中漆集團有限公司
CPM GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1932)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2022 AND PROPOSED AMENDMENTS TO THE EXISTING AMENDED AND RESTATED ARTICLES OF ASSOCIATION

FINANCIAL HIGHLIGHTS

Results	**Year ended 31 December 2022 HK$'000**	2021 HK$'000 (Restated)	Change %
Revenue	**643,049**	842,519	–23.7
Gross profit	**142,528**	170,720	–16.5
Gross profit margin	**22.2%**	20.3%	9.4
Loss attributable to shareholders of the Company	**(98,084)**	(59,533)	64.8
Loss per share (HK cents)			
Basic and diluted	**(9.81)**	(5.95)	64.9

Financial Position	**As at 31 December 2022 HK$'000**	As at 31 December 2021 HK$'000	Change %
Cash and cash equivalents and pledged deposits	**189,723**	238,402	–20.4
Bank borrowings	**237,257**	216,077	9.8
Gearing ratio	**45.8%**	40.8%	12.3
Net asset value per share (HK$)	**0.52**	0.53	–1.9

The board (the "Board") of directors (the "Directors") of CPM Group Limited (the "Company") announces the consolidated annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2022 together with comparative amounts for the corresponding year in 2021 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2022

	Notes	**2022** **HK$'000**	2021 HK$'000 (Restated)
REVENUE	4	**643,049**	842,519
Cost of sales		**(500,521)**	(671,799)
Gross profit		**142,528**	170,720
Other income and gains, net	4	**40,641**	7,714
Selling and distribution expenses		**(90,455)**	(107,251)
Administrative expenses		**(123,955)**	(106,029)
Other expenses, net		**(59,782)**	(22,037)
Finance costs	5	**(7,433)**	(4,342)
LOSS BEFORE TAX	6	**(98,456)**	(61,225)
Income tax credit/(expense)	7	**(15)**	1,780
LOSS FOR THE YEAR		**(98,471)**	(59,445)
ATTRIBUTABLE TO:			
Owners of the parent		**(98,084)**	(59,533)
Non-controlling interest		**(387)**	88
		(98,471)	(59,445)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	8	**HK (9.81) cents**	HK (5.95) cents

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2022

	2022	2021
	HK$'000	HK$'000
LOSS FOR THE YEAR	**(98,471)**	(59,445)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(49,364)**	18,674
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:		
Remeasurement of net pension scheme assets	**(1,438)**	132
Gain on property revaluation	**154,698**	–
Income tax effect	**(23,204)**	–
	131,494	–
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	**130,056**	132
OTHER COMPREHENSIVE INCOME FOR THE YEAR	**80,692**	18,806
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(17,779)**	(40,639)
ATTRIBUTABLE TO:		
Owners of the parent	**(17,120)**	(40,819)
Non-controlling interest	**(659)**	180
	(17,779)	(40,639)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Notes	**2022** **HK$'000**	2021 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	**151,090**	191,118
Investment properties	11	**240,941**	81,703
Right-of-use assets		**81,270**	80,442
Equity investment designated at fair value through other comprehensive income		**300**	300
Deposits for purchases of property, plant and equipment		**4,308**	4,850
Deposits		**500**	282
Net pension scheme assets		**–**	5,548
Deferred tax assets		**14,220**	16,537
Total non-current assets		**492,629**	380,780
CURRENT ASSETS			
Inventories		**43,124**	81,077
Trade and bills receivables	12	**369,378**	440,153
Prepayments, deposits and other receivables		**57,978**	63,068
Pledged deposits		**42,202**	42,308
Cash and cash equivalents		**147,521**	196,094
Total current assets		**660,203**	822,700
CURRENT LIABILITIES			
Trade and bills payables	13	**260,778**	352,404
Other payables and accruals		**76,980**	73,351
Interest-bearing bank borrowings		**237,257**	216,077
Lease liabilities		**3,552**	2,762
Tax payable		**9,387**	10,242
Total current liabilities		**587,954**	654,836
NET CURRENT ASSETS		**72,249**	167,864
TOTAL ASSETS LESS CURRENT LIABILITIES		**564,878**	548,644

	2022	2021
	HK$'000	HK$'000
NON-CURRENT LIABILITIES		
Lease liabilities	**5,196**	710
Deferred tax liabilities	**35,621**	13,818
Deferred income	**634**	1,002
Deposit received	**2,482**	–
Total non-current liabilities	**43,933**	15,530
Net assets	**520,945**	533,114
EQUITY		
Equity attributable to owners of the parent		
Issued capital	**100,000**	100,000
Reserves	**418,066**	429,576
	518,066	529,576
Non-controlling interest	**2,879**	3,538
Total equity	**520,945**	533,114

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

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

During the year, the Group was engaged in the following principal activities:

- manufacture and sale of paint and coating products; and

- property investment (including the investments in properties for rental income).

The Group's property investment strategy aims to strike a balance between short-term capital requirements and long-term financial stability. While the Group strategically retains selected properties for stable, recurring rental income and future development plans, it may also sell certain properties to fund business operations and expansion plans. This approach enables the Group to finance its operations mainly through rental income while benefiting from additional capital generated by property sales. The Group also has the potential to benefit from capital appreciation on its investment properties in prime locations over the long term. Consequently, the Directors has redesignated the property investment business as one of the Group's principal activities, with no other significant changes in the nature of its principal activities.

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

2.1 BASIS OF PREPARATION

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 3	*Reference to the Conceptual Framework*
Amendments to HKAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*
Amendments to HKAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*
Annual Improvements to HKFRSs 2018-2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

The nature and the impact of the revised HKFRSs are described below:

(a) Amendments to HKFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* (the "Conceptual Framework") issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no business combinations that occurred during the year, the amendments did not have any impact on the financial position and performance of the Group.

(b) Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items as determined by HKAS 2 Inventories, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2022. Since there was no sale of items produced prior to the property, plant and equipment being available for use, the amendments did not have any impact on the financial position or performance of the Group.

(c) Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g. direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g. an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.

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

- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively from 1 January 2022. As there was no modification or exchange of the Group's financial liabilities during the year, the amendment did not have any impact on the financial position or performance of the Group.

3. OPERATING SEGMENT INFORMATION

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

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

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

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

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

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

Year ended 31 December 2022	Paint products HK$'000	Property investment HK$'000	Total HK$'000
Segment revenue			
Sales to external customers	**639,134**	**3,915**	**643,049**
Other revenue and gains, net	**36,403**	**2,467**	**38,870**
	675,537	**6,382**	**681,919**
Reconciliation:			
Elimination of intersegment sales			**–**
Total			**681,919**
Segment results	**(86,366)**	**4,269**	**(82,097)**
Reconciliation:			
Elimination of intersegment results			**–**
Interest income			**1,771**
Finance costs			**(7,433)**
Corporate and other unallocated expenses			**(10,697)**
Loss before tax			**(98,456)**

Year ended 31 December 2022	Paint products HK$'000	Property investment HK$'000	Total HK$'000
Segment assets	**894,058**	**246,151**	**1,140,209**
Reconciliation:			
Elimination of intersegment receivables			**–**
Corporate and other unallocated assets			**12,623**
Total assets			**1,152,832**
Segment liabilities	**594,580**	**35,354**	**629,934**
Reconciliation:			
Elimination of intersegment payables			**–**
Corporate and other unallocated liabilities			**1,953**
Total liabilities			**631,887**
Other segment information			
Depreciation on property, plant and equipment	**25,706**	**–**	**25,706**
Depreciation on right-of-use assets	**7,170**	**–**	**7,170**
Capital expenditure	**21,736**	**–**	**21,736**
Fair value gain on investment properties, net	**–**	**(593)**	**(593)**
Provision for impairment of trade and bills receivables, net	**16,308**	**–**	**16,308**
Trade receivables written off as uncollectible	**522**	**–**	**522**
Provision for impairment of property, plant and equipment	**1,855**	**–**	**1,855**
Provision for impairment of right-of-use assets	**6,145**	**–**	**6,145**
Reversal of provision of inventories to net realisable value, net	**(135)**	**–**	**(135)**

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

Year ended 31 December 2021	Paint products HK$'000 (Restated)	Property investment HK$'000 (Restated)	Total HK$'000 (Restated)
Segment revenue			
Sales to external customers	838,066	4,453	842,519
Other revenue and gains, net	5,963	139	6,102
	844,029	4,592	848,621
Reconciliation:			
Elimination of intersegment sales			–
Total			848,621
Segment results	(55,604)	1,910	(53,694)
Reconciliation:			
Elimination of intersegment results			–
Interest income			1,612
Finance costs			(4,342)
Corporate and other unallocated expenses			(4,801)
Loss before tax			(61,225)
Segment assets	1,101,475	84,438	1,185,913
Reconciliation:			
Elimination of intersegment receivables			–
Corporate and other unallocated assets			17,567
Total assets			1,203,480
Segment liabilities	658,651	9,686	668,337
Reconciliation:			
Elimination of intersegment payables			–
Corporate and other unallocated liabilities			2,029
Total liabilities			670,366

Year ended 31 December 2021	Paint products HK$'000 (Restated)	Property investment HK$'000 (Restated)	Total HK$'000 (Restated)
Other segment information			
Depreciation on property, plant and equipment	24,921	–	24,921
Depreciation on right-of-use assets	6,745	–	6,745
Capital expenditure	18,228	–	18,228*
Fair value loss on investment properties, net	–	242	242
Provision for impairment of trade and bills receivables, net	4,566	–	4,566
Reversal of provision of inventories to net realisable value, net	(244)	–	(244)

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

Geographical information

(a) Revenue from external customers

	2022 HK$'000	2021 HK$'000 (Restated)
Hong Kong	**68,493**	67,075
Mainland China	**574,556**	775,444
	643,049	842,519

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

(b) Non-current assets

	2022 HK$'000	2021 HK$'000
Hong Kong	**989**	2,769
Mainland China	**476,620**	355,344
	477,609	358,113

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

Information about a major customer

During the years ended 31 December 2022 and 2021, no revenue from any single customer accounted for 10% or more of the total revenue of the Group.

4. REVENUE, OTHER INCOME AND GAINS, NET

An analysis of revenue is as follows:

	2022	2021
	HK$'000	HK$'000
		(Restated)
Revenue from contracts with customers		
Sale of paint products	**639,134**	838,066
Revenue from other sources		
Gross rental income from investment properties	**3,915**	4,453
	643,049	842,519

Disaggregated revenue information

	2022	2021
	HK$'000	HK$'000
Type of paint and coating products sold		
Industrial paint and coating products	**227,764**	301,204
Architectural paint and coating products	**273,717**	404,887
General paint and coating and ancillary products	**137,653**	131,975
	639,134	838,066
Timing of revenue recognition		
Goods transferred at a point in time	**639,134**	838,066

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

	2022	2021
	HK$'000	HK$'000
		(Restated)
Other income and gains, net		
Bank interest income	**1,771**	1,500
Fair value gain on investment properties, net	**593**	–
Foreign exchange difference, net	**542**	–
Government grants*	**1,939**	3,955
Government subsidies#	**32,384**	–
Gain on disposal of items of property, plant and equipment, net	**537**	116
Interest income from structured deposits	**–**	112
Recognition of deferred income	**299**	308
Others	**2,576**	1,723
	40,641	7,714

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

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

5. FINANCE COSTS

An analysis of finance costs is as follows:

	2022	2021
	HK$'000	HK$'000
Interest on bank and other borrowings	**7,109**	4,244
Interest expense on lease liabilities	**324**	98
	7,433	4,342

6. LOSS BEFORE TAX

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

	2022	2021
	HK$'000	HK$'000
Cost of inventories sold	**500,521**	671,799
Depreciation of property, plant and equipment	**25,706**	24,921
Depreciation of right-of-use assets	**7,170**	6,745
Equity-settled share option expenses	**5,610**	–
Fair value loss/(gain) on investment properties, net*	**(593)**	242
Foreign exchange differences, net*	**(542)**	283
Gain on disposal of items of property, plant and equipment, net*	**(537)**	(116)
Provision for impairment of property, plant and equipment*	**1,855**	–
Provision for impairment of right-of-use assets*	**6,145**	–
Provision for impairment of trade and bills receivables, net*	**16,308**	4,566
Trade receivables written-off as uncollectible*	**522**	–
Reversal of provision of inventories to net realisable value, net@	**(135)**	(244)
Staff termination cost*	**21,581**	2,702
Write-off of items of property, plant and equipment*	**1,354**	295

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

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

7. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2021: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

All subsidiaries of the Group established in Mainland China are subject to the PRC corporate income tax at a standard rate of 25% (2021: 25%) during the year, except for a subsidiary of the Group which qualified as a PRC High and New Technology Enterprise in Mainland China and a lower PRC corporate income tax rate of 15% (2021: 15%) had been applied during the year.

	2022	2021
	HK$'000	HK$'000
Current – Elsewhere		
Charge for the year	**194**	995
Overprovision in prior year	**(284)**	–
Deferred	**105**	(2,775)
Total tax expense/(credit) for the year	**15**	(1,780)

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

The calculation of basic and diluted loss per share amounts is based on the loss for the year attributable to ordinary equity holders of the parent of HK$98,084,000 (2021: HK$59,533,000) and the weighted average number of ordinary shares of 1,000,000,000 (2021: 1,000,000,000) in issue during the year.

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

9. DIVIDEND

The Directors have resolved not to declare a final dividend for the year ended 31 December 2022 (2021: Nil).

10. PROPERTY, PLANT AND EQUIPMENT

For the year ended 31 December 2022, the Group acquired items of property, plant and equipment at costs of HK$10,153,000 (31 December 2021: HK$11,577,000) and transferred an industrial property to an investment property at a fair value of HK$160,710,000 on 21 October 2022 (31 December 2021: Nil).

11. INVESTMENT PROPERTIES

	2022	2021
	HK$'000	HK$'000
Carrying amount at 1 January	**81,703**	79,830
Fair value gain/(loss), net	**593**	(242)
Transfer from an owner-occupied property	**160,710**	–
Exchange realignment	**(2,065)**	2,115
Carrying amount at 31 December	**240,941**	81,703

The Group's investment properties were revalued on 31 December 2022 based on a valuation performed by BMI Appraisals Limited, an independent professionally qualified valuer, at HK$240,941,000 (31 December 2021: HK$81,703,000). Fair values of the Group's investment properties are generally derived by using the income capitalisation method.

12. TRADE AND BILLS RECEIVABLES

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

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

	2022	2021
	HK$'000	HK$'000
Within three months	**147,698**	195,459
Over three months and within six months	**72,445**	117,589
Over six months	**149,235**	127,105
	369,378	440,153

13. TRADE AND BILLS PAYABLES

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

	2022	2021
	HK$'000	HK$'000
Within three months	**122,567**	328,097
Over three months and within six months	**76,699**	24,265
Over six months	**61,512**	42
	260,778	352,404

The trade and bills payables are unsecured, non-interest-bearing and are normally settled within two months. As at 31 December 2022, bills payable with an aggregate carrying amount of HK$134,656,000 (31 December 2021: HK$136,543,000) were secured by time deposits of HK$40,397,000 (31 December 2021: HK$40,963,000).

14. SHARE OPTION SCHEME

On 15 June 2022, 80,000,000 share options to subscribe for a total of 80,000,000 new shares of the Company of HK$0.10 each were granted to three Directors and five employees of the Group under the share option scheme (the "Scheme") adopted by the Company on 4 June 2020 (the "Adoption Date"). The Scheme was adopted by the Company for the purpose of providing incentives to attract and retain employees of the Group, as well as other eligible persons (including, but not limited to, executive Directors, non-executive Directors and independent non-executive Directors, any supplier of goods or services to any member and any customer of the Group) who made contributions to the Group. Unless terminated by resolution in a general meeting or by the Board, the Scheme shall be valid and effective for a period of 10 years commencing on the Adoption Date, after which period no further share options will be issued but in all other respects the provisions of the Scheme shall remain in full force and effect.

The equity-settled share options granted on 15 June 2022 vest over a period of 4 years from the date of grant, of which 50% of the share options vested immediately on the date of grant, 20% of the share options shall vest on 14 June 2023, 10% of the share options shall vest on 14 June 2024, 10% of the share options shall vest on 14 June 2025 and 10% of the share options shall vest on 14 June 2026. These share options are exercisable at HK$0.335 per share and must be exercised within 5 years from the date of grant, and if not so exercised, the share options shall lapse.

The following share options were outstanding under the Scheme during the year:

	2022	
	Weighted average exercise price HK$ per share	**Number of options '000**
At 1 January		–
Granted during the year	**0.335**	**80,000**
At 31 December	**0.335**	**80,000**
Vested and exercisable at 31 December	**0.335**	**40,000**

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

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

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

The fair value of the share options granted on 15 June 2022 was HK$8,417,000 (HK$0.1 each) (31 December 2021: Nil) of which the Group recognised share option expenses of HK$5,610,000 during the year ended 31 December 2022 (31 December 2021: Nil).

15. COMPARATIVE AMOUNTS

As further explained in notes 1 and 3 to the financial statements, due to the changes in the designation of principal businesses, certain comparative amounts have been reclassified to conform with the current year's presentation and disclosures.

DIVIDEND

The Directors have resolved not to declare a final dividend for the year ended 31 December 2022 (2021: Nil).

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining shareholders' eligibility to attend and vote at the forthcoming annual general meeting of the Company (the "AGM"), the register of members of the Company will be closed from Thursday, 1 June 2023 to Tuesday, 6 June 2023, both days inclusive, during the period no transfer of shares will be effected. In order to be entitled to attend and vote at the forthcoming AGM, all transfers accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Wednesday, 31 May 2023.

CHAIRMAN'S STATEMENT

OVERVIEW

The year 2022 was marked by a broad range of global economic challenges, including the ongoing COVID-19 pandemic, geopolitical conflicts, energy crisis and persistent global inflation, which had a profound negative impact on China's economy. According to the International Monetary Fund, the global economic growth rate in 2022 was expected to be 3.4%, with China leading at 3.0%, followed by the United States, Japan and Germany, with growth rates at 2.0%, 1.4% and 1.9%, respectively. In spite of various government policy measures, the economic recovery in Mainland China in 2022 was uneven, with consumption expenditures, net exports of goods and services and gross domestic capital recording growth rates at -43.7%, -21.9% and 153.0%, respectively, as compared to 2021, as reported by the National Bureau of Statistics of China (the "NBSC").

Moreover, the industrial purchasing price index (PPI), which ranged from -15.3% to 11.1%, indicated that prices of local raw materials in Mainland China changed after April 2022 because of the decrease in demand in the domestic market and global supply chain. Due to supply chain challenges, such as rising raw materials prices, the Group strategically transferred its underutilised Shajing Production Plant to one of its investment properties. With this decision, the Group not only overcame challenges, but also optimised its asset allocation and improved its operating cash flow. As at 31 December 2022, the Group's investment properties significantly increased in value to HK$240.94 million, up from HK$81.70 million as at 31 December 2021, and accounted for 20.9% of the Group's total assets. The move prompted the Group to establish a new business segment to focus on property investments, providing stakeholders with more transparency and tracking. This shows the Group's commitment to maximising value through strategic asset management. Despite this positive development, the Group took a cautious and focused approach to managing its investment portfolio in 2022 to align with its overall business strategy.

According to the information published by the NBSC, the paint and coating industry is classified under the manufacturing sector of the secondary industry. In 2022, the nominal gross domestic product (the "GDP") of the secondary industry and the industry sector increased by 7.2% and 7.8%, respectively, as compared to 2021. Mainland China, however, did not experience a growth in the paint and coating industry due to a sluggish real estate market and delayed completion of new projects. Due to these reasons, the Group's revenue generated from sales of paint and coating products (the "Sales") decreased significantly by 23.7% for the year ended 31 December 2022. This decline was primarily due to a 32.4% significant decrease in architectural paint and coating product sales and a 24.4% significant decrease in industrial paint and coating product sales.

Moreover, in 2022, the real estate industry experienced a decline rate of 4.8%, while the building and construction industry sector recorded a growth rate of 4.0%. Notably, the cumulative construction area of construction-in-progress in Mainland China's real estate industry decreased by 7.2% in 2022, as compared to a 5.2% increase in 2021, and the cumulative completion area decreased by 15.0% in 2022, as opposed to an 11.2% increase in 2021. With mounting financial pressures on property developers in Mainland China, the Group assessed and reduced the flexibility of credit terms for customers in the real estate industry, leading to a significant decline of 39.7% in the Group's revenue generated from the Sales to customers in the construction industry and property and infrastructure projects in Mainland China for the year ended 31 December 2022, as compared to the same for the year ended 31 December 2021. Conversely, according to the 2022 Gross Domestic Product Report published by the Census and Statistics Department ("C&SD") in Hong Kong, the gross domestic fixed capital formation ("GDFCF") of both the private and public sectors in the building and construction industry in Hong Kong increased by 6.8% in 2022, as compared to a 1.9% increase in 2021. This rise was primarily attributed to the public sector's expenditure on building and construction projects, which increased by 24.0% in 2022, and the private sector's expenditure, which decreased by 4.5% in 2022, as compared to 2021. The Group's revenue generated from building and construction in Hong Kong decreased by approximately 8.7% in 2022, as compared to a 17.2% decrease in 2021. The nominal GDP of the wholesale and retail trade sector in Mainland China in 2022 increased by 3.6%, according to the information published by the NBSC, as compared to the increase of 15.0% in 2021. Retail sales of furniture goods (including the paint and coating products for furniture manufacturing purpose) decreased by 1.9% in 2022, as compared to an increase of 4.3% in 2021, while the retail sales of the construction and decorative paint and coating products decreased by 2.8% in 2022, as compared to the increase of 12.5% in 2021. The Group's revenue generated from the Sales to wholesale distributors and retail distributors (the "Distributors") in Mainland China decreased by 18.4% in 2022, as compared to the increase of 9.1% in 2021, which was lower than the average of the wholesale and retail trade sector's performance resulting from the 15.0% decrease in the cumulative completion area in 2022. In Hong Kong, paint and coating products are classified as the paints and other building renovation materials in one of the other consumer goods, not elsewhere classified (the "Other Consumer Goods") of the retail sales. According to the Report on Monthly Survey of Retail Sales in December 2022 published by the C&SD, the Other Consumer Goods increased by 3.9% in 2022, as compared to an increase of 20.6% in 2021. Comparing the growth rate of the retail sales in Hong Kong, the growth rate of the Group's sales revenue generated from the Distributors in Hong Kong for the year ended 31 December 2022 was 4.2%, which was similar to the growth rate of the retail sales in Hong Kong in 2021.

On the other hand, the paint and coating industry in Mainland China continued to face immense pressure from high raw materials costs in 2022, as the expected crude oil supply shortage and high international crude oil prices persisted throughout the year. The bans on imports of Russian crude oils, diesel and other products by the United States and some European countries contributed to the increase in average international crude oil prices by 42.8% in 2022, with the highest price reaching US$130 per barrel in March 2022. This resulted in a decrease of 0.9% on Mainland China's crude oil import volume in 2022, although there was an improvement over the 5.4% decrease in 2021. Lockdowns in certain cities in Mainland China also negatively impacted crude oil processing production, leading to a 3.9% decline in processing volume in 2022. The purchasing producer index of the chemical industries in Mainland China, on the other hand, increased by 6.5% to 17.9% in 2022, as compared to the same in 2021. However, high raw materials costs continued to impact the profitability in the paint and coating industry and offset the positive impact of the improvement in gross profit. Although the Group's gross profit margin for the fourth quarter of 2022 improved to 24.4%, as compared to 18.4% in the same period in 2021, a decline in the Sales resulted in a 16.5% decrease in gross profit. The Group's profitability improved slightly due to a 1.9 percentage point increase in gross profit margin, from 20.3% in 2021 to 22.2% in 2022, which had a slightly positive impact on the Group's operating financial performance.

RESULTS

Despite facing a significant increase of 65.7% in the Group's loss for the year 2022 and a 7.8% depreciation of the Renminbi, the Group redoubled its efforts to implement the effective business revamp measures and initiatives. As at 31 December 2022, the Group experienced only a 2.3% decrease in net assets, as compared to a 8.7% decrease as at 31 December 2021. This accomplishment can be attributed to several factors, including the successful integration of production facilities in the Southern China, improvement in gross profit margin, and the Group's efforts to monitor and address inefficiencies promptly.

For the year ended 31 December 2022, the Group recorded a loss of HK$98.47 million, as compared to a loss of HK$59.45 million for the previous year. This loss was primarily due to a significant decrease of 16.5% in gross profits resulting from a 23.7% decline in the Sales, as well as several expenses that contributed to the increase in loss. These increases in expenses included HK$18.88 million in staff termination costs, HK$11.74 million for the expected credit loss (the "ECL") provision, and HK$9.99 million for one-off expenses related to the integration of production plants in Mainland China. On the positive side, the Group experienced an increase of HK$32.93 million in other income.

Despite sustained losses, the Group's positive operational cash flow is an encouraging indication that the Group is moving in the right direction towards profitability. The Group's swift action to address inefficiencies has resulted in reduced costs and increased productivity. Going forward, it is essential for the Group to regularly monitor its financial performance and continue identifying and addressing any remaining inefficiencies or areas of concern. While a history of losses can be a concern, a focus on improving operations and cash flow can lead to positive outcomes for the Group in the long run.

BUSINESS OUTLOOK

Amidst the ongoing challenges in the global economy, such as geopolitical tensions, high inflation and interest rates, the Directors remain cautiously optimistic about the outlook for paint and coating manufacturers in Mainland China and Hong Kong in 2023. Nevertheless, the Group acknowledges the potential impact of the decrease in cumulative construction area and completion area in Mainland China's real estate industry during the first two months of 2023. Accordingly, the Group has taken steps to enhance its product range and offer a wider range of pricing options in order to remain competitive, as outlined in the "Strategic Partnerships to drive product expansion" section headed "Business Plans" below.

Moreover, the Group is aware of the potential challenges posed by disruptions in global supply chain and raw materials shortages in 2023, as well as the recent increase in international crude oil prices, and intensified competition between domestic and international players in the industry. To address these challenges, the Group has implemented a plan to optimise raw materials costs and diversify sourcing options while enhancing innovation and research capabilities through cross-utilisation of patents and new formulas. More information on these initiatives can be found in the "Driving efficiencies through strategic partnerships" section headed "Business Plans" below.

Finally, the Group acknowledges that the Federal Reserve of the United States may continue to increase interest rates to combat high inflation, which could result in higher interest rates in Hong Kong, thereby potentially increasing finance costs and reducing profitability of the Group. To mitigate this risk, the Group plans to explore alternatives to interest-bearing bank loans, including other more cost-effective financial instruments.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

To mitigate the reduction in profitability resulting from supply chain challenges such as rising raw materials prices, the Group strategically transferred its underutilised Shajing Production Plant to one of its investment properties. With this decision, the Group not only resolved its challenges, but also optimised its asset allocation and improved its operating cash flow. As at 31 December 2022, the total value of the Group's investment properties had increased significantly to HK$240.94 million, as compared to HK$81.70 million as at 31 December 2021. Investment properties accounts for 20.9% of the Group's total assets, resulting in the creation of a new business segment. The move prompted the Group to establish a new business segment to focus on property investments, providing stakeholders with more transparency and tracking. This shows the Group's commitment to maximising value through strategic asset management. Despite this positive development, the Group took a cautious and focused approach to managing its investment portfolio in 2022 to align with its overall business strategy. The paint and coating business remained the largest segment of the Group, while the second segment focused on property investment.

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

REVIEW OF OPERATION

Revenue

In 2022, the Group's total revenue amounted to approximately HK$643.05 million, which includes the revenue from the Sales of HK$639.13 million and rental income from investment properties of HK$3.92 million. This represents a significant decrease of 23.7%, as compared to the Group's total revenue of approximately HK$842.52 million in 2021, with revenue from the Sales of HK$838.07 million and rental income from investment properties of HK$4.45 million.

PAINT AND COATING PRODUCTS

For the year ended 31 December 2022, the Group's revenue amounted to approximately HK$639.13 million, representing a significant decrease of 23.7%, as compared to approximately HK$838.07 million in 2021. The following sets forth an analysis of the Group's revenue for the years ended 31 December 2022 and 2021 by principal products:

	Year ended 31 December				
	2022		2021		% of net
	HK$'000	**%**	HK$'000	%	change
Industrial paint and coating products	**227,764**	**35.6**	301,204	35.9	–24.4
Architectural paint and coating products	**273,717**	**42.8**	404,887	48.3	–32.4
General paint and coating and ancillary products[(1)]	**137,653**	**21.6**	131,975	15.8	4.3
	639,134	**100.0**	838,066	100.0	–23.7

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

Industrial paint and coating products, architectural paint and coating products, and general paint and coating and ancillary products accounted for approximately 35.6% (2021: 35.9%), 42.8% (2021: 48.3%) and 21.6% (2021: 15.8%) of the total revenue of paint and coating business in 2022 respectively. The Group continues to focus on the Mainland China market which contributed to approximately 89.3% (2021: approximately 92.0%) of the total revenue in 2022.

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

The Group experienced a significant decrease in sales of its architectural paint and coating products, with a decline of 32.4% for the year ended 31 December 2022, as compared to the same for the year ended 31 December 2021. This decline in sales was primarily due to the sluggish real property market in 2022 and the delayed completion of new residential and commercial property projects in Mainland China. Furthermore, the decline in sales may also be attributable to the impact of the overall economic slowdown and fierce competition in the paint and coating industry.

To promote healthy growth in the real estate industry, the Chinese government has been working to deleverage property developers. However, despite these efforts during the slowdown economy, the growth rate of both the real estate and building and construction industries decreased in 2022. Specifically, the real estate industry grew at approximately -4.8%, as compared to 5.6% in 2021, while the building and construction industry experienced a growth rate of approximately 4.0%, as compared to 10.6% in 2021, according to the data from the NBSC. Furthermore, the GDP of the real estate industry decreased from 6.8% in 2021 to 6.1% in 2022, and the building and construction industry also saw a slight decrease from 7.0% in 2021 to 6.9% in 2022.

Based on the information from the NBSC, there has been a decline in both the cumulative construction area of in-progress projects and the cumulative completion area in Mainland China in 2022. The cumulative construction area of in-progress projects decreased by approximately 7.2% in 2022, as compared to an increase of approximately 5.2% in 2021. Meanwhile, the cumulative completion area decreased by approximately 15.0% in 2022, which is a larger decrease than the approximately 11.2% decrease observed in 2021.

Geographical Analysis of Revenue

Geographically, for the year ended 31 December 2022, the Group's revenue generated from the Sales from Mainland China and Hong Kong accounted for approximately 89.3% and 10.7% respectively, as compared to approximately 92.0% and 8.0% respectively for the year ended 31 December 2021. Most of the Group's revenue was generated from the Southern China, the Central China and the Eastern China. Revenue generated from these regions, in aggregate, accounted for approximately 83.4% of the Group's total revenue for the year ended 31 December 2022, as compared to approximately 83.8% for the year ended 31 December 2021.

Significant decrease in the Sales to construction and renovation contractors for property and infrastructure projects in the Central China, the Eastern China and the Northern China

For the year ended 31 December 2022, the Group experienced a significant decrease in Sales to construction and renovation contractors for property and infrastructure projects in the Central China, the Eastern China and the Northern China, with a total decrease of HK$161.11 million. Specifically, the Sales decreased by 61.7% to approximately HK$51.83 million in the Central China, 57.6% to approximately HK$39.32 million in the Eastern China, and 79.2% to approximately HK$6.36 million in the Northern China. It was not only because of the slow economic environment but also the intensifying financial stress among Chinese property developers that contributed to the decrease in revenue for the year ended 31 December 2022. To mitigate industry risks, the Group had to monitor, assess and reduce the flexibility of credit terms offered to its real estate customers. This contributed significantly to the overall decrease of HK$145.03 million or 39.7% in the Group's revenue generated from the Sales to construction and renovation contractors for property and infrastructure projects in Mainland China for the year ended 31 December 2022.

Significant decrease in Sales to Distributors in the Southern China, the Eastern China and the Northern China

The Group experienced a significant decrease in Sales to the Distributors in the Southern China, the Eastern China and the Northern China, resulting in a total decrease of HK$37.70 million for the year ended 31 December 2022. Specifically, the Sales decreased by 17.5% to approximately HK$133.25 million in the Southern China, 12.5% to approximately HK$41.34 million in the Eastern China, and 37.3% to approximately HK$6.06 million in the Northern China. The sluggish real property market, delayed completion of new residential and commercial property projects, and the resurgence of the COVID-19 pandemic caused significant disruptions in both supply chains and consumption patterns, leading to this decline. These factors significantly impacted the revenue generated from Sales to the Distributors in Mainland China, which decreased by HK$43.18 million or 18.4% for the year ended 31 December 2022.

According to the information from the NBSC, in terms of Mainland China's nominal GDP, the growth rate of the wholesale and retail trade sector in 2022 in Mainland China recorded a year-to-year increase of 3.6%. Retail sales of the construction and decorative paint and coating products decreased by approximately 2.8%, as compared to the increase of 12.5% in 2021. The slightly lower than market performance was primarily due to the several upward adjustments on the Group's selling prices of the paint and coating products in Mainland China.

Decrease in the Sales to industrial manufacturers in the Eastern China

For the year ended 31 December 2022, the Group's revenue from the Sales to industrial manufacturers in the Eastern China decreased by HK$11.13 million, marking a decline of 22.6%, as compared to a 19.3% increase in 2021. This downturn was mainly attributed to the COVID-19 pandemic's resurgence, which caused multiple disruptions in both supply chains and consumption patterns across Mainland China. As a result, restrictions on business and social activities were imposed, including a lockdown in Shanghai during the second quarter of 2022. These factors had a significant negative impact on the overall revenue generated from the Sales to industrial manufacturers in Mainland China, which decreased by HK$12.14 million or 7.1% for the year ended 31 December 2022.

Increase in the Sales to wholesale and retail trade sector in Hong Kong

For the year ended 31 December 2022, the Group's revenue generated from the Sales to the Distributors in Hong Kong increased by approximately 4.2%, as compared to an increase of 2.3% in 2021. This growth was primarily due to several upward adjustments made by the Group on the selling prices of their paint and coating products in Hong Kong between July 2021 and March 2022. Based on the information from the C&SD on the average wholesale prices of selected building materials, there were notable increases in the prices of emulsion and acrylic paint, with a range of 3.1% to 14% and 6.8% to 10.7%, respectively, as compared to 2021. Overall, the Group aligned with this trend.

In addition, according to the C&SD's gross domestic product data, the GDFCF in the private and public sectors of the building and construction industry increased by 6.8% in 2022, as opposed to a 1.9% decrease in 2021. This growth was primarily driven by a combined effect of a 24.0% increase in public sector expenditure on building and construction projects in Hong Kong and a 4.5% decrease in private sector expenditure in 2022, as compared to 2021.

Cost of Sales

Cost of raw materials

Raw materials used by the Group include resins, solvents and other materials, of which resins and solvents accounted for significant portions of the total cost of raw materials. Crude oil prices directly or indirectly impact the prices of such raw materials. Despite the expected ongoing shortage of crude oil supply, international crude oil prices in 2022 remained high due to the ban on imports of Russian crude oils, diesel and other products from Russian refineries by the United States and some European countries. Throughout 2022, average international crude oil prices increased by 42.8%, with the highest price reaching US$130 per barrel in March 2022. The significant increase was primarily due to a 54.2% increase in international crude oil prices over the first three quarters of 2022, as compared to the same periods in 2021. As a result, crude oil import volume in Mainland China decreased by 0.9% in 2022, as compared to a decrease of 5.4% in 2021. However, lockdowns in certain cities in Mainland China in 2022 may have negatively impacted crude oil processing production. Despite the increase in crude oil production volume by 2.9% in 2022, as compared to an increase of 2.1% in 2021, crude oil processing volume decreased by 3.9% in 2022, as compared to an increase of 4.3% in 2021. Consequently, the purchasing producer index of the chemical industries in Mainland China increased by 6.5% to 17.9% in 2022, as compared to the same in 2021. Raw materials costs have a significant impact on the profitability of manufacturers in the paint and coating industry, as raw materials costs make up a substantial portion of the total production cost. Notwithstanding the Group's gross profit improvement for the year ended 31 December 2022, the significant increase in key raw materials prices had a negative impact on the overall performance, even after excluding the 23.7% decrease in the Sales. Nevertheless, it is worth noting that the year-on-year decrease in the percentage of raw materials cost to revenue by 26.4% was still more favourable than the decline in paint and coating product sales by 23.7% for the year ended 31 December 2022.

Direct labour cost

In comparison to the year ended 31 December 2021, the direct labour cost decreased by approximately 31.1% for the year ended 31 December 2022. This significant decrease was primarily a result of the Group's efforts to enhance its manufacturing operation processes and optimise production lines, resulting in a reduction of direct labour costs.

Depreciation and production overhead

For the year ended 31 December 2022, the depreciation and production overhead costs decreased by approximately 16.4%, which were largely due to the 23.7% decrease in the Sales. There was a similar level of depreciation in 2022, as compared to 2021. However, upon further review of production overhead costs, it was found that the Group had implemented measures and initiatives to improve production efficiency, resulting in a 34.1% reduction in costs. This indicates that the Group has successfully improved production processes and reduced unnecessary expenses.

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

As previously noted, the paint and coating industry has faced challenges related to high raw materials costs caused by rising international crude oil prices, a shortage of global raw materials and supply chain disruptions in Mainland China throughout 2022. Additionally, the Sales decreased by 23.7%, as compared to the year ended 31 December 2021. Nevertheless, the Group's achieved a satisfactory increase in gross profit margin from the Sales by 9.6% to 21.7%, up from 19.8% in 2021, as a result of effective business revamp measures and initiatives, such as the successful integration of production facilities in Southern China.

The Group's gross profit generated from the Sales decreased by HK$27.65 million, as compared to the same for the year ended 31 December 2021. This significant decrease of 23.7% in the Sales led to an estimated decrease in gross profit of approximately HK$39.26 million. However, this was partially offset by a marginal increase in the gross profit margin, amounting to approximately HK$11.60 million. As a result, the Group's loss attributable to its parent company owners increased from approximately HK$59.53 million in 2021 to approximately HK$98.08 million in 2022.

Other Income and Gains, Net

The net amount of other income and gains for the year ended 31 December 2022 showed a significant increase of 510.7% to HK$36.40 million, as compared to HK$5.96 million for the year ended 31 December 2021. This surge was primarily attributed to one-off transactions: (i) subsidy receipts from the Chinese governments of approximately HK$29.43 million for removing solvent production lines and solvent storage tanks in the Shajing Production Plant and the Hubei Production Plant; and (ii) subsidies granted from the Employment Support Scheme under the Anti-epidemic Fund of the Hong Kong government, which amounted to approximately HK$1.08 million for the year ended 31 December 2022.

Selling and Distribution Expenses and Administrative Expenses

In anticipation of a significant decrease in the Sales, the Group had formulated a plan to minimise all variable costs related to selling and distribution expenses for the year ended 31 December 2022. This plan included a decrease in transportation costs, a downward adjustment in advertising and promotion expenses, and a decrease in travelling costs. As expected, the selling and distribution expenses for the year ended 31 December 2022 significantly decreased by 15.7% to HK$90.46 million, as compared to HK$107.25 million for the year ended 31 December 2021. In particular, the ratio of transportation costs to revenue increased by approximately 10.8% to 4.1% in 2022 from 3.7% in 2021, which was primarily due to the significant increase in the diesel price in Mainland China during the year. According to the announcement on the adjustment on the domestic refined oil prices issued by the National Development and Reform Commission (the "NDRC"), the average monthly diesel prices recorded a year-to-year increase of 25.9% in 2022 (2021: increase of 22.2%). However, despite the decrease in overall variable expenses, the percentage of selling and distribution expenses to the Sales for the year ended 31 December 2022 was 14.2%, which was still higher than the percentage of 12.8% for the year ended 31 December 2021. However, even with the variable costs minimised, the Group still experienced inefficiencies due to fixed costs that could not be easily reduced, such as staff costs.

For the year ended 31 December 2022, administration expenses increased by approximately 12.4% to HK$112.07 million. Such increase was primarily due to two factors. Firstly, one-off professional fees and demolition expenses incurred for removing solvent production lines and storage tanks in both the Shajing Production Plant and the Hubei Production Plant, which amounted to HK$9.99 million. Secondly, staff share option expenses amounted to approximately HK$5.61 million, which were not present in 2021.

Other Expenses, Net

For the year ended 31 December 2022, the net amount of other expenses was approximately HK$58.86 million, as compared to approximately HK$20.84 million in 2021. The increase was mainly due to staff termination payments, provision for impairment of trade and bills receivables, local taxes and levies and stamp duties, provision for impairment of right-of-use assets, provision for impairment of property, plant and equipment and write-off of certain fixed assets, which amounted to approximately HK$21.58 million, HK$16.31 million, HK$11.72 million, HK$6.14 million, HK$1.86 million and HK$1.35 million, respectively. These expenses contributed to the significant increase in the amount of other expenses for the year ended 31 December 2022.

The net amount of other expenses for the year ended 31 December 2022 significantly increased by 182.4% to approximately HK$58.86 million, as compared to approximately HK$20.84 million in 2021. This increase was mainly due to a significant rise in staff termination payments, which amounted to approximately HK$18.88 million, as well as a substantial increase in provisions for the impairment of trade and bills receivables, which amounted to approximately HK$11.74 million. In addition, there was a significant increase in provisions for impairments of right-of-use assets and property, plant and equipment, which amounted to HK$8.00 million. Additionally, certain fixed assets amounting to approximately HK$1.35 million were written-off.

The Group incurred staff termination payments of approximately HK$21.58 million for the year ended 31 December 2022 due to the ongoing integration of production facilities in the Southern China and the Central China.

The Group made a provision for impairment of trade and bills receivables in accordance with HKFRS 9, having considered both historical credit loss experience and forward-looking information. However, the Group faced challenges due to economic uncertainty caused by the intensification of financial stress among property developers in Mainland China. Despite a 12.2% decrease in the gross amount of trade and bills receivables as at 31 December 2022, an additional provision for impairment of trade and bills receivables of HK$16.31 million was required, resulting in a 13.7% increase in the gross amount of provision for impairment of trade and bills receivables to HK$74.60 million as at 31 December 2022.

The Group conducted a review of the recoverable amount of certain property, plant and equipment and the right-of-use assets for the year ended 31 December 2022, using value-in-use calculations. As a result, it was determined that an additional provision for impairment of HK$8.00 million was necessary for items of property, plant and equipment and the right-of-use assets, as compared to nil in 2021.

Following the implementation of business revamp measures and initiatives to overcome challenges presented by the current environment, the Group was able to increase its gross profit margin by 1.9 percentage points to 21.7%, up from 19.8% in 2021. Despite this improvement, the Group still recorded a segment loss of approximately HK$86.37 million for the year, which represents a significant increase of 55.3%, as compared to the segment loss of approximately HK$55.60 million in 2021. The notable increase in segment loss was primarily attributed to the 23.7% decrease in the Sales.

PROPERTY INVESTMENT

As previously indicated, the Group implemented ongoing measures and initiatives to revamp its business operations. Within the framework of the strategy, the Group strategically transferred the Shajing Production Plant to one of its investment properties. With this decision, the Group not only overcame challenges, but also optimised its asset allocation and improved its operating cash flow. As at 31 December 2022, the Group's investment properties had significantly increased in value to HK$240.94 million, up from HK$81.70 million as at 31 December 2021, and accounted for 20.9% of the Group's total assets. The move prompted the Group to establish a new business segment to focus on property investments, providing stakeholders with more transparency and tracking. This shows the Group's commitment to maximising value through strategic asset management. Despite this positive development, the Group took a cautious and focused approach to managing its investment portfolio in 2022 to align with its overall business strategy.

As at 31 December 2022, the Group's investment property portfolio comprised of 3 properties (31 December 2021: 2) with a total land area of 126,472.7 square meters ("sq.m.") (31 December 2021: 67,686.7 sq.m.) and a total gross floor area of 46,612.4 sq.m. (31 December 2021: 10,336.3 sq.m.). These investment properties are solely industrial properties located in Mainland China, which generate stable recurring income and cash flows for long-term strategic and investment purposes.

Revenue for the year ended 31 December 2022 amounted to approximately HK$3.92 million, as compared to the same of approximately HK$4.45 million in 2021. Segment profit amounted to approximately HK$4.27 million, as compared to the segment profit of approximately HK$1.91 million in 2021. The segment's profit increase was mainly attributed to a subsidy receipt of approximately HK$1.87 million from the Chinese government for relocating the main factory entrances in the Shanghai Complex and a net fair value gain of approximately HK$0.59 million for the year ended 31 December 2022, in contrast to the net fair value loss of approximately HK$0.24 million on investment properties held by the Group in Mainland China for the year ended 31 December 2021. This gain was primarily due to the appreciation of nearby property rental prices in the area where the investment properties are located, and it was consistent with the overall market conditions of industrial production plants in Mainland China during the year.

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

Profitability Analysis

The COVID-19 pandemic's resurgence in 2022 had a significant impact on Mainland China's supply chains and consumption patterns, resulting in widespread disruptions. Additionally, the Chinese government introduced measures to deleverage property developers with the aim of promoting healthy growth in the real estate industry. These policies had some expected outcome but temporary consequences, including a slowdown in the real property market and delayed completion of new residential and commercial property projects in 2022. These were external factors beyond the Group's control, leading to a passive situation. To address the expected decrease in sales and supply chain challenges, such as rising raw materials prices, the Group strategically transferred the underutilised Shajing Production Plant to one of its investment properties. With this decision, the Group not only resolved its challenges, but also optimised its asset allocation and improved its operating cash flow.

Despite facing challenging conditions due to inflation and rising raw materials prices, the Group managed to improve its gross profit margin for the year ended 31 December 2022, albeit only by 1.9 percentage points. The paint and coating industry in Mainland China also felt the pressure from the high costs of raw materials throughout the year. Additionally, the international crude oil prices remained high, with the United States and some European countries banning imports of Russian crude oil, diesel and other products from Russian refineries. As a result, the average international crude oil prices increased by 42.8% in 2022, as compared to 2021, with the highest price reaching US$130 per barrel in March 2022. This increase was mainly due to a 54.2% rise in crude oil prices during the first three quarters of 2022, as compared to the same periods in 2021. Despite this, crude oil import volumes in Mainland China decreased by only 0.9% in 2022, a smaller decrease than the 5.4% in 2021. Notably, the Group's gross profit margin in the fourth quarter of 2022 showed a significant improvement, with a 32.6% increase to 24.4%, as compared to 18.4% in the fourth quarter of 2021.

To implement its ongoing business measures and initiatives, the Group proactively engaged with local governments to integrate production facilities in Mainland China and then removed solvent production lines and storage tanks in 2022. The Group received subsidies for the removal of these assets, with the Shajing Production Plant being successfully converted into an investment property and leased out in December 2022. These subsidies partially covered the cost of the integration and removal, and the Group made significant efforts to minimise expenses throughout the process, which were recorded in the administration expenses and other operating expenses. As a result, the Group would increase profitability through rental income from investment properties and sustainable cash inflows in the future.

Despite making progress in implementing ongoing business measures and initiatives to improve cost efficiency, the Group's sales decreased significantly by 23.7%. Through these initiatives, the Group aims to realign its strategic direction and priorities, and enhance its overall business efficiency. As the Group's efforts have improved cost efficiency, it is committed to taking necessary steps to improve revenue performance and to addressing the decline in the Sales. The Group's loss for the year ended 31 December 2022 amounted to approximately HK$7.24 million (31 December 2021: loss of approximately HK$20.41 million) after excluding costs, such as depreciation of property, plant and equipment, staff termination costs, provision for impairment of trade and bills receivables, provision for impairment of the right-of-use assets, provision for impairment of items of property, plant and equipment, depreciation of right-of-use assets, finance costs, share option expenses, net fair value gain/(loss) on investment properties and income tax. This represents a significant improvement from the reported loss of approximately HK$98.47 million for the year ended 31 December 2022 (31 December 2021: loss of approximately HK$59.45 million), reflecting the Group's commitment to driving its business revamp measures and initiatives towards greater efficiency and sustainability.

Despite the Group's improvement in gross profit margin for four consecutive quarters in 2022, the significant decline in the Sales has imposed pressure on profitability, resulting in a decrease in gross profit. This decline remains a pressing concern for the Group, as it is understood that the COVID-19 pandemic's resurgence in 2022 has had a significant impact on Sales, leading to a slowdown in the overall economic environment and a tight market for manufacturers in the paint and coating industry. Public information regarding results for the three quarters ended 30 September 2022 shows that most manufacturers in this industry recorded a decrease in sales ranging from 18.0% to 37.0%, with only a few experiencing a minor increase in sales. The Group has implemented a range of business revamp measures and initiatives to address the challenges faced. Through an effective implementation of its business strategy, the Group was able to improve the gross profit margin of its products during the COVID-19 pandemic and capitalise on the opportunities presented by the resumption of economic activities. However, the performance of the Group has been impacted by several factors, including:

1. Revenue from the Sales – Excluding the impact on the effect of fluctuation in Renminbi exchange rates, the Group's revenue generated from the Sales significantly decreased by 23.7%, as compared to the same for the year ended 31 December 2021. In view of the challenging economic environment, the Group expected the Sales to drop. As part of its regular reviews, the Group observed a trend of increasing trade and bills receivables turnover days, which raised concerns on potential risks. To mitigate these risks, the Group reduced the flexibility of credit terms offered to some customers in the real estate industry, while at the same time, continued to work on building relationships with new property developers in Mainland China that had a strong financial background in the real estate industry. These efforts contributed to new business opportunities. Despite a challenging business environment, the Group made significant efforts to maintain its business

volume and mitigate potential risks. However, still, the Group experienced a significant decline in the revenue from the Sales for the year ended 31 December 2022, with a decrease of 23.7%, as compared to the same for the year ended 31 December 2021. This decline was primarily driven by a substantial drop in the Sales to construction and renovation contractors for property and infrastructure projects in the Central China, the Eastern China and the Northern China, which amounted to a total decrease of HK$161.11 million. This decline offset the growth from construction and renovation contractors for property and infrastructure projects of new customers, resulting in a net decrease in the Sales to construction and renovation contractors for property and infrastructure projects of HK$145.03 million.

2. Cost of raw materials – As noted in the section headed "Cost of Sales" above, there was a substantial rise in the prices of certain key raw materials used in the production of paint and coating products due to a significant increase in international crude oil prices. In 2022, the average international crude oil prices increased by 42.8%, as compared to 2021, reaching a price of US$130 per barrel in March 2022, which was the highest since October 2014. Furthermore, the COVID-19 pandemic's resurgence in 2022 had a significant impact on Mainland China's supply chains, causing widespread disruptions, temporary shortages and price hikes for some raw materials in the short term.

3. Other income and gains, net – During the year ended 31 December 2022, the Group recorded one-off transactions amounted to HK$32.38 million. These transactions included: (i) subsidy receipts of approximately HK$29.43 million from the Chinese governments for removing solvent production lines and solvent storage tanks at the Shajing Production Plant and the Hubei Production Plant; (ii) a subsidy receipt of approximately HK$1.87 million from the Chinese government for relocating the main factory entrances at the Shanghai Complex; and (iii) subsidies granted from the Employment Support Scheme under the Hong Kong government's Anti-epidemic Fund, which amounted to approximately HK$1.08 million.

4. Staff costs – As compared to 2021, staff costs decreased by HK$5.66 million or 4.3% for the year ended 31 December 2022. Furthermore, as at 31 December 2022, there were 583 employees (excluding Directors), which is 20.4% lower than the 732 employees as at 31 December 2021.

5. Selling and distribution expenses – For the year ended 31 December 2022, although the selling and distribution expenses decreased by 15.7% to approximately HK$90.46 million, the ratio of the transportation costs to revenue increased by 10.8% to 4.1% in 2022 from 3.7% in 2021, which was primarily due to the significant increase in diesel price in Mainland China, as compared to the year 2021. According to the announcement on the adjustment on the domestic refined oil prices issued by the NDRC, the average monthly diesel prices recorded a year-to-year increase of 25.9% in 2022.

6. Other expenses, net – The Group's other expenses for the year ended 31 December 2022 increased significantly by 171.3% or approximately HK$37.75 million, driven mainly by a sharp rise in staff termination costs and a significant increase in the ECL provision. Specifically, staff termination costs increased by 699.3% or approximately HK$18.88 million to approximately HK$21.58 million in 2022 from approximately HK$2.70 million in 2021, being part of the costs of the integration of production facilities in Mainland China. Additionally, the ECL provision increased by 256.9% or approximately HK$11.74 million to approximately HK$16.31 million in 2022 from approximately HK$4.57 million in 2021. This increase was primarily due to the economic uncertainty caused by the intensification of financial stress among property developers in Mainland China.

7. Finance costs – Finance costs for the year ended 31 December 2022 increased by 71.2%, as compared to the same in 2021, which was primarily due to a significant rise in the average borrowing interest rate of both one-month HIBOR (Hong Kong Interbank Offered Rate) and three-month HIBOR. According to the HK$ interest settlement rates, the average one-month rates for 2022 increased between 26.3% and 4,576.4%, as compared to the corresponding months in 2021.

8. Renminbi exchange rate against Hong Kong dollars – The depreciation in Renminbi during the year ended 31 December 2022 had a positive financial impact on the Group's operating results.

BUSINESS OUTLOOK AND BUSINESS PLANS

BUSINESS OUTLOOK

Looking ahead to 2023, the paint and coating industry in Mainland China and Hong Kong is expected to experience a steady growth. Various sectors, such as construction, automotive and industrial manufacturing, are expected to benefit from the recovery of the economies in both regions.

Furthermore, the industry is expected to move towards more sustainable and environmental-friendly products, with an emphasis on reducing harmful chemicals and promoting energy efficiency. The trend is driven by an increased awareness of environmental issues and a growing demand for eco-friendly products. In Mainland China, the industry is expected to continue to benefit from the government's focus on urbanisation and infrastructure development. With the ongoing construction of new buildings, roads and bridges, the demand for paints and coatings is likely to remain strong. In Hong Kong, as the government continues to emphasise sustainability and green initiatives, paint and coating manufacturers may find opportunities to offer eco-friendly products. Eco-friendly paint and coating products are likely to be in greater demand due to the government's plan to develop a green economy and invest in sustainable infrastructure.

Overall, the paint and coating industry in Mainland China and Hong Kong is expected to continue to grow in 2023. By optimising its efforts in offering innovative and sustainable products and services, the Group is well-positioned to capitalise on these opportunities and meet the growing demand in these markets.

BUSINESS PLANS

As one of the paint and coating manufacturers in Mainland China and Hong Kong, the Group has faced numerous significant challenges in recent years. The outbreak of the COVID-19 pandemic in recent years, coupled with the negative effects of the deleverage in the property developers in Mainland China in 2022 and the continuing significant increase in international crude oil prices since the second quarter of 2021, has resulted in a sharp decline in the Group's profitability. Despite the Group's diligent efforts to transform its business and implement new initiatives geared towards generating substantial positive outcomes, these factors have resulted in a significant decline in the group's profitability. Consequently, the Group is undertaking a comprehensive review of its business revamp measures and initiatives and making necessary adjustments to ensure long-term sustainability.

A constantly changing business environment requires the Group to be agile, adaptable and innovative. In order to create a more resilient and sustainable business model, its new strategy will emphasise strategic partnerships, innovation and diversification. The Group aims to overcome the challenges it faces by developing new and innovative products, expanding into new markets, and focusing on sustainability and environmental responsibility.

While increasing revenue is crucial for the Group's profitability, reducing selling prices can adversely affect gross profit margins during times of unpredictable high inflation. For this reason, improving customer satisfaction and providing a wider range of pricing options are essential. This will allow the Group to better cater to customer needs and ensure their satisfaction with the products and services it offers. As satisfied customers remain loyal, they can be cross-sold and up-sold, resulting in the increased revenue and profitability. Also, by expanding its product and service offering, the Company can access new markets and opportunities, diversify revenue streams, and reduce its dependence on any particular product or market, thereby improving its overall sustainability.

To improve sales, reduce raw materials costs, and increase gross profit and gross profit margin, the Group continues to optimise its business revamp measures and initiatives. To enhance its operational efficiency and reduce costs, the Group has formed strategic partnerships with other factories. The following business initiatives are currently being implemented:

1. Strategic partnerships to drive product expansion

The Group is partnering with other factories to expand its range of paint and coating products, leveraging cross-use of patents and new formulas to offer customers a wider range of pricing options.

Expanding product range: By partnering with other factories, the Group can expand its range of paint and coating products, thus offering a wider selection of options to its customers. As a result, the Group could attract new customers and retain current ones by offering them services that meet their evolving needs and preferences.

Offering a wider range of pricing options: By leveraging patents and new formulas, the Group is able to offer a wider range of pricing options. As a result, the Group could cater to customers with different budgets, expanding its customer base and driving sales.

2. Driving efficiencies through strategic partnerships

The Group is forging partnerships with other factories to optimise raw materials costs and diversify sourcing options, while enhancing its innovation and research capabilities through cross-use of patents and new formulas. The following are potential benefits of the partnership strategy:

Optimising raw materials costs: By partnering with other factories, the Group can share its expertise and knowledge in sourcing raw materials and explore new options for substitution of materials. This allows cost savings and more efficient operations, as the Group could diversify its sourcing options and reduce its reliance on a single supplier.

Substituting raw materials/diversifying sourcing options: The Group can utilise its partnerships to explore new raw materials and substitute materials, allowing it to reduce its reliance on a single supplier and diversify its sourcing options. This enables the Group to optimise raw materials costs and reduce supply chain risks.

Enhancing innovation and research capabilities: Cross-use of patents and new formulas can help the Group to enhance its innovation and research capabilities by leveraging the expertise of its partners in the industry. By working collaboratively, the Group is able to develop new formulas and products that meet the evolving needs of its customers and the industry as a whole.

3. **Merging of the research and development and customer service departments under the management of a single director**

   More than half of the Group's sales of functional paints are accounted for by the Group. These paints are typically used in specialised applications where performance and functionality are critical, making it necessary for research and development (the "R&D") technicians to provide technical support and expertise to ensure they meet customer requirements and perform correctly.

   Furthermore, functional paints typically have more complicated formulations and application requirements, making them more challenging for customers to use effectively. Therefore, there is usually a higher need for customer service and technical support to ensure the products are being used correctly and achieving the desired results.

   Having the R&D and customer service departments under one director allows the Group to provide the essential technical support and expertise for solvent paint and industrial paint users, so that products can meet the required performance standards and increase customer satisfaction.

   Also, assigning the existing R&D director to oversee both the R&D and customer service departments in the paint and coating industry can improve customer service as well as provide a host of other benefits, including streamlined decision-making, improved collaboration, faster time-to-market and potential cost savings.

LATEST PROGRESS IN THE NEW PRODUCT RESEARCH AND DEVELOPMENT CENTRE IN MAINLAND CHINA

As stated in the Company's 2022 interim report, a new product research and development centre (the "New R&D Centre") was identified by the Group in Shenzhen in April 2022. The acquisition of the office premises was completed in May 2022 at a cost of HK$17.1 million, and the business operation of the New R&D Centre began in September 2022. The establishment of the New R&D Centre is aligned with the Group's strategy to position Shenzhen as a key hub for high-tech research, development, and manufacturing in the Southern China, and to attract high-calibre talent to support the development of paint and coating products in the region.

FINANCIAL REVIEW

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

RESULTS

The Group's loss attributable to the owners of the parent company increased by 64.8% to approximately HK$98.08 million for the year ended 31 December 2022, as compared to a loss of approximately HK$59.53 million for the year ended 31 December 2021. Despite recording revenue of approximately HK$643.05 million, representing a significant decrease of 23.7%, as compared to the previous year's restated revenue of HK$842.52 million, the Group's gross profit for the year amounted to approximately HK$142.53 million, showing a decline of 16.5%, as compared to the previous year's restated gross profit of HK$170.72 million. However, the gross profit margin increased by 9.4% from a restated 20.3% in 2021 to 22.2% in 2022.

SEGMENT INFORMATION

Business Segments

Paint and coating products

Paint operation continued to be the Group's largest contributor to revenue, generating approximately HK$639.13 million, which accounted for 99.4% of the Group's total revenue. However, the paint and coating industry faced significant challenges for the year ended 31 December 2022, including decreasing demand for paint and coating products due to the COVID-19 pandemic's resurgence in 2022 and the deleveraging of the real estate industry, resulting in a 23.7% decrease in segment revenue, as compared to 2021. In addition, the industry faced increasing production costs due to high international crude oil prices, which resulted in higher raw materials costs for paint and coating products. Following the implementation of business revamp measures and initiatives to overcome challenges presented by the current environment, the Group was able to increase its gross profit margin by 1.9 percentage points to 21.7%, up from 19.8% in 2021. Despite this improvement, the Group still recorded a segment loss of approximately HK$86.37 million for the year, which represents a significant increase of 55.3%, as compared to the segment loss of approximately HK$55.60 million in 2021. The notable increase in segment loss was primarily attributed to the 23.7% decrease in the Sales.

Property investment

The property investment operation segment of the Group reported a revenue of approximately HK$3.92 million for the year ended 31 December 2022, which accounted for 0.6% of the total revenue. The segment profit for the year increased by approximately 123.6% or HK$2.36 million to HK$4.27 million, in comparison to the segment profit of approximately HK$1.91 million reported for the year ended 31 December 2021. This significant increase in the segment profit was primarily due to the subsidy receipt of approximately HK$1.87 million from the Chinese government for relocating the main factory entrances in the Shanghai Complex and the net fair value gain of approximately HK$0.59 million for the investment properties for the year ended 31 December 2022, as opposed to a net loss of HK$0.24 million for the year ended 31 December 2021.

Geographical Segments

The businesses of the Group are operated in Mainland China and Hong Kong only. Revenue from operations in Mainland China and Hong Kong amounted to approximately HK$574.56 million (2021: HK$775.44 million) and approximately HK$68.49 million (2021: HK$67.08 million), respectively.

LIQUIDITY AND FINANCIAL INFORMATION

Liquidity and Indebtedness

The Group's business operation is generally financed by a combination of internal and external financial resources available to the Group. The total cash and cash equivalents amounted to approximately HK$147.52 million as at 31 December 2022, as compared to approximately HK$196.09 million as at 31 December 2021. Such decrease was mainly due to the change of working capital. The total cash and bank balances include pledged deposits, which amounted to approximately HK$189.72 million as at 31 December 2022, as compared to approximately HK$238.40 million as at 31 December 2021. Bank borrowings amounted to approximately HK$237.26 million as at 31 December 2022, as compared to approximately HK$216.08 million as at 31 December 2021. The Group's bank borrowings mainly bear interest at floating rates. As at 31 December 2022, the Group's total bank borrowings amounted to approximately HK$237.26 million (100.0%) (31 December 2021: approximately HK$216.08 million (100.0%)) and were payable within one year or on demand.

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

Gearing ratio of the Group, expressed as a percentage of total bank borrowings to shareholders' funds, was 45.8% as at 31 December 2022, as compared to 40.8% as at 31 December 2021. Liquidity ratio of the Group, which is expressed as a percentage of current assets to current liabilities, was 1.12 times as at 31 December 2022, as compared to 1.26 times as at 31 December 2021.

For the year ended 31 December 2022, the Group achieved a significant reduction in inventory turnover days[1], from 44 days to 31 days, indicating a marked improvement in inventory management. This improvement was attributed to the Group's adoption of more effective inventory management practices, including enhanced forecasting, ordering, and tracking of inventory in the product sales forecast, as well as better production planning and control. For the year ended 31 December 2022, the trade and bills receivables turnover days[2] increased to 211 days, as compared to 192 days for the year ended 31 December 2021, due to the significant decrease in sales revenue and deferral of settlement by customers. To mitigate this issue, the Group has implemented proactive measures such as communicating with customers who are behind in settling their accounts and developing repayment schedules to ensure timely payments are made to the Group.

1 The calculation of inventory turnover days is based on the closing balance of inventories divided by the cost of sales times 365 days (31 December 2021: 365 days).

2 The calculation of trade and bills receivables turnover days is based on the closing balance of trade and bills receivables divided by the revenue times 365 days (31 December 2021: 365 days).

Equity and Net Asset Value

Shareholders' funds of the Company as at 31 December 2022 amounted to approximately HK$518.07 million, as compared to approximately HK$529.58 million as at 31 December 2021. Net asset value per share as at 31 December 2022 amounted to approximately HK$0.52, as compared to approximately HK$0.53 as at 31 December 2021. Fluctuations in the foreign currency exchange rates between Hong Kong dollars (the reporting currency) and Renminbi could have a significant impact and may lead to volatility in the operating results of the Group.

Contingent Liabilities

As at 31 December 2022, the amount of utilised banking facilities granted to various subsidiaries subject to guarantees given by the Company was HK$220.34 million, as compared to HK$216.08 million as at 31 December 2021.

In addition, the Group entered into financial guarantee contracts on performance bonds issued by a bank for the quality of the paint and coating products under supply contracts. The performance bonds were secured by the pledged deposits of HK$1.8 million as at 31 December 2022 (31 December 2021: HK$1.35 million).

Pledge of Assets

As at 31 December 2022, certain property, plant and equipment, right-of-use assets and cash deposits with an aggregate net book value of HK$207.24 million, as compared to HK$49.04 million as at 31 December 2021, were pledged to financial institutions as collaterals for bills payables, bank borrowings, performance bonds and lease liabilities. In addition, as at 30 June 2022 and 31 December 2021, a wholly-owned subsidiary of the Group pledged its shares to secure general banking facilities granted to the Group.

TREASURY MANAGEMENT

Funding and Treasury Policy

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

Foreign Currency Exposure

The Group's cash, bank balances and bank borrowings were mainly denominated in Hong Kong dollars and Renminbi. The Group's results can be affected by movements in the exchange rate between Hong Kong dollars and Renminbi. The Group did not have any hedging instrument to hedge the foreign currency exposure as at 31 December 2022. The Group will continue to monitor its foreign currency exposure and requirements closely and arrange hedging facilities when necessary.

Capital Expenditure

During the year ended 31 December 2022, the Group invested a total sum of approximately HK$21.74 million (2021: approximately HK$18.23 million) in the plant and equipment, as well as the New R&D Centre. These investments were recorded in the consolidated financial statement as the property, plant and equipment and the right-of-use asset.

HUMAN RESOURCES

As at 31 December 2022, the Group had 583 employees, representing a significant decrease from the figure of 732 as at 31 December 2021. The staff costs for the year ended 31 December 2022 amounted to approximately HK$126.33 million, excluding Directors' emoluments and including equity-settled share-based payments of HK$5.61 million. This represents a decrease from the staff costs of HK$132.00 million for the year ended 31 December 2021, where no equity-settled share-based payments were made.

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

PRINCIPAL RISKS AND UNCERTAINTIES

Financial Risks

Interest Rate Risk

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

Currency Rate Risk

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

Credit Risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The Group maintains an allowance for the estimated loss arising from the inability of its debtors to make the required payments. The Group adopts a forward-looking ECL approach to estimate the provision based on the aging of its receivable balances. If the financial condition of its debtors deteriorates which resulted in the actual impairment loss being higher than expected, the Group would be required to revise the basis of making the allowance.

Market Risk

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

Operational Risk

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

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

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

2. disposal of hazardous solid waste via qualified waste disposal service providers;

3. effective use of water and electricity; and

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

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

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

EVENTS AFTER THE REPORTING DATE

Save as disclosed above, there is no significant subsequent event after 31 December 2022.

USE OF NET PROCEEDS FROM THE SHARE OFFER

The Group's business objectives and planned use of net proceeds as disclosed in the prospectus of the Company dated 19 June 2017 (the "Prospectus") were based on the best estimation of future market conditions made by the Group at the time of preparing the Prospectus and subject to the risk factors as stated in the Prospectus. The actual use of net proceeds was based on the actual market situation.

The Company listed its shares on the Stock Exchange on 10 July 2017 (the "Listing"). Net proceeds from the Listing were HK$168.2 million (after deduction of the underwriting commission and relevant expenses), which are intended to be applied in the manner as disclosed in the Prospectus and the Company will review the use of net proceeds in view of the market situation. On 29 July 2019, the Board resolved to change the use of the remaining unutilised proceeds from the Global Offering (as defined in the Prospectus) (the "Reallocation"). Details of the Reallocation were set out in the announcement of the Company dated 29 July 2019. The amount of the unutilised net proceeds from the Global Offering of HK$17.1 million was fully utilised as at 31 December 2022. The following table sets forth the status of the use of net proceeds from the Global Offering:

Use of Proceeds	**Use of net proceeds from the Global Offering prior to the Reallocation**	**The Reallocation**	**Use of net proceeds subsequent to the Reallocation**	**Amount unutilised as at 31 December 2021**	**Amount utilised during the year ended 31 December 2022**	**Amount unutilised as at 31 December 2022**	**Actual timeline for utilising the remaining net proceeds from the Listing**
	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	
(1) Construction of the production plant in Xinfeng	78.5	(52.2)	26.3	–	–	–	Fully utilised as at 31 December 2019
(2) Repayment of the bank loans	19.1	–	19.1	–	–	–	Fully utilised as at 31 December 2017
(3) Acquisitions of business or production assets	42.0	–	42.0	–	–	–	Fully utilised as at 31 December 2018
(4) Sales and market campaigns and activities	28.6	–	28.6	–	–	–	Fully utilised as at 31 December 2018

Use of Proceeds	Use of net proceeds from the Global Offering prior to the Reallocation	The Reallocation	Use of net proceeds subsequent to the Reallocation	Amount unutilised as at 31 December 2021	Amount utilised during the year ended 31 December 2022	Amount unutilised as at 31 December 2022	Actual timeline for utilising the remaining net proceeds from the Listing
	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	
(5) Construction of production facilities for water-based paint and coating products in the production plant in Zhongshan	–	32.2	32.2	–	–	–	Fully utilised as at 31 December 2020
(6) Product research and development centre	–	20.0	20.0	17.1	(17.1)	–	Fully utilised as at 31 December 2022
	168.2	–	168.2	17.1	(17.1)	–	

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

Save as disclosed above, there was no other significant investment acquired, nor was there any other material acquisitions or disposals of subsidiaries during the year ended 31 December 2022. The Board has not yet authorised any plan for other material investments or additions of capital assets.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

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

AUDIT COMMITTEE REVIEW

The audit committee of the Board has met the external auditors of the Company, Messrs. Ernst and Young ("EY"), and reviewed the Group's annual results for the year ended 31 December 2022.

REVIEW OF PRELIMINARY RESULTS ANNOUNCEMENT BY INDEPENDENT AUDITORS

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2022 as set out in the preliminary announcement have been agreed by EY, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by EY in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by EY on the preliminary announcement.

CORPORATE GOVERNANCE

The Board recognises the importance of and benefit from good corporate governance practices and has devoted considerable efforts to develop the best corporate governance practices appropriate to the businesses of the Group. For the year ended 31 December 2022, the Company has complied with the code provisions set out in Part 2 of Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Listing Rules (the "Model Code"). After specific enquiry by the Company, all Directors confirmed that they have complied with the required standard set out in the Model Code and the Company's own code during the year ended 31 December 2022.

PROPOSED AMENDMENTS TO THE EXISTING AMENDED AND RESTATED ARTICLES OF ASSOCIATION

The Board proposes to make certain amendments (the "Proposed Amendments") to the existing amended and restated articles of association of the Company (the "Existing Articles of Association") in order to, among other things, (i) conform to the core shareholder protection standards set out in Appendix 3 to the Listing Rules; (ii) bring the Existing Articles of Association in line with the relevant requirements of the Listing Rules and the applicable laws of the Cayman Islands; and (iii) make some other housekeeping amendments. Accordingly, the Board proposes to adopt a second amended and restated articles of association of the Company in substitution for, and to the exclusion of, the Existing Articles of Association.

The Proposed Amendments are subject to the approval of the shareholders of the Company by way of a special resolution at the AGM. A circular containing, among other things, details of the Proposed Amendments, together with a notice convening the AGM will be despatched to the Company's shareholders in due course.

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

Hong Kong, 30 March 2023

As at the date of this announcement, the Board comprises Mr. Tsui Ho Chuen, Philip, Mr. Li Guangzhong and Mr. Mak Chi Wah as executive Directors; Mr. Lam Ting Ball, Paul and Mr. Chong Chi Kwan as non-executive Directors; and Mr. Chua Joo Bin, Mr. Xia Jun and Ms. Meng Jinxia as independent non-executive Directors.