorted and recycled by qualified waste collectors. Employees are also encouraged to take initiative to recycle and reuse materials such as containers.

We believe our procedures to recycle, handle and transfer wastes could reduce the waste generated in our operations in long run.

Wastewater Discharge

According to the government regulations, enterprises and institutions that discharge pollutants directly or indirectly into the water shall obtain the Pollutants Discharge Permit and pay pollutant discharge fees based on the types and quantity of the wastewater discharged.

We have constructed wastewater treatment plants in our production facilities to collect wastewater through wastewater pipelines while uncontrolled discharge is strictly prohibited. After the wastewater treatment, the pollutants in wastewater are maintained at a concentration level that is under the requirement specified by the government authority. We have implemented real-time monitoring system to examine the pollutant concentration of wastewater. We also perform regular maintenance on the machinery of wastewater treatment plants. To reduce the quantity of wastewater discharged, filtered and treated wastewater is circulated back to production facilities for reuse.

Due to the enhanced wastewater treatment mechanism, the amount of wastewater discharged has reduced from 8,853 cubic meter in Financial Year 2017 to 5,600 cubic meter during the Reporting Period.

Air Emissions

Air pollutants are generated from the delivery activities of our self-owned vehicles. We do not own any power-generating facility while our production machineries are powered by purchased electricity, hence we consider our air emissions produced from direct sources are minimal. During the Reporting Period, the quantity of air pollutants produced from vehicles[1] is as follows:

Type	Unit	2018 Quantity	2017 Quantity
Nitrogen oxides ("NOx")	Tonnes	**2.26**	2.18 (restated)
Sulphur oxides ("SOx")	Tonnes	**0.0027**	0.0047 (restated)
Particular matter ("PM")	Tonnes	**0.19**	0.16 (restated)

Compared to 2017, the NOx and PM slightly increases in the Reporting Period because of higher distance travelled by our vehicles. The amount of SOx generated decreases as the consumption of diesel decreases dramatically in the Reporting Period. We believe the adoption of environmentally-friendly vehicles, preference in travelling on highways, and improved drivers' attitudes increase the fuel efficiency.

In order to mitigate the impact of air pollutant from production activities, we have implemented measures to restrict the production and emission of dust, organic volatile gas, and exhaust gas from machineries. Emission controlling measures have been implemented to re-capture air pollutants by chemical and physical means, such as thermal oxidizers, water spray and air pumps.

Motor vehicles have been examined regularly on the exhaust gas emission and unsatisfied performance. We have scheduled the use of our motor vehicles to enhance the overall efficiency. Clean fuels have been used in order to reduce the pollutants emitted from mobile source combustions.

In addition, the PRC government promotes the use of water-based coatings and encourages the production, sales and use of low-toxic and low-volatile organic compounds ("VOCs") solvents and advance measures for the treatment of VOCs pollution. We have actively participated in these initiatives with an aim to reduce air emissions.

1 The emission data of air pollutants was calculated with reference to "Reporting Guideline on Environmental KPIs" published by the HKEX.

Greenhouse Gas Emissions

Our greenhouse gas ("GHG") emitted is mainly from the consumption of electricity and fuel. During the Reporting Period, the total amount of carbon dioxide equivalent ("CO2e") emission is as follows:

		2018		2017	
Source of emission[2]	Unit	Quantity	Intensity (per kg of coating product manufactured)	Quantity	Intensity (per kg of coating product manufactured)
Production activities	Tonnes	**2,192.20**	**0.000424**	3,718.27 (restated)	0.000678 (restated)

Compared to 2017, the GHG emission generated in the Reporting Period reduces by about 41% because of the decrease in consumption of diesel, petrol and water, which offset the increase in electricity consumption.

Regarding the initiatives to reduce GHG emissions, please refer to the section "Energy Consumption" in this ESG Report.

Use of Resources

We believe that resources conservation is everyone's responsibility in maintaining the sustainability of the society. To conserve resources, we have established the Resources and Energy Management Procedures in controlling the use of resources through improving the efficiency of resources consumption, and minimizing wastage in the production process. During the production process, electricity, fuel, water, raw materials, and office consumables are consumed.

For raw materials and office consumables, user departments are required to set target and limit for consumption based on the production level, and improve the production techniques for efficient use of resources. Production sections enforce tight quality control on reducing wastage during production process. We are exploring the feasibility to use renewable raw materials in our production.

2 Greenhouse gas emissions were calculated with reference to the "Greenhouse Gas Protocol" published by the World Business Council for Sustainable Development and World Resources Institute, "Reporting Guideline on Environmental KPIs" published by the HKEx, "中國化工生產企業温室氣體排放核算方法與報告指南(試行)", "陸上交通運輸企業温室氣體排放核算方法與報告指南(試行)" published by the National Development and Reform Commission of the PRC, and "2017年度減排項目中國區域電網基準線排放因子" published by the Ministry of Ecology and Environment of the PRC.

Energy Consumption

Our major type of energy consumed is electricity, which is used to support the operations of machinery, indoor lighting and air-conditioning. We also consume fuels for our self-owned vehicles.

During the Reporting Period, the amount of energy consumption and their respective intensity are as follows:

		2018		2017	
Energy Type	**Unit**	**Amount**	**Intensity (per kg of coating product manufactured)**	Amount	Intensity (per kg of coating product manufactured)
Electricity	kWh	**4,882,920**	**0.000325**	4,529,516 (restated)	0.000521 (restated)
Diesel	Liter	**155,044**	**0.000078**	268,564 (restated)	0.000133 (restated)
Petrol	Liter	**14,136**	**0.000003**	20,710 (restated)	0.000008 (restated)
Natural Gas	m^3	**42,000**	**0.000018**	41,918 (restated)	0.000017 (restated)

Compared to 2017, we have a relatively higher amount of electricity consumption, resulting from higher energy demand in the production process. The decrease in the consumption of diesel and petrol is attributed to the improved fuel efficiency caused by our energy conservative initiatives. Our consumption on natural gas slightly increases but the difference is minimal.

We have monitored closely the energy usage especially the machinery with high consumption rate. User departments are required to summarize the energy usage on a monthly basis, and investigate the significant variance. Maintenance of machinery is performed regularly to prevent the occurrence of abnormal operations and inefficient fuel consumption. The setting and configuration of our machinery are constantly being fine-tuned to be more eco-saving. Some of our machines consume 20% less energy after the improvement on configuration.

In offices, idle appliances are turned off after working hours. We have been replacing the fluorescent tube with LED lights to enhance the energy efficiency.

Water Consumption

Due to the industry nature, we consume considerably large amount of water during the production process. We do not notice any difficulty in sourcing the water resources. During the Reporting Period, the water purchased and consumed by us is as follows:

		2018		2017	
	Unit	**Amount**	**Intensity (per kg of coating product manufactured)**	Amount	Intensity (per kg of coating product manufactured)
Water	m^3	**52,469**	**0.010143**	60,455 (restated)	0.011023 (restated)

Compared to 2017, the water usage decreases by approximately 13%, resulting from the reuse of water in our operation and the water-efficient production process designed and implemented.

We have implemented water recycling system to process wastewater for reuse purpose. Filtered wastewater from production is used at floor cleaning. Water usage is monitored by user departments which are responsible to investigate the abnormal usage. We also encourage our employee to reuse domestic water for washing and cleaning. A slight decrease of water usage result from the abovementioned initiatives.

Use of Packaging Materials

The Company mainly consumes metal containers, plastic containers and plastic bag as packaging materials of our coating products. During the Reporting Period, the packaging materials consumed in our operations are as follows:

		2018		2017	
	Unit	**Amount**	**Intensity (per kg of coating product manufactured)**	Amount	Intensity (per kg of coating product manufactured)
Packaging materials	Tonnes	**749.92**	**0.000145**	682.84 (restated)	0.000125 (restated)

Compared to 2017, the amount of packaging materials increases by approximately 10% as there is redesign of package and higher production volume.

We aim to reduce the packaging material by continuously reviewing and enhancing the production and packing process. We also try to explore the opportunity to use stronger, thinner and lighter packaging materials from the market.

The Environment and Natural Resources

We have established the Environmental Factor Identification and Evaluation Control Procedures, aiming to accurately and thoroughly identify the environmental factors in our business activities, products, and services. Following the identification, we have developed a set of evaluation criteria in determining the materiality of the environmental factors to our business. The material environmental factors identified are recorded in an Environmental Factor Register for circulation and monitoring. By adopting such procedures, we aim to minimize the environmental impact, and ensure the compliance with related environmental laws and regulations.

We devote to make a better environment through the establishment of our environmental management system. Our achievement includes ISO 14001:2004 Certificate (relating to environmental management systems) awarded to the Shenzhen Pinefield Chemical Enterprises Company Limited and Manfield (Guangzhou) Innovative Materials Limited (both are subsidiaries of the Company).

Dust

During the transfer and delivery of raw materials, dust is emitted and could be blown to the surrounding area. In order to reduce dust emissions, the production facilities adopt dust reduction measures. Air filtering system has been installed at conveyor, hopper and other equipment used for transferring, loading and unloading raw materials. Dust in the air is processed through bag filters and released to the dust collector. Water spraying is also applied in dusty environment.

Noise

Operations of production machinery generate noise that may cause disturbance to the neighborhood. To reduce the noise intensity of our production facilities, production process with high noise intensity has been run in a fully closed area far from residential area. Machinery with low noise emission level is preferred in our procurement process. Maintenance on production machinery has been conducted on a regular basis.

Environmental Coating Products

We have conducted product re-engineering to produce environmental friendly coating products. Traditional coating products may contain toxic chemicals and volatile organic compounds ("VOCs"), which may cause undesirable effects to human health. The new water-based coatings use low-toxic and low-VOCs solvents which have a significantly lower VOCs content than the traditional solvent-based coating products.

We also have enhanced the durability and abrasion resistance of our products, hence extending the life of decoration and reducing the maintenance cost. Our coating products possess reflective characteristic that reflects outdoor sunlight and reduces indoor temperature.

SOCIAL

Employment

Employment Policies and Equal Opportunity

Human resources are our foundation in supporting the development of the Company. Hence, we have established the Human Resources Management Policy to fulfil our vision on people-oriented management and realize the full potential of employees. The human resources management procedures have been formally documented, covering resources planning, performance evaluation, training, recruitment, resignation, transfer, compensation, welfare, working hours, leaves and employee satisfaction survey.

We have established objective performance indicators for annual performance evaluation. Supervisor discusses the performance with employees in achieving an effective two-way communication for advancement. Based on the evaluation result, we offer rewards to employees who perform well in order to encourage their continuous improvement.

To understand the working satisfaction of our employees, we have established various communication channels, including orientation process for new joiners, mailbox for recommendation, and employee satisfaction survey. On a semi-annual basis, survey forms are distributed in order to understand employees' opinions on multiple areas such as work responsibility, working environment, organization and employee relationship, and compensation and benefits. Our Management reviews the results of the survey and implements corresponding improvement actions.

We do not tolerate workplace discrimination. Regardless of personal characteristics such as age, sex, religious belief, nationality and pregnancy, we provide our staff members with equal opportunities for promotion, training and resources.

With operation locations mainly in the PRC, our human resources department keeps abreast of the latest update and announcement of Labor Law of the PRC and Labor Contract Law of the PRC. Internal policies and procedures are updated timely to ensure compliance with the local laws and regulations. We believe our current practices have properly managed the compliance of the abovementioned employment laws and regulations, and there was no material non-compliance noted during the Reporting Period.

Health and Safety

Occupational Health and Safety

Workplace safety is the foremost thought in carrying our business activities. To maintain a safe working environment, we have established safety policies on the prevention and remediation of safety accidents, and detection on potential safety hazards in workplace.

To mitigate the health risk in manufacturing processes, protective equipment is provided for employees. Manufacturing machines are checked regularly to prevent any undesired events or accidents. Employees are required to attend the training about occupational safety and environmental control. Hazardous production materials and wastes are strictly segregated with care. Emergency and evacuation procedures are established to respond timely and orderly to any major safety accidents.

We monitor the workplace safety continuously, and perform examination of workplace safety hazards by evaluating the risk level of each potential hazards on an annual basis. The examination effectively facilitates health and safety planning as an ongoing occupational safety monitoring procedure. In case of industrial accident, the incident will be recorded in a detailed log. Responsible functions would investigate the cause, and implement remedial actions for mitigating future occurrence. Employees are welcome to provide feedbacks on improving the workplace safety.

We are committed to complying with the Work Safety Law of the PRC and Regulations on the Reporting, Investigation and Disposition of Work Safety Accidents. Our safety manuals are updated with the laws and regulations accordingly. We believe our current practices have properly managed the compliance of the abovementioned health and safety laws and regulations, and there was no material non-compliance noted during the Reporting Period.

Development and Training

Staff Training and Development

We provide sufficient training to our employees on quality, environmental rules, and occupational safety, with an aim to enhance employees' awareness, skills, and knowledge. We believe training can facilitate effective operations of our business activities.

To ensure the effectiveness of the training programmes, we have developed the Training Management Policy governing the training procedures. A training plan is developed by the Management according to the work nature of employees. Employees are provided with training that is necessary for acquiring technical licences. The Management reviews and improves the effectiveness of training programmes. The facilitators are required to be qualified before delivering the training, such as, possessing knowledge about procedures of the operating sectors, and related laws and regulations.

Labour Standards

Anti-Child and Forced Labour

We believe children and our employees should not be exploited unfairly for self-benefits therefore child and forced labour are strictly prohibited in our operation. We also adhere to the relevant laws and regulations such as Labor Law of the PRC and Labor Contract Law of the PRC. During the recruitment process, our human resources personnel verifies the identification document of the job applicants, and interviews the candidates to confirm the recruitment is free from child and forced labour matter.

We believe our current practices have properly managed the compliance of the abovementioned labour laws and regulations, and there was no material non-compliance noted during the Reporting Period.

Supply Chain Management

Green Procurement

The Company recognizes the importance of green supply chain management in mitigating the indirect environmental and social risks. In view of green supply chain management, we are aware of the environmental and social practices of our suppliers, and try to engage suppliers with responsible acts to the society.

We strive to actively share green practices with our suppliers, and convey the message of sustainable operations to them. In the supplier selection process, suppliers' environmental and social performance are considered as selection criteria for establishing long-term relationship. For example, selected suppliers should not violate the national environmental and labour laws, while substantial violation may lead to termination of supplier relationship. We review the performance of suppliers regularly with onsite inspection, and provide guidance on improving their current practices.

Product Responsibility

Quality Assurance

In the process of manufacturing chemical coatings, we strictly monitor the quality of the finished products, and the potential safety issues in using our products. Since the manufacturing processes involve the use of chemicals, we are committed to complying with international regulations on product safety, and protecting consumers' health on using our products.

The principle of Hazardous Substance Free ("HSF") and the associated standards are applied in the examination of raw materials and finished products. Raw materials and production tools are tested in order to prevent hazardous substances from passing to the production line and final products. Finished products are examined by the quality assurance department in order to ensure the products are free from hazardous substances and safe to use. Products not meeting the safety standards are segregated and prohibited for sales. We do our best in protecting health of the users of our products. If there is quality or health and safety issue identified in our products, we will commence our recall mechanism to retrieve the defective products from the industry chain. We adhere to the Product Quality Law of the PRC during our production and selling processes. We will continuously seek for opportunities in enhancing the safety of our products.

With the successful implementation of quality control mechanism, the Company reduces the production of defective products and maintains the superior quality of goods provided for our customers.

Customer Service

The Company strives to provide the impeccable services in supporting our products. Our customer service personnel offers comprehensive assistance to customers on the application of products with their professional knowledge. Meanwhile, marketing materials, product instructions and labels have been provided with accurate information in order to communicate with customers the specifications of the products and proper usage. Customers are free to provide feedback on our products and services. If customers are dissatisfied on our products or services, they are welcome to raise their comments through our communication channels. We have established complaint resolution procedures and logs for handling and recording complaints where the complaints are summarized regularly for the Management's review and the Management is responsible for designing and implementing remedial actions for material deficiencies. On an annual basis, we conduct customer satisfaction survey in understanding the opinions of our customers.

Data Privacy

Customer personal data are collected during our work. In order to ensure the compliance with the General Principles of the Civil Law of the PRC, we strive to ensure the confidentiality of customer data, and prohibit unauthorized access and use of the data. Therefore, we implement data protection procedures and logical security measures in protecting the sensitive data. Employees are granted access rights to customer data on a need-to-know basis.

We believe our current practices have properly managed the compliance of the abovementioned product safety, advertising and privacy-related laws and regulations and therefore there was no material non-compliance noted during the Reporting Period.

Anti-corruption

Anti-corruption and Fraud

We strive to achieve high standards of ethics in our business operations. Fraudulent events such as corruption, bribery, and collusion are strictly prohibited. Employees should comply with our internal Code of Conduct while performing business activities, and they should consult the Management if they suspect there is professional misconduct. Employees are required to declare conflict of interest that will impair the integrity under their job responsibilities.

We strictly adhere to the Anti-Unfair Competition Law of the PRC, Interim Provisions on Banning Commercial Bribery and Criminal Law of the People's Republic of China. To comply with the laws and regulations and promote ethical environment, we have established a whistle-blowing channel for reporting potential fraudulent activities. The Management is responsible for handling these cases. To further mitigate business frauds, our internal audit department has been established continuous evaluation of our internal control effectiveness, detection of potential deficiencies, and development of improvement areas. An audit report is prepared and distributed to the responsible departments for timely remediation.

We believe our current practices have properly managed the compliance of the abovementioned corruption-related laws and regulations, and there was no material non-compliance noted during the Reporting Period.

Community Investment

Social Responsibility

We take initiatives to consider the community's interest on our business activities. We aim to promote the stability of our society, and support the underprivileged on rehabilitation to improve their quality of life. We regularly communicate with local charities in understanding the prevailing issues. Employees are also encouraged to provide feedbacks regarding their experiences in the community.

In order to help the needy, we participate in community activities such as donations, volunteering services and sponsorships. With the active participation in community events, we believe it helps connect us with the local community, and maintain a mutually beneficial relationship to the society as a whole.

Deloitte. 德勤

TO THE SHAREHOLDERS OF
MANFIELD CHEMICAL HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Manfield Chemical Holdings Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 46 to 105, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter Impairment assessment of trade receivables	How our audit address the key audit matter
We identified impairment assessment of trade receivables as a key audit matter due to the significance of trade receivables to the Group's consolidated financial position and the involvement of subjective judgement and management estimates in evaluating the expected credit losses ("ECL") of the Group's trade receivables at the end of the reporting period. As at 31 December 2018, the Group's net trade receivables amounting to approximately HK$121,310,000, which represented approximately 18% of total assets of the Group and out of these trade receivables of approximately HK$62,395,000 were past due. As explained in note 2 to the consolidated financial statements, in the current year, the Group adopted Hong Kong Financial Reporting Standard 9 "Financial Instruments" ("HKFRS 9") and recognised an additional impairment of the trade receivables of the Group's associates, which resulted in a decrease in the carrying amounts of interests in associate of HK$1,076,000 as at 1 January 2018 in accordance with the transitional provisions of HKFRS 9. As disclosed in note 29 to the consolidated financial statements, the management of the Group estimates the amount of lifetime ECL of trade receivables based on provision matrix through grouping of various debtors that have similar loss patterns, after considering internal credit ratings of trade debtors, ageing, repayment history and/or past due status of respective trade receivables. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information. In addition, trade receivables that are credit impaired are assessed for ECL individually. The loss allowance amount of the credit impaired trade receivables is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit losses. As disclosed in note 29 to the consolidated financial statements, the Group recognised an additional amount of HK$1,541,000 of impairment of trade receivables for the year and the Group's lifetime ECL on trade receivables as at 31 December 2018 amounted to approximately HK$3,559,000.	Our procedures in relation to impairment assessment of trade receivables included: • Understanding key controls on how the management estimates the loss allowance for trade receivables; • Testing the integrity of information used by management to develop the provision matrix, including trade receivables ageing analysis as at 1 January 2018 and 31 December 2018, on a sample basis, by comparing individual items in the analysis with the relevant sales agreements, sales invoices and other supporting documents; • Challenging management's basis and judgement in determining credit loss allowance on trade receivables as at 1 January 2018 and 31 December 2018, including their identification of credit impaired trade receivables, the reasonableness of management's grouping of the remaining trade debtors into different categories in the provision matrix, and the basis of estimated loss rates applied in each category in the provision matrix (with reference to historical default rates and forward-looking information); • Evaluating the disclosures regarding the impairment assessment of trade receivables in notes 2, 18 and 29 to the consolidated financial statements; and • Testing subsequent settlements of credit impaired trade receivables, on a sample basis, by inspecting supporting documents in relation to cash receipt from trade debtors subsequent to the end of the current reporting period.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Wan Chi Lap.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

31 March 2019

Consolidated Statement of Profit or Loss

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Revenue	5	**426,346**	374,161
Cost of sales		**(341,005)**	(308,784)
Gross profit		**85,341**	65,377
Other income	7	**19,235**	17,162
Other gains and losses	7	**(76)**	(844)
Impairment losses	8	**(1,541)**	(1,275)
Distribution and selling expenses		**(38,591)**	(33,608)
Administrative expenses		**(61,320)**	(55,274)
Other expenses		**(1,980)**	(1,959)
Finance costs		**(5)**	(2)
Share of results of associates	15	**8,397**	13,585
Profit before taxation	9	**9,460**	3,162
Taxation	10	**(2,092)**	29
Profit for the year		**7,368**	3,191
Earnings per share			
— Basic	12	**HK1.4 cents**	HK1.0 cents

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Profit for the year		**7,368**	3,191
Other comprehensive (expense) income which may be subsequently reclassified to profit or loss:			
Share of exchange differences of associates	*15*	**(7,623)**	11,506
Exchange differences arising on translation of foreign operations		**(13,051)**	18,395
Other comprehensive (expense) income for the year		**(20,674)**	29,901
Total comprehensive (expense) income for the year		**(13,306)**	33,092
Profit (loss) for the year attributable to:			
Owners of the Company		**8,563**	6,105
Non-controlling interests		**(1,195)**	(2,914)
		7,368	3,191
Total comprehensive (expense) income attributable to:			
Owners of the Company		**(11,503)**	34,995
Non-controlling interests		**(1,803)**	(1,903)
		(13,306)	33,092

Consolidated Statement of Financial Position

At 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment	*13*	**98,029**	95,104
Prepaid lease payments	*14*	**25,960**	23,631
Interests in associates	*15*	**182,587**	191,889
Deposits to purchase of property, plant and equipment and prepaid lease payments		**3,095**	806
		309,671	311,430
Current assets			
Prepaid lease payments	*14*	**782**	705
Inventories	*17*	**45,277**	41,568
Trade and other receivables	*18*	**133,881**	110,960
Derivative financial instruments	*21*	**–**	433
Tax recoverable		**377**	725
Bank balances and cash	*19*	**180,246**	204,613
		360,563	359,004
Assets classified as held for sale	*22*	**–**	40,177
		360,563	399,181
Current liabilities			
Trade and other payables	*20*	**54,426**	43,615
Contract liabilities		**139**	–
Tax payable		**1,689**	374
		56,254	43,989
Liabilities associated with assets classified as held for sale	*22*	**–**	11,260
		56,254	55,249
Net current assets		**304,309**	343,932
Total assets less current liabilities		**613,980**	655,362
Capital and reserves			
Share capital	*23*	**6,000**	6,000
Reserves		**595,650**	635,229
Equity attributable to owners of the Company		**601,650**	641,229
Non-controlling interests		**12,330**	14,133
Total equity		**613,980**	655,362

The consolidated financial statements on pages 46 to 105 were approved and authorised for issue by the Board of Directors on 31 March 2019 and are signed on its behalf by:

Li Zhong Yuan
Director

Kong Muk Yin
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Attributable to owners of the Company										
	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000 (note a)	Shareholders' contribution/ distribution reserve HK$'000 (note b)	Translation reserve HK$'000	Other reserve HK$'000 (note c)	Non-distributable reserve HK$'000 (note d)	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 31 December 2016	6,000	133,883	32,000	(274)	(4,302)	4,571	12,825	436,531	621,234	16,036	637,270
Share of exchange differences of associates	–	–	–	–	11,506	–	–	–	11,506	–	11,506
Exchange differences arising on translation of foreign operations	–	–	–	–	17,384	–	–	–	17,384	1,011	18,395
Other comprehensive income for the year	–	–	–	–	28,890	–	–	–	28,890	1,011	29,901
Profit (loss) for the year	–	–	–	–	–	–	–	6,105	6,105	(2,914)	3,191
Total comprehensive income (expense) for the year	–	–	–	–	28,890	–	–	6,105	34,995	(1,903)	33,092
Transfer	–	–	–	–	–	–	72	(72)	–	–	–
Transfer upon deregistration of a subsidiary	–	–	–	–	–	–	(1,504)	1,504	–	–	–
Dividend paid	–	–	–	–	–	–	–	(15,000)	(15,000)	–	(15,000)
At 31 December 2017	6,000	133,883	32,000	(274)	24,588	4,571	11,393	429,068	641,229	14,133	655,362
Adjustment on adoption of HKFRS 9 *(note 2)*	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,076)**	**(1,076)**	**-**	**(1,076)**
At 1 January 2018 (restated)	**6,000**	**133,883**	**32,000**	**(274)**	**24,588**	**4,571**	**11,393**	**427,992**	**640,153**	**14,133**	**654,286**
Share of exchange differences of associates	**-**	**-**	**-**	**-**	**(7,623)**	**-**	**-**	**-**	**(7,623)**	**-**	**(7,623)**
Exchange differences arising on translation of foreign operations	**-**	**-**	**-**	**-**	**(12,443)**	**-**	**-**	**-**	**(12,443)**	**(608)**	**(13,051)**
Other comprehensive expense for the year	**-**	**-**	**-**	**-**	**(20,066)**	**-**	**-**	**-**	**(20,066)**	**(608)**	**(20,674)**
Profit (loss) for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**8,563**	**8,563**	**(1,195)**	**7,368**
Total comprehensive income (expense) for the year	**-**	**-**	**-**	**-**	**(20,066)**	**-**	**-**	**8,563**	**(11,503)**	**(1,803)**	**(13,306)**
Transfer	**-**	**-**	**-**	**-**	**-**	**-**	**1,740**	**(1,740)**	**-**	**-**	**-**
Dividend paid	**-**	**(3,077)**	**-**	**-**	**-**	**-**	**-**	**(23,923)**	**(27,000)**	**-**	**(27,000)**
At 31 December 2018	**6,000**	**130,806**	**32,000**	**(274)**	**4,522**	**4,571**	**13,133**	**410,892**	**601,650**	**12,330**	**613,980**

Notes:

(a) The special reserve of the Group represents the nominal values of 32,000,000 non-voting class A shares of HK$1 each issued by a subsidiary of the Company to its shareholders prior to a group reorganisation in 2002.

(b) The balance as at 31 December 2017 and 2018 included: (i) deemed distribution to a shareholder of HK$12,515,000 involving a distribution of assets other than cash to an owner by making reference to the fair value of the assets being distributed; (ii) deemed contribution from a shareholder of HK$842,000 about the disposal of a subsidiary which having net liabilities; and (iii) deemed shareholders' contribution upon the waiver of loan from the former ultimate holding company of HK$11,399,000.

(c) Other reserve was resulted from the partial disposal of a subsidiary in previous years.

(d) The non-distributable reserve of the Group mainly represents statutory reserve requirement that the foreign investment enterprises appropriated 10% of the profit after taxation of the subsidiaries of the Company registered in the People's Republic of China (the "PRC") to the non-distributable reserve under the PRC laws and regulations until the transferred amount equals to 50% of the registered capital of these PRC subsidiaries. It can be used to make up for previous years' losses or converted into additional capital of these PRC subsidiaries.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
OPERATING ACTIVITIES			
Profit before taxation		**9,460**	3,162
Adjustments for:			
Impairment loss	8		
— trade receivables		**1,541**	666
— other receivables		**–**	609
Release of prepaid lease payments	9	**813**	788
Depreciation of property, plant and equipment	9	**14,436**	13,234
Net loss on disposal of property, plant and equipment	7	**496**	3,279
Interest income	7	**(1,482)**	(1,354)
Finance costs		**5**	2
Share of results of associates	15	**(8,397)**	(13,585)
Change in fair value of derivative financial instruments	7	**433**	1,269
Operating cash flows before movements in working capital		**17,305**	8,070
Decrease in inventories		**2,710**	7,446
Increase in trade and other receivables		**(17,593)**	(7,200)
Increase in trade and other payables		**1,921**	3,096
Decrease in contract liabilities		**(31)**	–
Cash generated from operations		**4,312**	11,412
Income tax paid, net		**(361)**	(364)
NET CASH GENERATED FROM OPERATING ACTIVITIES		**3,951**	11,048
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		**(10,849)**	(13,430)
Dividends received from an associate		**9,000**	13,500
Interest received		**1,482**	1,354
Deposits paid for purchase of property, plant and equipment		**–**	(92)
Proceeds from disposal of property, plant and equipment		**529**	474
NET CASH FROM INVESTING ACTIVITIES		**162**	1,806
FINANCING ACTIVITIES			
Interest paid		**(5)**	(2)
Dividend paid		**(27,000)**	(15,000)
CASH USED IN FINANCING ACTIVITIES		**(27,005)**	(15,002)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(22,892)**	(2,148)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**205,614**	204,625
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**(2,476)**	3,137
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**180,246**	205,614

1. GENERAL

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law (2007 Revision) Chapter 22 of the Cayman Islands. The Company's shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the corporation information section of the annual report.

From 1 January 2018 to 14 November 2018, the Company's immediate holding company was Guang Ming Holdings Limited and ultimate holding company was Mezzo International Limited. Both companies were incorporated in the British Virgin Islands (the "BVI"). On 14 November 2018, Timenew Limited acquired 75% of the issued share capital of the Company. Thereafter, Timenew Limited becomes the immediate and ultimate holding company of the Company.

Timenew Limited was incorporated in the BVI with limited liability and the beneficial owners of which are Mr. Li Xiao Ru and Dr. Li Zhong Yuan who are legally interested in 51% and 49% and beneficially interested in 80.9524% and 19.0476% of the entire issued share capital of Timenew Limited respectively.

The Company is an investment holding company. The Group is principally engaged in manufacturing and trading of liquid coatings and powder coatings.

The functional currency of the Company is Hong Kong dollars, which is the same as the presentation currency of the consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2.1 HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue* and the related interpretations.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

New and Amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

2.1 HKFRS 15 Revenue from Contracts with Customers *(Continued)*

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Manufacturing and trading of liquid coatings and powder coatings

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 5 and 3 respectively.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	Carrying amounts previously reported at 31 December 2017 HK$'000	Reclassification HK$'000	Carrying amounts under HKFRS 15 at 1 January 2018* HK$'000
Trade and other payables	43,615	(170)	43,445
Contract liabilities	–	170	170

* The amounts in this column are before the adjustments from the application of HKFRS 9.

Note: As at 1 January 2018, deposits received from customers of HK$170,000 in respect of sales contracts signed with customers previously included in trade and other payables were reclassified to contract liabilities.

The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and its consolidated statement of cash flows for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	As reported HK$'000	Adjustments HK$'000	Amounts without application of HKFRS 15 HK$'000
Trade and other payables	54,426	139	54,565
Contract liabilities	139	(139)	–

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

New and Amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

2.1 HKFRS 15 Revenue from Contracts with Customers *(Continued)*

Impact on consolidated statement of cash flows

	As reported HK$'000	Adjustments HK$'000	Amounts without application of HKFRS 15 HK$'000
Operating activities			
Increase in trade and other payables	1,921	(31)	1,890
Decrease in contract liabilities	(31)	31	–

Note: Without application of HKFRS 15, deposits received from customers in respect of sales contracts signed with customers would have been included in trade and other payables.

The application of HKFRS 15 has had no material impact on the Group's consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018 and retained profits as at 1 January 2018.

2.2 HKFRS 9 Financial Instruments

In the current year, the Group has applied HKFRS 9 *Financial Instruments* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

New and Amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

2.2 HKFRS 9 Financial Instruments *(Continued)*

Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for trade receivables. Trade receivables have been grouped based on internal credit rating.

ECL for other financial assets at amortised cost including bank balances and other receivables and deposits and bills receivables are assessed on 12-month ECL basis as there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, no additional credit loss allowance has been recognised against retained profits as the estimated allowance under ECL model were not significantly different to the losses previously recognised under the HKAS 39.

The net effects arising from the initial application of HKFRS 9 resulted in a decrease in the carrying amounts of interests in associates of HK$1,076,000 with corresponding adjustments to retained profits.

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKAS 1 and HKAS 8	Definition of Material[5]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after a date to be determined
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective for business combination for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
5 Effective for annual periods beginning on or after 1 January 2020

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

New and amendments to HKFRSs in issue but not yet effective *(Continued)*

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use while other operating lease payments are presented as operating cash flows. Upon the application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK$7,217,000 as disclosed in note 25. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid and refundable rental deposits received as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and by the Hong Kong Companies Ordinance (Chapter 622) ("CO").

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 Share-based Payment, leasing transactions that are within the scope of HKAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 Inventories or value in use in HKAS 36 Impairment of Assets.

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.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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 listed above.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2) *(Continued)*

Revenue recognition (prior to 1 January 2018)

Service income is recognised when services are provided.

Royalty fee income is derived from agreements signed with counterparties which manufacture products using the proprietary know-how of the Group. Royalty fee income is recognised when the counterparties make the related sales and determined as a percentage to the related sales amount.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

Property, plant and equipment

Property, plant and equipment including land and buildings held for use in the production of goods, or for administrative purposes (other than construction in progress) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Construction in progress represents property, plant and equipment in the course of construction for production and administrative purposes. Construction in progress is carried at cost less any identified impairment loss. Construction in progress is classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets (other than construction in progress) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control over those policies.

The results and assets and liabilities of associate are incorporated in the consolidated financial statements using the equity method of accounting. The financial statements of associate used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate and the retained interest is a financial asset within the scope of HKFRS 9/HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

Where a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised only to the extent of interests in the associate that are not related to the Group.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Non-current assets held for sale *(Continued)*

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

When these criteria are no longer met, the Group will cease to classify non-current assets and disposal group as held for sale and measure the relevant items at the lower of: (i) its carrying amount before the asset (or disposal group) was classified as held for sale, adjusted any depreciation, amortisation or revaluations that would have been recognised had the asset (or disposal group) not been classified as held for sale; and (ii) its recoverable amount at the date of cessation of such classification. Any resulting adjustment is reflected in profit or loss.

Impairment on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Recoverable amount is the higher of fair value less costs of disposal and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on a first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in OCI if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) *(Continued)*

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables, other receivables and deposits, bill receivables and bank balances. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) *(Continued)*

(i) *Significant increase in credit risk*

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

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) *(Continued)*

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over one year past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) *(Continued)*

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets are classified into the following specified categories: financial assets at FVTPL, available-for-sale ("AFS") financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

(i) Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) held for trading (ii) it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018) *(Continued)*

(i) *Financial assets at FVTPL (Continued)*

A financial asset other than a financial asset held for trading (or contingent consideration that may be received by an acquirer as part of a business combination) may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in note 21.

(ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)
Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or

- breach of contract, such as a default or delinquency in interest or principal payments; or

- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of trade receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on trade receivables.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018) *(Continued)*

(ii) Loans and receivables (Continued)

For loans and receivables, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities at amortised cost

Financial liabilities including trade and other payables are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis of which the interest expense is included in net gains or losses.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial assets *(Continued)*

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Retirement benefits costs

Payments to the defined contribution retirement benefit plans, including Occupational Retirement Scheme (the "ORSO Scheme"), the Mandatory Provident Fund Scheme ("MPF Scheme") and the state-managed retirement benefit schemes, are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is released over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Taxation

Taxation represents the sum of the income tax expense currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before taxation' as reported in the consolidated statement of profit or loss because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and an associate, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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 profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly to equity, in which case, the current tax and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on the settlement of monetary items, and on the retranslation of monetary items are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, management of the Group is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following is 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.

Provision of ECL for trade receivables

The Group uses provision matrix to calculate ECL for the trade receivables. The provision rates are based on internal credit scoring system as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables with significant balances and credit impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in notes 29.

5. REVENUE AND SEGMENTAL INFORMATION

Manufacturing and trading of liquid coatings and powder coatings (revenue recognised at one point in time)

The Group is engaged in manufacturing and trading of liquid coatings and powder coatings to the wholesale market.

Revenue is recognised when control of the goods has transferred, being when the goods have been shipped to the customer's specific location (delivery). Following delivery, the customer has full discretion over the manner of distribution and price to sell the goods and the primary responsibility when on selling the goods, and bears the risks of obsolescence and loss in relation to the goods. The normal credit term is 30 to 90 days upon delivery.

All sales of products in manufacturing and trading of liquid coatings and powder coatings are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to those unsatisfied contracts is not disclosed.

5. REVENUE AND SEGMENTAL INFORMATION *(Continued)*

The Group is principally engaged in manufacturing and trading of liquid coatings and powder coatings. The management of the Group, being the Group's chief operating decision maker, makes the decision on allocation of resources and assessment of performance based on geographical segments determined on the basis of location of customers. The accounting policies of the operating and reportable segments are the same as the Group's accounting policies described in note 3. Information of the operating and reportable segments of the Group is as follows:

Year ended 31 December 2018

	Hong Kong and Others# HK$'000	The PRC HK$'000	Consolidated HK$'000
REVENUE			
External revenue	**33,035**	**393,311**	**426,346**
RESULTS			
Segment profits	**1,032**	**35,610**	**36,642**
Interest income			**1,482**
Unallocated corporate income			**9,226**
Unallocated corporate expenses			**(45,353)**
Unallocated corporate other gains and losses			**(929)**
Finance costs			**(5)**
Share of results of associates			**8,397**
Profit before taxation			**9,460**
TOTAL ASSETS			
Segment assets — trade and bills receivables	**10,768**	**116,420**	**127,188**
Unallocated assets			**543,046**
			670,234
OTHER SEGMENT INFORMATION			
Amounts included in the measure of segment profit:			
Impairment losses recognised on trade receivables	**105**	**1,436**	**1,541**

5. REVENUE AND SEGMENTAL INFORMATION *(Continued)*

Year ended 31 December 2017

	Hong Kong and Others# HK$'000	The PRC HK$'000	Consolidated HK$'000
REVENUE			
External revenue	50,493	323,668	374,161
RESULTS			
Segment profits	6,690	17,429	24,119
Interest income			1,354
Unallocated corporate income			9,961
Unallocated corporate expenses			(41,307)
Unallocated corporate other gains and losses			(4,548)
Finance costs			(2)
Share of results of associates			13,585
Profit before taxation			3,162
TOTAL ASSETS			
Segment assets — trade and bills receivables	9,146	96,306	105,452
Unallocated assets			605,159
			710,611
OTHER SEGMENT INFORMATION			
Amounts included in the measure of segment profit:			
Impairment losses recognised on trade receivables	–	666	666

Including Indonesia, Malaysia, Taiwan and other jurisdictions.

Notes:

(i) Segment profits represent the results of each segment without allocation of corporate items, including interest income, management fee income and rental income from subsidiaries of an associate, net loss on disposal of property, plant and equipment, central administration cost, depreciation of property, plant and equipment, release of prepaid lease payments, change in fair value of derivative financial instruments, finance costs and share of results of associates. This is the measure reported to the management of the Group for the purpose of resources allocation and performance assessments.

(ii) Other than trade and bills receivables, assets are not allocated to operating segments. Inventories could be sold to common customers of the operating segments, which cannot be allocated to respective segments on a reasonable basis. Liabilities are not allocated to operating segments, as the Group's trade payables represented payables to common suppliers of the operating segments, which cannot be allocated to respective segments on a reasonable basis.

5. REVENUE AND SEGMENTAL INFORMATION *(Continued)*

Revenue from major products

The Group's revenue from its major products is as follows:

	2018 HK$'000	2017 HK$'000
Sales		
Liquid coatings		
Sales to outsiders	**286,017**	244,679
Sales to subsidiaries of an associate	**117,189**	105,726
Powder coatings — sales to outsiders	**23,140**	23,756
	426,346	374,161

Information about major customers

During the year, the revenue from the subsidiaries of an associate contributed over 10% of total revenue of the Group is as follows:

	2018 HK$'000	2017 HK$'000
Hong Kong	**1,294**	3,602
The PRC	**115,895**	102,124
	117,189	105,726

Details are disclosed in note 26.

Geographical information

The Group's operations are located in Hong Kong, the PRC and others. The Group's information about its non-current assets by geographical location of the assets, including property, plant and equipment, prepaid lease payments, deposits to purchase of property, plant and equipment and prepaid lease payments; and by location of incorporation for interests in associates, is detailed below:

	2018 HK$'000	2017 HK$'000
Hong Kong and others *(Note)*	**186,757**	196,341
The PRC	**122,914**	115,089
	309,671	311,430

Note: Non-current assets of others are less than 10% of the Group's total non-current assets at the end of the reporting period.

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' and chief executive's emoluments

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and CO, is as follows:

	Executive Directors				Non-executive directors			Independent non-executive directors						
	Mr. Yuen Shu Wah	Mr. Ko Jack Lum	Mr. Ng Kai On	Dr. Li Zhong Yuan	Dato' Wong Peng Chong	Mr. Kong Muk Yin	Ms. Zuo Yi	Dr. Chui Hong Sheung	Mr. Cheung Chi Wai Vidy	Mr. Yue Kwai Wa Ken	Mr. Li Gong	Mr. Wang Jianping	Dr. Shi Ping	Total
	HK$'000	HK$'000	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 ii)	(note ii)	(note ii)	(note iii)	(note iv)		(note v)	(note vi)	(note vi)	(note vi)	(note vii)	(note vii)	(note vii)	
Year ended 31 December 2018														
Fee	**120**	**120**	**120**	**-**	**120**	**120**	**-**	**120**	**120**	**120**	**-**	**-**	**-**	**960**
Other emoluments														
Salaries and other benefits (note i)	**286**	**2,266**	**1,241**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,793**
Retirement benefit scheme contributions	**149**	**149**	**77**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**375**
Total emoluments	**555**	**2,535**	**1,438**	**-**	**120**	**120**	**-**	**120**	**120**	**120**	**-**	**-**	**-**	**5,128**
Year ended 31 December 2017														
Fee	120	120	120	–	120	120	–	120	120	120	–	–	–	960
Other emoluments														
Salaries and other benefits (note i)	345	2,304	1,163	–	–	–	–	–	–	–	–	–	–	3,812
Retirement benefit scheme contributions	147	147	75	–	–	–	–	–	–	–	–	–	–	369
Total emoluments	612	2,571	1,358	–	120	120	–	120	120	120	–	–	–	5,141

Notes:

(i) Discretionary bonus was determined by the management of the Group by reference to the performance of directors and the Group's operating results.

(ii) Mr. Yuen Shu Wah, Mr. Ko Jack Lum and Mr. Ng Kai On resigned as the executive directors of the Company on 31 December 2018.

(iii) Dr. Li Zhong Yuan was appointed as the executive director of the Company on 10 December 2018.

(iv) Dato' Wong Peng Chong resigned as the non-executive director of the Company on 31 December 2018.

(v) Ms. Zuo Yi was appointed as the non-executive director of the Company on 10 December 2018.

(vi) Dr. Chui Hong Sheung, Mr. Cheung Chi Wai Vidy and Mr. Yue Kwai Wa Ken resigned as the independent non-executive directors of the Company on 31 December 2018.

(vii) Mr. Li Gong, Mr. Wang Jianping and Dr. Shi Ping were appointed as the independent non-executive directors of the Company on 10 December 2018.

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

The non-executive directors' emoluments shown above were mainly for their services as directors of the Company and its subsidiaries.

The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(a) Directors' and chief executive's emoluments *(Continued)*

Mr. Ko Jack Lum was the chief executive officer of the Company and his emoluments disclosed above included those for services rendered by him as the chief executive, while Mr. Yuen Shu Wah was the chairman of the Company. Mr. Ko Jack Lum and Mr. Yuen Shu Wah resigned as the chief executive and chairman of the Company respectively on 31 December 2018. Dr. Li Zhong Yuan was appointed as the executive director and the chairman of the Company on 10 December 2018 and 31 December 2018 respectively.

During both years, 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. None of the directors has waived any remuneration during both years.

(b) Employees' emoluments

The five highest paid individuals included three directors and whose emoluments are included in the disclosures in (a) above for both years. The emoluments of the remaining two individuals, are as follows:

	2018 HK$'000	2017 HK$'000
Salaries and other benefits	**1,793**	2,133
Retirement benefit scheme contributions	**68**	67
	1,861	2,200

The emoluments of the individuals with the highest emoluments who are not the directors of the Company are within the following bands:

	2018 Number of individuals	2017 Number of individuals
HK$ nil to HK$1,000,000	**1**	1
HK$1,000,001 to HK$1,500,000	**1**	1

During both years, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

7. OTHER INCOME AND OTHER GAINS AND LOSSES

	2018 HK$'000	2017 HK$'000
Other income		
Royalty fee income from subsidiaries of an associate	**6,230**	3,708
Management fee income from subsidiaries of an associate	**7,517**	8,304
Rental income from subsidiaries of an associate	**1,709**	1,657
Transportation fee income from a subsidiary of an associate	**1,582**	1,446
Rental income	**715**	693
Interest income	**1,482**	1,354
	19,235	17,162
Other gains and losses		
Net loss on disposal of property, plant and equipment	**(496)**	(3,279)
Net exchange (loss) gain	**(1,069)**	994
Change in fair value of derivative financial instruments	**(433)**	(1,269)
Government grants *(Note)*	**1,518**	2,123
Others	**404**	587
	(76)	(844)

Note: Mainly subsidies received from government authority for the support of the development of the Group's subsidiary as new and high technology enterprise. There is no specified condition attached to these subsidies.

8. IMPAIRMENT LOSSES

	2018 HK$'000	2017 HK$'000
Impairment losses recognised on:		
— Trade receivables	**1,541**	666
— Other receivable	**–**	609
	1,541	1,275

Details of impairment assessment for the year ended 31 December 2018 are set out in note 29.

9. PROFIT BEFORE TAXATION

	2018 HK$'000	2017 HK$'000
Profit before taxation has been arrived at after charging:		
Auditor's remuneration	**1,380**	1,180
Directors' emoluments *(note 6)*		
Fee	**960**	960
Other emoluments	**3,793**	3,812
Retirement benefit scheme contributions	**375**	369
	5,128	5,141
Other staff costs:		
Salaries and other allowances	**97,110**	93,060
Retirement benefit scheme contributions	**7,911**	7,826
Total staff costs	**110,149**	106,027
Release of prepaid lease payments	**813**	788
Depreciation of property, plant and equipment	**14,436**	13,234
Cost of inventories recognised as an expense (included in cost of sales)	**341,005**	308,784
Donation	**1,980**	1,959
Minimum operating lease rentals in respect of rented premises	**2,430**	1,409

10. TAXATION

	2018 HK$'000	2017 HK$'000
Hong Kong Profits Tax:		
Current year	**742**	737
Overprovision in prior years	**(250)**	(16)
	492	721
PRC Enterprise Income Tax:		
Current year	**1,642**	–
Overprovision in prior years	**(42)**	(912)
	1,600	(912)
Deferred tax *(note 16)*	**–**	162
Taxation charge (credit)	**2,092**	(29)

The Company and its subsidiary incorporated in the Cayman Islands and the BVI are exempted from profit tax under the tax laws of the Cayman Islands and the BVI.

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profits for both years. Taiwan income tax is calculated at 17% on the assessable taxable profits of the Taiwan Branch for both years. No provision for Taiwan income tax has been made as the Group has no assessable profit arising in Taiwan.

10. TAXATION *(Continued)*

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Accordingly, starting from the year ended 31 December 2018, the Hong Kong Profits Tax of the qualifying group entity is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million. The profits of group entities not qualified for the two-tiered profits tax rates regime continue to be taxed at a flat rate of 16.5%.

Under the Law of the PRC in Enterprise Income tax (the "EIT Law") and Implementation Regulations of the EIT Law, the applicable tax rate for the Company's subsidiaries registered in the PRC is 25% for both years, except Manfield (Guangzhou) Innovative Materials Limited ("Manfield GZ"). Manfield GZ obtained the qualification as high and new technology enterprise at 10 October 2015, which is valid for three years, and the relevant application to competent tax authority is also filed. The qualification as high and new technology enterprise has been renewed for an additional three years on 28 November 2018. Hence, Manfield GZ is subject to the preferential tax treatment and the applicable tax rate for the year ended 31 December 2018 is 15% (2017: 15%).

The taxation charge (credit) for the year can be reconciled to the profit before taxation as follows:

	2018 **HK$'000**	2017 HK$'000
Profit before taxation	**9,460**	3,162
Less: Share of results of associates	**(8,397)**	(13,585)
	1,063	(10,423)
Taxation at Hong Kong Profits Tax rate of 16.5%	**175**	(1,720)
Tax effect of expenses not deductible for tax purpose	**1,994**	1,412
Tax effect of tax losses not recognised	**1,411**	1,900
Utilisation of tax losses previously not recognised	**(384)**	(422)
Effect of different tax rates of subsidiaries operating in the PRC	**(480)**	(645)
Effect of two-tiered tax rates in Hong Kong	**(165)**	–
Effect of income tax on concessionary rate in the PRC	**(250)**	(42)
Overprovision in prior years	**(292)**	(928)
Others	**83**	416
Taxation charge (credit) for the year	**2,092**	(29)

Details of deferred taxation are set out in note 16.

11. DIVIDEND

During the year ended 31 December 2018, a final dividend in respect of the year ended 31 December 2017 of HK$15,000,000 or HK$0.025 per share and an interim dividend in respect of the period ended 30 June 2018 of HK$12,000,000 or HK$0.02 per share (2017: HK$15,000,000) were distributed to its shareholders.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: HK$0.025 per share).

12. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the following data:

	2018 HK$'000	2017 HK$'000
Earnings:		
Earnings for the purpose of calculating basic earnings per share (profit for the year attributable to owners of the Company)	**8,563**	6,105

	'000	'000
Number of shares:		
Number of ordinary shares for the purpose of calculating basic earnings per share	**600,000**	600,000

No diluted earnings per share for both years were presented as there were no potential ordinary shares in issue for both years.

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Plant, machinery and equipment HK$'000	Construction in progress HK$'000	Total HK$'000
COST							
At 1 January 2017	115,164	33,702	34,106	9,353	40,078	554	232,957
Exchange adjustments	7,282	2,323	2,138	573	2,614	272	15,202
Additions	30	2,435	1,672	1,512	1,592	6,189	13,430
Disposals	(5,035)	(668)	(1,109)	(822)	(2,320)	–	(9,954)
Reclassified as held for sale	(8,941)	(2,829)	(2,207)	(834)	(7,786)	(42)	(22,639)
Transfer	–	–	–	–	439	(439)	–
At 31 December 2017	108,500	34,963	34,600	9,782	34,617	6,534	228,996
Exchange adjustments	**(5,258)**	**(1,799)**	**(1,491)**	**(400)**	**(1,756)**	**(98)**	**(10,802)**
Additions	**–**	**3,738**	**1,847**	**642**	**2,640**	**1,982**	**10,849**
Disposals	**(76)**	**–**	**(2,431)**	**(994)**	**(3,829)**	**–**	**(7,330)**
Reclassified from held for sale	**8,941**	**2,829**	**2,207**	**834**	**7,786**	**42**	**22,639**
Transfer	**6,450**	**476**	**–**	**–**	**445**	**(7,371)**	**–**
At 31 December 2018	**118,557**	**40,207**	**34,732**	**9,864**	**39,903**	**1,089**	**244,352**
DEPRECIATION							
At 1 January 2017	42,483	24,374	29,285	6,836	26,089	–	129,067
Exchange adjustments	2,863	1,656	1,776	401	1,647	–	8,343
Provided for the year	4,223	2,279	2,345	1,063	3,324	–	13,234
Eliminated on disposals	(2,148)	(530)	(998)	(769)	(1,756)	–	(6,201)
Reclassified as held for sale	(2,732)	(1,790)	(1,484)	(601)	(3,944)	–	(10,551)
At 31 December 2017	44,689	25,989	30,924	6,930	25,360	–	133,892
Exchange adjustments	**(2,201)**	**(1,316)**	**(1,292)**	**(286)**	**(1,156)**	**–**	**(6,251)**
Provided for the year	**4,267**	**3,614**	**2,463**	**1,053**	**3,039**	**–**	**14,436**
Eliminated on disposals	**(51)**	**–**	**(2,148)**	**(917)**	**(3,189)**	**–**	**(6,305)**
Reclassified from held for sale	**2,732**	**1,790**	**1,484**	**601**	**3,944**	**–**	**10,551**
At 31 December 2018	**49,436**	**30,077**	**31,431**	**7,381**	**27,998**	**–**	**146,323**
CARRYING AMOUNTS							
At 31 December 2018	**69,121**	**10,130**	**3,301**	**2,483**	**11,905**	**1,089**	**98,029**
At 31 December 2017	63,811	8,974	3,676	2,852	9,257	6,534	95,104

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis after taking into account their estimated residual values, at the following rates per annum:

Leasehold land and buildings	Over the shorter of the term of the lease and 50 years
Leasehold improvements	4.5%–20%
Furniture, fixtures and office equipment	18%–20%
Motor vehicles	18%–25%
Plant, machinery and equipment	4%–18%

As at 31 December 2018, the Group is in the process of obtaining title deeds from relevant government authorities for its leasehold land and buildings in the PRC amounting to HK$47,757,000 (2017: HK$45,583,000). In the opinion of the management of the Group, the Group is not required to incur additional costs in obtaining the title deeds for its leasehold land and buildings in the PRC.

As at 31 December 2018, the Group's leasehold land and buildings situated in Hong Kong amounting to HK$1,508,000 (2017: HK$1,585,000), were pledged to a bank for general banking facilities granted to the Group.

14. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments represent leasehold interest in lands in the PRC held under medium-term lease, and are analysed for reporting purposes as follows:

	2018 HK$'000	2017 HK$'000
Non-current asset	25,960	23,631
Current asset	782	705
	26,742	24,336

15. INTERESTS IN ASSOCIATES

	2018 HK$'000	2017 HK$'000
Unlisted investments, at cost	513	513
Share of post-acquisition translation reserve	3,828	11,451
Share of post-acquisition profits, net of dividends received	178,246	179,925
	182,587	191,889

The following list contains only the particulars of associates, which are unlisted corporates, in the opinion of the management of the Group, and principally affected the results or assets of the Group:

List of associates	Form of business structure	Place of incorporation/ operation	Issued and fully paid share capital/ registered capital	Attributable equity interest to the Group as at 2018	2017	Principal activity
CMW Holding Limited ("CMW Holding")	Limited liability company	Hong Kong	HK$500,000	45%	45%	Investment holding
福州艾薩卡爾汽車維修服務有限公司 Fuzhou Aisa Car Auto Service Company Limited ("Fuzhou Aisa") *(note)*	Limited liability company	PRC	RMB1,000,000 Paid-up registered capital	30%	30%	Provision of car repair and maintenance service

15. INTERESTS IN ASSOCIATES *(Continued)*

List of subsidiaries of CMW Holding	Form of business structure	Place of incorporation/ operation	Issued and fully paid share capital/ registered capital	Attributable equity interest to CMW Holding as at 2018	2017	Principal activity
廣州卡秀堡輝塗料科技有限公司 CMW Coatings (Guangzhou) Technology Company Limited *(note)*	Wholly owned foreign enterprise	PRC	HK$10,000,000 Paid-up registered capital	**100%**	100%	Manufacturing of coatings
無錫卡秀堡輝塗料有限公司 CMW Coatings (Wuxi) Limited *(note)*	Wholly owned foreign enterprise	PRC	HK$25,000,000 Paid-up registered capital	**100%**	100%	Manufacturing of coatings
CMW Coatings (Hong Kong) Limited	Limited liability company	Hong Kong	HK$1	**100%**	100%	Trading of coatings
天津卡秀堡輝塗料有限公司 CMW Coatings (Tianjin) Limited *(note)*	Wholly owned foreign enterprise	PRC	US$7,000,000 Paid-up registered capital	**100%**	100%	Manufacturing of coatings
CMW Investments Limited	Limited liability company	Hong Kong	HK$54,488,281	**100%**	–	Investment holding

Note: English translated name is for identification only

CMW Holding was incorporated in Hong Kong in the year of 2000, so as to develop the PRC markets of paint coatings for cookwares and mobile phone through its PRC subsidiaries.

The summarised financial information in respect of the Group's material associate, CMW Holding is set out below. The summarised financial information below represents amounts shown in CMW Holding's consolidated financial statements for the year ended 31 December 2017 and the management accounts for the year ended 31 December 2018 prepared in accordance with HKFRSs.

CMW Holding and its subsidiaries

	As at 31 December 2018 HK$'000	2017 HK$'000
Current assets	**409,485**	433,875
Non-current assets	**118,243**	122,289
Current liabilities	**109,415**	113,266
Non-current liabilities	**13,133**	17,086
Net assets	**405,180**	425,812

15. INTERESTS IN ASSOCIATES *(Continued)*

CMW Holding and its subsidiaries *(Continued)*

	Year ended 31 December	
	2018	2017
	HK$'000	HK$'000
Revenue	**620,122**	597,211
Profit for the year	**18,670**	30,193
Other comprehensive income (expense) for the year	**(16,911)**	25,529
Total comprehensive income for the year	**1,759**	55,722
The Group's share of results of an associate for the year	**8,401**	13,587
The Group's share of other comprehensive income (expense) for the year	**(7,610)**	11,488
Dividends paid to the Group	**9,000**	13,500

Reconciliation of the above summarised financial information to the carrying amount of the interest in CMW Holding recognised in the consolidated financial statements:

CMW Holding and its subsidiaries

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Net assets of CMW Holding	**405,180**	425,812
Proportion of the Group's ownership interest in CMW Holding	**45%**	45%
Carrying amount of the Group's interest in CMW Holding	**182,331**	191,615

As at 31 December 2018, carrying amount of the Group's associate, Fuzhou Aisa is HK$256,000 (2017: HK$274,000), which is not individually material.

16. DEFERRED TAXATION

The following are the major deferred tax assets recognised and movements thereon during both years:

	Difference between tax allowance and depreciation	Impairment losses on trade receivables	Total
	HK$'000	HK$'000	HK$'000
At 1 January 2017	47	115	162
Charged to profit or loss	(47)	(115)	(162)
At 31 December 2017 and 2018	–	–	–

16. DEFERRED TAXATION *(Continued)*

At 31 December 2018, the Group had unused tax losses of approximately HK$21,104,000 (2017: HK$15,954,000) available for offset against future profits. Tax losses of approximately HK$1,075,000 have expired during the year ended 31 December 2018. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. Pursuant to the relevant laws and regulations in the PRC, the unused tax losses at the end of the reporting period will expire on 31 December of the following years:

	2018 HK$'000	2017 HK$'000
2017	–	1,075
2019	1,511	1,511
2020	1,431	1,431
2021	422	422
2022	9,188	11,515
2023	8,552	–
	21,104	15,954

As at 31 December 2018, the Group has other deductible temporary differences of approximately HK$3,559,000 (2017: HK$4,793,000), which are mainly arising from impairment losses of trade receivables. No deferred tax asset has been recognised in relation to such other deductible temporary differences as it is not probable that taxable profit will be available for offset against which the deductible temporary differences can be utilised.

The EIT Law imposes withholding tax upon the distribution of profits earned by the Company's PRC subsidiaries on or after 1 January 2008 to their non-PRC shareholders. As at 31 December 2018, deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the Company's PRC subsidiaries amounting to approximately HK$38,875,000 (2017: HK$28,968,000), respectively as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

17. INVENTORIES

	2018 HK$'000	2017 HK$'000
Raw materials	34,285	31,589
Work in progress	5,541	5,475
Finished goods	5,451	4,504
	45,277	41,568

18. TRADE AND OTHER RECEIVABLES

	2018 **HK$'000**	2017 HK$'000
Trade receivables	**124,869**	107,143
Bills receivables	**5,878**	2,351
Less: Impairment losses on trade receivables	**(3,559)**	(4,042)
Total trade and bills receivables	**127,188**	105,452
Other receivables, deposits and prepayments	**6,693**	5,508
Total trade and other receivables	**133,881**	110,960

The Group allows credit period of 30 days to 90 days to its trade customers. The following is an aging analysis of trade receivables net of impairment losses presented based on the invoice date at the end of the reporting period. For customers who used bank bills to settle their trade receivables upon the expiry of the initial credit period, the aging analysis of bills receivables at the end of the reporting period was presented based on the date of issuance of the bills. All bills receivables will be matured within a period of 30 days to 180 days.

	Trade receivables		**Bills receivables**	
	2018 **HK$'000**	2017 HK$'000	**2018** **HK$'000**	2017 HK$'000
0–30 days	**44,267**	43,295	**251**	771
31–60 days	**26,351**	25,073	**–**	72
61–90 days	**25,368**	13,687	**34**	201
Over 90 days	**25,324**	21,046	**5,593**	1,307
	121,310	103,101	**5,878**	2,351

As at 31 December 2018, included in trade receivables, there were trade receivables due from subsidiaries of an associate of HK$19,882,000 (2017: HK$16,154,000).

As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$62,395,000 which are past due as at the reporting date. Out of the past due balances, HK$9,169,000 has been past due 90 days or more and is not considered as in default because there was no historical default of payments by the respective customers. The Group does not hold any collateral over these balances.

As at 31 December 2017, included in the Group's trade receivables balance are debtors with an aggregate carrying amount of HK$34,540,000 which were past due at the end of the reporting period for which the Group has not provided for impairment loss, as there has not been a significant change in credit quality and the amounts are still considered recoverable based on the historical experience. The Group does not hold any collateral over these balances.

Before accepting any new customer, the Group will assess the potential customer's credit quality and defines its credit limits. Credit sales are made to customers with a satisfactory trustworthy credit history. Credit limits attributed to customers are reviewed regularly. Trade receivables that are neither past due nor impaired have good track records with the Group.

18. TRADE AND OTHER RECEIVABLES *(Continued)*

Aging of trade receivables which are past due but not impaired:

	2017 HK$'000
61–90 days	13,494
Over 90 days	21,046
	34,540

No interest is charged on the trade receivables. The Group has policy regarding impairment losses on trade receivables which is based on the credit history of customers including default or delay in payments, settlement records, subsequent settlements and aging analysis of the trade receivables.

Movement in the impairment losses on trade receivables is as follows:

	2017 HK$'000
Balance at the beginning of the year	4,549
Impairment loss	666
Amounts written off as uncollectible	(422)
Reclassified to held for sale	(751)
Balance at the end of the year	4,042

As at 31 December 2017, included in the impairment losses on trade receivables are individually impaired trade receivables with an aggregate balance of HK$4,042,000, that are considered irrecoverable by the management after consideration on the credit quality of those individual customers, the ongoing relationship with the Group and the aging of these receivables. The Group does not hold any collateral over these balances.

Details of impairment assessment of trade and other receivables for the year ended 31 December 2018 are set out in note 29.

19. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short term bank deposits with an original maturity of three months or less. As at 31 December 2018, the bank balances carry interest at prevailing market rate of 0.01% per annum (2017: 0.01% per annum).

20. TRADE AND OTHER PAYABLES

	2018 HK$'000	2017 HK$'000
Trade payables	**28,366**	26,340
Accrued staff cost	**12,656**	10,601
Other payables and accruals	**13,404**	6,674
	54,426	43,615

As at 31 December 2017, included in trade payables, there were trade payables due to a subsidiary of an associate of HK$816,000.

The average credit period on purchases of goods is 90 days. The following is an aging analysis of trade payables presented based on the invoice date at the end of the reporting period:

	Trade payables	
	2018 HK$'000	2017 HK$'000
0–30 days	**22,237**	20,662
31–60 days	**3,962**	4,022
61–90 days	**848**	381
Over 90 days	**1,319**	1,275
	28,366	26,340

21. DERIVATIVE FINANCIAL INSTRUMENTS

On 3 December 2013, the Group entered into a share transfer agreement and a shareholder's agreement (the "Shareholder's Agreement") with Teknos Group Oy, an independent third party (the "Purchaser"). Pursuant to these agreements, the Group agreed to dispose of its 20% equity interest in Manfield Teknos (Changzhou) Chemical Company Limited ("Manfield Changzhou") to the Purchaser at a cash consideration of approximately RMB10 million (or equivalent to approximately HK$13 million) reducing the Group's equity interest in Manfield Changzhou to 60% upon completion. In addition, the Group has a right ("Put Option") to dispose of its further 40% equity interests in Manfield Changzhou at a consideration pre-described in the Shareholder's Agreement (the "Price") for a period of five years from the date of the Shareholder's Agreement. According to the Shareholder's Agreement, the Purchaser has a right ("Call Option") to acquire further 40% equity interests in Manfield Changzhou from the Group at the Price starting from the sixth years from the date of the Shareholder's Agreement (no definite period set out in the Shareholder's Agreement) if the Group does not exercise its right to dispose of its 40% equity interests in Manfield Changzhou during the first five years period.

At the date of further disposal of 40% equity interests in Manfield Changzhou, the Price is determined at the higher of (i) 40% of the net assets value of Manfield Changzhou plus a premium at the date of such further disposal or (ii) 6 times of earnings before interest, taxes, depreciation and amortisation ("EBITDA") for the period of twelve months immediately before the date of such further disposal; or (iii) RMB20,500,000.

21. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

During the year ended 31 December 2018, the Group issued a demand to the Purchaser for the exercise of the Put Option, but no positive response has been received from the Purchaser. In this circumstances, the Group submitted an arbitration application to Shanghai International Economic and Trade Arbitration Commission. In the opinion of the directors, the Group has exercised its right of the Put Option properly during the year ended 31 December 2018 and as the arbitration process is in its preliminary stage and in view of no positive response has been received from the Purchaser, the Group considered that the fair value of the Put Option as at the date of exercise was insignificant.

The Put Option and Call Option ("Options") are classified as derivative financial instruments at initial recognition.

	2018 **HK$'000**	2017 HK$'000
Options assets	**–**	433

The movement of the Options is set out below:

	HK$'000
At 1 January 2017	1,702
Change in fair value	(1,269)
At 31 December 2017	433
Change in fair value	(433)
At 31 December 2018	–

The fair value of Options at 31 December 2017 was determined by an independent valuer, Asset Appraisal Limited, using the Binominal Option Pricing Model. The inputs into the model were as follows:

	2017
The Price	RMB21,365,560
Equity value *(note a)*	RMB21,365,560
Expected volatility *(note b)*	23.97%
Time-to-maturity	0.92
Dividend yield	0%
Risk-free rate *(note c)*	2.72%

Notes:

(a) The equity value was determined with reference to net assets value of Manfield Changzhou plus a premium.

(b) Expected volatility for the Options is based on the historical daily price movements of comparable listed companies in the same industry. The expected volatility has been adjusted, based on management's best estimate, for the effects of non-marketability, exercise restrictions and behavioural considerations.

(c) The risk-free rate is determined by reference to the yield of China Government Bond with similar maturities.

22. DISPOSAL GROUP HELD FOR SALE

As at 31 December 2017, the Group has the right to dispose 40% equity interest in Manfield Changzhou within twelve months (details as set out in note 21). After this disposal, the Group's shareholding in Manfield Changzhou will be changed from 60% to 20%. The assets and liabilities attributable to Manfield Changzhou were classified as a disposal group held for sale and were presented separately in the consolidated statement of financial position. The net proceeds of disposal were expected to exceed the net carrying amount of the relevant assets and liabilities and accordingly, no impairment loss was recognised.

The major classes of assets and liabilities of Manfield Changzhou as at 31 December 2017, which were presented separately in the consolidated statement of financial position, are as follows:

	HK$'000
Property, plant and equipment	12,088
Prepaid lease payments	4,514
Deposits to purchase of property plant and equipment and prepaid lease payment	2,438
Inventories	8,575
Trade and other receivables	11,561
Bank balances and cash	1,001
Total assets classified as held for sale	40,177
Trade and other payables and total liabilities associated with assets classified as held for sale	11,260

Cumulative amount of HK$2,548,000 relating to the disposal group classified as held for sale has been recognised in other comprehensive income and included in equity.

As disclosed in note 21, during the year ended 31 December 2018, the Group issued a demand to the Purchaser for the exercise of the Put Option, but no positive response has been received from the Purchaser. The Group submitted an arbitration application to Shanghai International Economic and Trade Arbitration Commission and the directors of the Company do not expect the disposal of Manfield Changzhou will be completed within one year as at 31 December 2018. As a result, the assets and liabilities attributable to Manfield Changzhou were ceased to be classified as held for sale as at 31 December 2018. The effect of the cessation of such classification has been reflected in profit or loss.

23. SHARE CAPITAL

	Number of shares	Share capital HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2017, 31 December 2017 and 2018	10,000,000,000	100,000
Issued:		
At 1 January 2017, 31 December 2017 and 2018	600,000,000	6,000

24. COMMITMENTS

(a) Capital commitments

	2018 HK$'000	2017 HK$'000
Capital expenditure in respect of the acquisition of:		
Property, plant and equipment contracted for but not provided in the consolidated financial statements	**7,812**	2,357

(b) Other commitments

	2018 HK$'000	2017 HK$'000
Proposed purchase of land contracted for but not provided in the consolidated financial statements *(note)*	**8,345**	8,747

Note: On 10 September 2012, the Group entered into a sales and purchase agreement with a company owned by Mr. Yuen Shu Wah to acquire two pieces of land located in the PRC at an aggregate cash consideration of RMB3,367,000 (equivalent to HK$3,843,000). Deposit of RMB673,000 (equivalent to HK$831,000) was paid during the year ended 31 December 2012. The remaining balance of RMB2,694,000 was included as commitment as at 31 December 2017 and 2018, equivalent to HK$3,223,000 and HK$3,075,000 respectively. The purchase of these two pieces of land had not yet been completed up to 31 December 2018.

On 22 May 2015, the Group entered into a sales and purchase agreement with the People's Government of Luoyang Town, Wujin District, Changzhou City to acquire a piece of land located in the PRC at a cash consideration of RMB6,579,000 (equivalent to HK$7,509,000). Deposit of RMB1,961,000 (equivalent to HK$2,340,000) was paid with the remaining balance of RMB4,618,000 was included as commitment as at 31 December 2017 and 2018, equivalent to HK$5,524,000 and HK$5,270,000 respectively. The purchase of the land had not yet been completed up to 31 December 2018. Deposit of RMB1,961,000 (equivalent to HK$2,340,000) was included as assets classified as held for sale as at 31 December 2017.

(c) Proposed acquisition of Mao Hong Information Technology Holding Limited

On 2 March 2019, the Group as purchaser, Mao Hong Holding Limited as vendor and Mr. Chen Liang and Ms. Chen Zi Jun (collectively, the "Guarantors") entered into the sale and purchase agreement (the "Sale and Purchase Agreement"), pursuant to which, subject to and upon the terms and conditions of the Sale and Purchase Agreement, the Group shall purchase 51% of the issued share capital (the "Sale Shares") of Mao Hong Information Technology Holding Limited (the "Target Company") free from all encumbrances with effect from the completion of the sale and purchase of the Sale Shares (the "Acquisition"). The consideration for the Acquisition shall be approximately HK$790 million, subject to adjustment, of which HK$20 million shall be paid in cash and the remaining shall be paid by way of issue of promissory notes. Details of the Acquisition were disclosed in the Company's announcement dated 4 March 2019.

The Acquisition has not yet completed as at the date of this report.

25. OPERATING LEASE COMMITMENTS

The Group as lessor

At the end of the reporting period, the Group had contracted with subsidiaries of an associate for the following future minimum lease payments under non-cancellable operating leases in respect of rented office and factory premises which fall due as follows:

	2018 HK$'000	2017 HK$'000
Within one year	**1,547**	1,809
In the second to fifth year inclusive	**1,350**	3,112
	2,897	4,921

Lease was negotiated and monthly rentals were fixed for term of one to two years.

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments in respect of office and factory premises under non-cancellable operating leases which fall due as follows:

	2018 HK$'000	2017 HK$'000
Within one year	**2,080**	534
In the second to fifth year inclusive	**5,137**	–
	7,217	534

Leases are negotiated and monthly rentals are fixed for term of one to two years.

26. RELATED PARTY TRANSACTIONS

During the year, saved as disclosed elsewhere in the consolidated financial statements, the Group also had the following transactions with its related parties:

Relationship	**Nature of transactions**	**2018 HK$'000**	2017 HK$'000
Subsidiaries of an associate	Sales of goods	**117,189**	105,726
	Management fee income	**7,517**	8,304
	Rental income	**1,709**	1,657
	Transportation fee income	**1,582**	1,446
	Purchase of goods	**3,299**	5,684
	Royalty fee income	**6,230**	3,708
	Dividend received	**9,000**	13,500
A subsidiary of a non-controlling shareholder	Rental income	**715**	693
	Sales of goods	**14,898**	9,522
	Purchase of goods	**319**	105
A non-controlling shareholder	Purchase of goods	**576**	527

26. RELATED PARTY TRANSACTIONS *(Continued)*

Compensation of key management personnel

The remuneration of the executive directors, who represent the key management personnel of the Group, during the year were as follows:

	2018 HK$'000	2017 HK$'000
Short-term employee benefits	**4,753**	4,172
Post-employment benefits	**375**	369
	5,128	4,541

27. RETIREMENT BENEFITS SCHEMES

The Group participates in defined contribution schemes which are registered under the ORSO Scheme and the MPF Scheme established under the MPF Scheme Ordinance in December 2000. The assets of the schemes are held separately from those of the Group in funds under the control of trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were offered a choice of staying within the ORSO Scheme or switching to the MPF Scheme, whereas all new employees joining the Group on or after 1 December 2000 are required to join the MPF Scheme.

For members of the MPF Scheme, the Group and the employees contributes 5% of relevant payroll costs to the scheme. The maximum monthly contribution by the Group is limited to HK$1,500 per employee.

The ORSO Scheme is funded by monthly contributions by the Group at 7% of the employee's basic salary.

There are no forfeited contributions at the end of the reporting period which arose upon employees leaving the ORSO Scheme and which was available to reduce the contributions payable in future years.

Employees of the Company's PRC subsidiaries are required to participate in a defined contribution retirement scheme operated by the local municipal government. The PRC subsidiaries are required to contribute 10% of the employee payroll to such scheme to fund the retirement benefits of the employees.

The pension scheme contributions for the directors and employees, which have been dealt with in the consolidated statement of profit or loss for the year ended 31 December 2018 are HK$8,286,000 (2017: HK$8,195,000). No forfeited contributions have been applied to reduce the retirement benefits scheme contributions for the year.

28. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt balance and equity balance. Equity balance consists of equity attributable to owners of the Company, comprising issued share capital and reserves.

The management of the Group reviews the capital structure on an on-going annual basis. As part of this review, the management of the Group considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management of the Group, the Group will balance its overall capital structure through the payment of dividends, new share issues and share repurchase as well as the issue of new debt.

29. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2018 HK$'000	2017 HK$'000
Financial assets		
Financial assets at fair value through profit or loss		
— Derivative financial instruments	–	433
Financial assets at amortised cost	309,694	–
Loans and receivables (including cash and cash equivalents)	–	310,931
Financial liabilities		
Amortised costs	52,996	40,503

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, bank balances and cash, trade and other payables, and derivative financial instruments. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below.

(i) Market risk

Currency risk

Several subsidiaries of the Company have foreign currency transactions, which expose the Group to foreign currency risk.

At the end of the reporting period, the carrying amounts of the relevant group entities' foreign currency denominated monetary assets recognised in the consolidated financial statements are as follows:

	2018 HK$'000	2017 HK$'000
United States dollars ("US$")	20	95

The carrying amounts of foreign currency denominated intra-group balances which have been eliminated in the consolidated financial statements of which the functional currency of the relevant entity is RMB at the end of the reporting period are as follows:

	Amounts due from group entities		Amounts due to group entities	
	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000
HK$	11,971	34,403	34,239	35,980

29. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

(i) Market risk *(Continued)*

Currency risk (Continued)

Sensitivity analysis

As HK$ is pegged with US$, the Group's currency risk in relation to foreign currency denominated monetary liabilities is expected to be minimal. Therefore, the following sensitivity analysis does not include the effect between US$ and HK$.

The following sensitivity analysis includes only intra-group HK$ balances and adjusts its translation at the period end for a 10% change in HK$ rates against RMB. A positive number below indicates a increase in the post-tax profit for the year where HK$ weakening 10% against RMB. For a 10% strengthen of HK$ against RMB there would be an equal and opposite impact on the result for the year.

	2018 **HK$'000**	2017 HK$'000
Increase in post-tax profit for the year		
HK$	**1,670**	118

Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to the Group's bank balances. The Group currently does not have interest rate hedging policy. However, management of the Group closely monitors its exposure to future cash flow interest rate risk as a result of change on market interest rate and will consider hedging changes in market interest rates should the need arise.

No sensitivity analysis is presented in the consolidated financial statements, as in the opinion of the management of the Group, no significant change in the bank interest rate is expected.

Other price risk

The Group was exposed to other price risk in respect of the derivative financial instruments (details set out in note 21) in relation to the disposal of further 40% equity interests in Manfield Changzhou. The Group has no such exposure as at 31 December 2018.

29. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

(ii) Credit risk and impairment assessment

The Group's credit risk is primarily attributable to trade receivables, other receivables and deposits, bills receivables and bank balances. The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position.

Trade receivables

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed annually. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade balances individually or based on provision matrix and for the other receivables, the ECL on these assets are assessed individually for debtors with significant balances. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has concentration of credit risk as 16.4% (2017: 15.7%) and 38.5% (2017:31.0%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

Other receivables, deposits and bills receivables

Management of the Group makes periodic collective assessment as well as individual assessment on the recoverability of other receivables and bills receivables based on historical settlement records, past experience, and also available reasonable and supportive forward-looking information starting from 1 January 2018. The management of the Group believes that there is no material credit risk inherent in the Group's outstanding balance of other receivables and deposits and bills receivables.

Bank balances

The credit risks on bank balances are limited because the counterparties are banks/financial institutions with high credit ratings assigned by international credit-rating agencies.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 91.0% (2017: 91.1%) of the total trade receivables as at 31 December 2018.

29. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

(ii) Credit risk and impairment assessment *(Continued)*

(a) The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables	Other financial assets/other items
A–B	The counterparty has a low risk of default and does not have any past-due amounts or repays after due date but usually settle after due date for not more than 90 days	Lifetime ECL — not credit-impaired	12-month ECL
C–D	Debtor frequently repays after due dates but has no default history	Lifetime ECL — not credit-impaired	12-month ECL
E	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL — not credit-impaired	Lifetime ECL — not credit-impaired
Written-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

29. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

(ii) Credit risk and impairment assessment *(Continued)*

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

2018	Note	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amount HK$'000
Financial assets at amortised costs					
Trade receivables	18	N/A	(Note 2)	Lifetime ECL (provision matrix)	124,869
Other receivables and deposits	18	N/A	(Note 1)	12-month ECL	2,260
Bills receivables	18	N/A	(Note 1)	12-month ECL	5,878
Bank balances	19	A1-Ba1	N/A	12-month ECL	180,246

Notes:

1. For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition.

	Past due HK$'000	Not past due/ No fixed repayment terms HK$'000	Total HK$'000
Other receivables	–	2,260	2,260
Bills receivables	–	5,878	5,878

Based on the assessment of the management, the ECL on other receivables and deposits and bill receivables is insignificant.

2. For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances or credit-impaired, the Group determines the expected credit losses on these items by using a provision matrix, grouped by internal credit rating.

29. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

(ii) Credit risk and impairment assessment *(Continued)*

Provision matrix — internal credit rating

As part of the Group's credit risk management, the Group applies internal credit rating for its customers in relation to its manufacturing and trading of liquid coatings and power coatings operation. The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix as at 31 December 2018 within lifetime ECL (not credit impaired).

Gross carrying amount

Internal credit rating	Average loss rate	Trade receivables HK$'000
Grades A–B	2.00%	118,005
Grades C–D	7.43%	5,752
Grade E	69.48%	1,112
		124,869

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the year ended 31 December 2018, the Group provided HK$1,541,000 impairment allowance for trade receivables, based on the provision matrix.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL (not credit-impaired) HK$'000
As at 31 December 2017 under HKAS 39	4,793
Adjustment upon application of HKFRS 9	–
As at 1 January 2018 — As restated	4,793
Changes due to financial instruments recognised as at 1 January:	
— Impairment losses recognised	1,541
— Written off	(2,567)
Exchange adjustments	(208)
As at 31 December 2018	3,559

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. Trade receivables of HK$2,567,000 had been written off during the year ended 31 December 2018.

29. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

(iii) Liquidity risk

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigates the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities which has been drawn up based on the undiscounted cash flows of the non-derivative financial liabilities based on the earliest date on which the Group can be required to pay.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of reporting period.

	Effective interest rate	On demand or less than 1 month	Within 1 year	Total undiscounted cash flow	Total carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000
As at 31 December 2018					
Non-derivative financial liabilities					
Trade and other payables	**–**	**46,857**	**6,139**	**52,996**	**52,996**
As at 31 December 2017					
Non-derivative financial liabilities					
Trade and other payables	–	34,825	5,678	40,503	40,503

29. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

The Group's financial assets and financial liabilities are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of financial assets and financial liabilities are determined (in particular, the valuation techniques and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements are observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets/ financial liabilities	Fair value as at 31 December 2017	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs
Options classified as derivative financial instruments	Assets – HK$433,000	Level 3	Binominal Option Pricing Model The key inputs are risk-free interest rate, equity value of Manfield Changzhou, expected volatility, dividend yield and the Price.	Equity value of Manfield Changzhou, the Price and expected volatility

There were no transfers between Level 1 and 2 during both years.

29. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis *(Continued)*

Reconciliation of Level 3 fair value measurements of derivative financial instruments

	HK$'000
At 1 January 2017	1,702
Change in fair value	(1,269)
At 31 December 2017	433
Change in fair value	(433)
At 31 December 2018	–

Fair value measurements and valuation processes

In estimating the fair value of an asset or a liability, where Level 1 inputs are not available, the management of the Group work closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

The qualified external valuers were engaged to perform the valuations of the options required for financial reporting purposes, including Level 3 fair value measurements of derivative financial instruments. Information about the valuation techniques and inputs used in determining the fair value of derivative financial instruments are disclosed above and in note 21.

(d) Fair value of the Group's financial assets and financial liabilities that are measured at amortised cost

The management of the Group estimates the fair value of its financial assets and financial liabilities measured at amortised cost using discounted cash flows analysis. The management of the Group considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

30. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000
Non-current assets		
Unlisted investment in a subsidiary	**130,096**	124,556
Amounts due from subsidiaries	**54,108**	53,498
	184,204	178,054
Current assets		
Other receivables	**4**	145
Bank balances and cash	**81,557**	85,087
	81,561	85,232
Current liability		
Other payables	**4,425**	720
Net current assets	**77,136**	84,512
Total assets less current liability	**261,340**	262,566
Capital and reserves		
Share capital	**6,000**	6,000
Reserves	**255,340**	256,566
Total equity	**261,340**	262,566

Movement in reserves	**Share premium** HK$'000	**Other reserve** HK$'000 *(note)*	**Retained profits** HK$'000	**Total** HK$'000
At 1 January 2017	133,883	118,994	275	253,152
Profit and total comprehensive income for the year	–	–	18,414	18,414
Dividend paid	–	–	(15,000)	(15,000)
At 31 December 2017	133,883	118,994	3,689	256,566
Profit and total comprehensive income for the year	–	–	25,774	25,774
Dividend paid	(3,077)	–	(23,923)	(27,000)
At 31 December 2018	130,806	118,994	5,540	255,340

Note: The other reserve was resulted from group restructuring carried out in prior years.

31. SUBSEQUENT EVENT

As set out in note 24, on 2 March 2019, the Group entered into the Sale and Purchase Agreement pursuant to which, subject to and upon the terms and conditions of the Sale and Purchase Agreement, the Group shall purchase 51% of the issued share capital of Mao Hong Information Technology Holding Limited. Details of the Acquisition were disclosed in the Company's announcement dated 4 March 2019. The Acquisition has not yet completed as at the date of this report.

32. PARTICULARS OF SUBSIDIARIES

Name of subsidiaries	Place and date of incorporation/ establishment	Country/ place of operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group as at 2018	2017	Principal activities
Rookwood Investments Limited	BVI 18 October 2000	Hong Kong	US$10,000	**100%**	100%	Investment holding
Manfield Coatings Company Limited	Hong Kong 6 June 1986	Hong Kong	HK$1,000 Ordinary shares HK$32,000,000 Non-voting class A shares *(note i)*	**100%**	100%	Investment holding and trading of coatings
Manfield Chemical Limited	Hong Kong 15 August 1989	Hong Kong	HK$10,000	**100%**	100%	Investment holding
Manfield Chemical Investment Limited	Hong Kong 4 October 2017	Hong Kong	HK$1	**100%**	100%	Not yet commenced business
Springfield Chemical Company Limited	Hong Kong 11 March 2005	Hong Kong	HK$1	**100%**	100%	Investment holding
深圳松輝化工有限公司 Shenzhen Pinefield Chemical Enterprises Company Ltd *(notes ii and iv)*	PRC 19 June 1990	PRC	US$5,500,000 Paid-up registered capital	**100%**	100%	Manufacturing of coatings
萬輝泰克諾斯(常州)化工有限公司 Manfield Teknos (Changzhou) Chemical Company Limited *(notes ii and iv)*	PRC 17 January 2007	PRC	HK$55,000,000 Paid-up registered capital	**60%**	60%	Manufacturing of coatings
萬輝(廣州)高新材料有限公司 Manfield (Guangzhou) Innovative Materials Limited *(note ii)*	PRC 12 March 2009	PRC	RMB100,000,000 Paid-up registered capital	**100%**	100%	Manufacturing of coatings
蘇州科思特塗料有限公司 Suzhou Kesite Coatings Company Limited *(notes iii and iv)*	PRC 10 June 2010	PRC	RMB3,000,000 Paid-up registered capital	**100%**	100%	Trading of coatings
福州艾薩商貿有限責任公司 Fuzhou Aisa Trading Company Limited *(notes iii and iv)*	PRC 4 April 2014	PRC	RMB1,000,000 Paid-up registered capital	**65%**	65%	Not yet commenced business

Notes:

(i) The non-voting class A shares practically carry no rights to dividends, no rights to attend or vote at general meetings and no rights to receive any surplus assets in a return of capital in a winding-up.

(ii) The companies are registered in the form of wholly owned foreign enterprises.

(iii) The companies are registered in the form of domestic limited liability company.

(iv) English translated name is for identification only.

None of the subsidiaries has issued any debt securities at the end of the year.

32. PARTICULARS OF SUBSIDIARIES *(Continued)*

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiaries	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Loss allocated to non-controlling interests		Accumulated non-controlling interests	
		2018	2017	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
Manfield Changzhou	PRC	**40%**	40%	**(1,186)**	(2,872)	**12,065**	13,846
Individually immaterial subsidiary with non-controlling interests	N/A	**N/A**	N/A	**(9)**	(42)	**265**	287
				(1,195)	(2,914)	**12,330**	14,133

Summarised financial information in respect of Manfield Changzhou that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations:

Manfield Changzhou	**2018 HK$'000**	2017 HK$'000
As at 31 December		
Current assets	**22,844**	27,235
Non-current assets	**17,817**	18,926
Current liabilities	**10,304**	11,351
Total equity	**30,357**	34,810
For the year ended 31 December		
Revenue	**42,139**	35,112
Loss for the year	**(2,965)**	(7,181)
Loss for the year attributable to:		
Owners of the Company	**(1,779)**	(4,309)
Non-controlling interests	**(1,186)**	(2,872)
	(2,965)	(7,181)
Other comprehensive (expense) income for the year attributable to:		
Owners of the Company	**(893)**	1,488
Non-controlling interests	**(595)**	991
	(1,488)	2,479

Financial Summary

	For the year ended 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**426,346**	374,161	396,172	331,572	328,047
Profit (loss) for the year attributable to					
Owners of the Company	**8,563**	6,105	41,603	44,305	41,431
Non-controlling interests	**(1,195)**	(2,914)	404	(360)	584
	7,368	3,191	42,007	43,945	42,015

	As at 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets and liabilities					
Total assets	**670,234**	710,611	687,025	684,209	573,522
Total liabilities	**(56,254)**	(55,249)	(49,755)	(42,381)	(76,891)
	613,980	655,362	637,270	641,828	496,631
Equity attributable to owners of the Company	**601,650**	641,229	621,234	625,113	478,523
Non-controlling interests	**12,330**	14,133	16,036	16,715	18,108
	613,980	655,362	637,270	641,828	496,631

The financial summary is presented without restating comparative information upon application of HKFRS 9 and HKFRS 15.