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(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1932)

ANNOUNCEMENT OF 2020 INTERIM RESULTS

FINANCIAL HIGHLIGHTS			
	Six months ended 30 June		Change
	2020	2019	
Results	(Unaudited)	(Unaudited)	%
	HK\$'000	HK\$'000	
Revenue	267,220	305,877	-12.6
Gross profit	79,251	79,453	-0.3
Gross profit margin	29.7%	26.0%	14.2
Loss attributable to shareholders of the Company	(20,831)	(48,045)	-56.6
Loss per share (HK cent)			
Basic and diluted	(2.08)	(4.80)	-56.6
	As at	As at	
	30 June	31 December	
	2020	2019	
	(Unaudited)	(Audited)	Change
Financial Position	HK\$'000	HK\$'000	%
Cash and cash equivalents	197,324	224,372	-12.1
Bank borrowings	226,315	215,340	5.1
Gearing ratio	46.4%	40.6%	14.3
Net asset value per share (HK\$)	0.49	0.53	-7.5

INTERIM RESULTS

The board (the “Board”) of directors (the “Directors”) of CPM Group Limited (the “Company”) presents the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2020 together with comparative amounts for the corresponding period in 2019. The condensed consolidated interim financial statements have not been audited, but have been reviewed by the Board’s audit committee.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2020

		Six months ended 30 June	
		2020	2019
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
REVENUE	3	267,220	305,877
Cost of sales		<u>(187,969)</u>	<u>(226,424)</u>
Gross profit		79,251	79,453
Other income and gains, net	3	14,273	3,442
Selling and distribution expenses		(43,053)	(64,711)
Administrative expenses		(52,474)	(54,766)
Other expenses, net		(15,045)	(6,755)
Finance costs	4	<u>(3,647)</u>	<u>(4,206)</u>
LOSS BEFORE TAX	5	(20,695)	(47,543)
Income tax expense	6	<u>(154)</u>	<u>(470)</u>
LOSS FOR THE PERIOD		<u><u>(20,849)</u></u>	<u><u>(48,013)</u></u>
ATTRIBUTABLE TO:			
Owners of the parent		(20,831)	(48,045)
Non-controlling interest		<u>(18)</u>	<u>32</u>
		<u><u>(20,849)</u></u>	<u><u>(48,013)</u></u>
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	7		
Basic and diluted		<u><u>HK (2.08) cents</u></u>	<u><u>HK (4.80) cents</u></u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2020

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
LOSS FOR THE PERIOD	<u>(20,849)</u>	<u>(48,013)</u>
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>(12,060)</u>	<u>(416)</u>
OTHER COMPREHENSIVE LOSS FOR THE PERIOD	<u>(12,060)</u>	<u>(416)</u>
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	<u><u>(32,909)</u></u>	<u><u>(48,429)</u></u>
ATTRIBUTABLE TO:		
Owners of the parent	(32,838)	(48,456)
Non-controlling interest	<u>(71)</u>	<u>27</u>
	<u><u>(32,909)</u></u>	<u><u>(48,429)</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

		30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment	9	199,089	209,048
Investment property	10	14,351	15,393
Right-of-use assets		82,153	87,138
Equity investment designated at fair value through other comprehensive income		300	300
Deposits for purchases of properties, plant and equipment		818	9,522
Net pension scheme assets		4,694	4,694
Deferred tax assets		15,867	16,277
		317,272	342,372
TOTAL non-current assets			
CURRENT ASSETS			
Inventories		49,018	56,158
Trade and bills receivables	11	320,105	304,494
Prepayments, deposits and other receivables		60,937	62,378
Cash and cash equivalents		197,324	224,372
		627,384	647,402
TOTAL current assets			
CURRENT LIABILITIES			
Trade payables	12	142,594	145,626
Other payables and accruals		61,724	69,171
Interest-bearing bank borrowings		226,315	215,340
Lease liabilities		1,119	2,658
Tax payable		10,242	10,460
		441,994	443,255
TOTAL current liabilities			
NET CURRENT ASSETS		185,390	204,147
TOTAL ASSETS LESS CURRENT LIABILITIES		502,662	546,519

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
NON-CURRENT LIABILITIES		
Lease liabilities	13	631
Deferred tax liabilities	10,546	10,709
Deferred income	1,319	1,486
	<hr/>	<hr/>
Total non-current liabilities	11,878	12,826
	<hr/>	<hr/>
Net assets	490,784	533,693
	<hr/> <hr/>	<hr/> <hr/>
EQUITY		
Equity attributable to owners of the parent		
Issued capital	100,000	100,000
Reserves	387,777	430,615
	<hr/>	<hr/>
	487,777	530,615
	<hr/>	<hr/>
Non-controlling interest	3,007	3,078
	<hr/>	<hr/>
Total equity	490,784	533,693
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1.1 BASIS OF PREPARATION

These unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). The unaudited condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2019.

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of the following revised Hong Kong Financial Reporting Standards (“HKFRSs”) for the first time for the current period’s financial statement.

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

Other than as explained below regarding the nature and impact of amendments to HKAS 1 and HKAS 8 *Definition of Material*, the revised standards are not relevant to the preparation of the Group’s unaudited condensed consolidated interim financial statements. The nature and impact of the revised HKFRSs are described below:

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. The amendments did not have any impact on the Group’s unaudited condensed consolidated interim financial statements.

2. OPERATING SEGMENT INFORMATION

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

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Hong Kong	36,752	40,594
Mainland China	230,468	265,283
	<u>267,220</u>	<u>305,877</u>

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

(b) Non-current assets

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
	Hong Kong	1,801
Mainland China	294,610	318,647
	<u>296,411</u>	<u>321,101</u>

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

Information about a major customer

During the six months ended 30 June 2020 and 2019, no revenue from any single customer accounted for 10% or more of the total revenue of the Group.

3. REVENUE, OTHER INCOME AND GAINS, NET

An analysis of revenue is as follows:

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
<i>Revenue from contracts with customers</i>	<u>267,220</u>	<u>305,877</u>
 Disaggregated revenue information		
	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Type of paint and coating products sold		
Industrial paint and coating products	99,010	123,023
Architectural paint and coating products	119,476	124,919
General paint and coating and ancillary products	<u>48,734</u>	<u>57,935</u>
	<u>267,220</u>	<u>305,877</u>
 Timing of revenue recognition		
Goods transferred at a point in time	<u>267,220</u>	<u>305,877</u>

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

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Other income and gains, net		
Bank interest income	571	334
Government grants*	1,171	927
Government subsidies [^]	476	–
Gain on deposits paid for purchases of properties, plant and equipment [#]	9,350	–
Gain on disposal of items of property plant and equipment, net	59	14
Foreign exchange differences, net	342	–
Recognition of deferred income	141	148
Rental income from an investment property	394	581
Others	1,769	1,438
	<u>14,273</u>	<u>3,442</u>

* 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.

[^] Government subsidies were granted from the Employment Support Scheme under the Anti-epidemic Fund of the Hong Kong government. As a condition of receiving the subsidies from the Employment Support Scheme, the Group undertakes not to make redundancies by 31 August 2020.

[#] During the six months ended 30 June 2020, a termination agreement was signed between the government of Xinfeng, Guangdong, the PRC and an indirect wholly-owned subsidiary of the Company, to terminate the previous signed acquisition agreement (i.e. a parcel of land located in Xinfeng). The government of Xinfeng, Guangdong, the PRC paid a compensation of approximately Renminbi ("RMB") 15,000,000 (equivalent to approximately HK\$16,813,000) for several initial payments made by the indirect wholly-owned subsidiary of the Company. The aggregate carrying amount of such several initial payments was approximately RMB6,658,000 (equivalent to approximately HK\$7,463,000).

4. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on bank loans	3,603	4,077
Interest on lease liabilities	44	129
	<u>3,647</u>	<u>4,206</u>

5. LOSS BEFORE TAX

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

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of inventories sold	187,969	226,424
Depreciation of property, plant and equipment	10,652	10,279
Depreciation of right-of-use assets	2,731	2,842
Amortisation of intangible assets	–	700
Provision for impairment of items of property, plant and equipment*	5,011	–
Provision for impairment of trade receivables*	4,517	736
Write-down of inventories to net realisable value, net [@]	62	–
Gain on deposits paid for purchases of properties, plant and equipment*	(9,350)	–
Fair value loss on an investment property*	759	–
Gain on disposal of items of property, plant and equipment, net*	(59)	(14)
Write-off of items of property, plant and equipment*	146	237
Foreign exchange differences, net*	(342)	468
	<u> </u>	<u> </u>

* These balances are included in “Other income and gains, net” for gains and “Other expenses, net” for losses respectively in the unaudited condensed consolidated statement of profit or loss.

[@] The balance is included in “Cost of sales” in the unaudited condensed consolidated statement of profit or loss.

6. 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 period (six months ended 30 June 2019: 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% (six months ended 30 June 2019: 25%) during the period, except for a subsidiary of the Group which qualified as a PRC High and New Technology Enterprise in Mainland China and a lower PRC corporate income tax rate of 15% (six months ended 30 June 2019: 15%) had been applied during the period.

7. 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 period attributable to ordinary equity holders of the parent of HK\$20,831,000 (six months ended 30 June 2019: HK\$48,045,000) and the weighted average number of ordinary shares of 1,000,000,000 (six months ended 30 June 2019: 1,000,000,000) in issue during the period.

The Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2020 and 2019.

8. DIVIDEND

At the annual general meeting held on 4 June 2020, the Company's shareholders approved the distribution of the final dividend for the year ended 31 December 2019 of HK1.0 cent (year ended 31 December 2018: Nil) per share which amounted to HK\$10,000,000 (year ended 31 December 2018: Nil).

The Directors have resolved not to declare an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2020, the Group acquired items of property, plant and equipment at costs of HK\$9,792,000 (six months ended 30 June 2019: HK\$9,347,000).

Items of property, plant and equipment with an aggregate net book value of HK\$206,000 (six months ended 30 June 2019: HK\$39,000) were disposed of by the Group during the six months ended 30 June 2020.

In addition, there was an impairment of items of property, plant and equipment of approximately HK\$5,011,000 (six months ended 30 June 2019: Nil) for the six months ended 30 June 2020.

10. INVESTMENT PROPERTY

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Carrying amount at beginning of period/year	15,393	15,713
Fair value loss	(759)	–
Exchange realignment	(283)	(320)
	<hr/>	<hr/>
Carrying amount at end of period/year	<u>14,351</u>	<u>15,393</u>

The Group's investment property was revalued on 30 June 2020 based on valuation performed by BMI Appraisals Limited, an independent professional qualified valuer, at HK\$14,351,000. Fair value of the Group's investment property is generally derived by using the investment approach.

11. 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 receivable balances. Trade and bills receivables are non-interest-bearing.

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

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Within three months	184,148	191,356
Over three months and within six months	38,377	74,470
Over six months	97,580	38,668
	320,105	304,494

12. TRADE PAYABLES

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

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Within three months	136,537	143,964
Over three months and within six months	5,832	1,426
Over six months	225	236
	142,594	145,626

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

13. SHARE OPTION SCHEME

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

The Scheme will expire on 3 June 2030. From the Adoption Date up to 30 June 2020, no share options were granted under the Scheme.

INTERIM DIVIDEND

The Directors have resolved not to declare an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In Mainland China, the most recent economic indicators showed that the domestic economy in the PRC might start recovering from the global lockdown and the slowdown in business activities caused by the COVID-19 pandemic (the “COVID-19”). On 16 July 2020, the National Bureau of Statistics of China (the “NBSC”) announced that the economic performance of China during the first half of 2020 recorded a decline of gross domestic product (“GDP”) by 6.8% during the first quarter of 2020 and a growth of GDP by 3.2% during the second quarter of 2020, as compared to the same periods in 2019. Overall, the GDP of China during the first half of 2020 shrank by 1.6%, as compared to the growth rate of 6.3% during the first half of 2019.

Geographically, Eastern China, Central China and Southern China have consistently accounted for approximately two-third of China’s GDP in the first half of 2020. The GDP of Eastern China, Central China and Southern China in the first quarter of 2020 decreased by 4.3%, 13.2% and 4.2% respectively, as compared to the first quarter of 2019. In the first half of 2020, the GDP growth rate in Southern China and Central China dropped by 0.9% and 4.5% respectively, while the GDP growth rate in Eastern China grew by 0.4%, as compared to the first half of 2019. In line with the declines in GDP, the Group’s revenue generated from these regions for the six months ended 30 June 2020 decreased by 8.6% (in terms of the original currency of Renminbi), as compared to the same period in 2019.

During the first half of 2020, the demand for paint and coating products in Mainland China increased because of the continuous growth in the real property industry, albeit that there was the decrease in demand for paint and coating products in the manufacturing industry in Mainland China, which is regarded as a secondary industry, including the retail business of decorating paint and coating products and the sales of the furniture paint and coating products. The cumulative construction area of construction in progress increased by 2.6% during the first half of 2020, as compared to the increase of 8.8% during the first half of 2019. On the other hand, the cumulative completion area, in terms of size, decreased by 10.5% during the first half of 2020, as compared to the decrease of 12.7% during the first half of 2019. These have slowed down the retail sales of construction and decorative paint and coating products during the first half of 2020 by 21.5%, as compared to the decrease of 22.2% during the first half of 2019, and the retail sales of paint and coating products for furniture goods, including furniture manufacturing purpose, decreased by 26.6% during the first half of 2020, as compared to the decrease of 14.9% during the first half of 2019. The paint and coating industry not only suffered from the economic downturn as a result of the COVID-19, but also the adverse effect of the decrease in the number of completed units in the property development industry

during the first half of 2020. Some paint and coating manufacturers in Mainland China who had strengthened conventional sales channels, such as wholesalers or retail dealers, were adversely affected. Following the changes in the customer demands in the market, during the first half of 2020, the Group recorded a similar level of revenue contribution generated from the construction and renovation contractors for property and infrastructure projects, a significant revenue decrease of 29.7% from industrial manufacturers, as well as a decrease of 9.8% in revenue generated from wholesale distributors and retail distributors, as compared to the first half of 2019.

The paint and coating industry is included in the secondary industry in Mainland China which had an overall decrease in GDP by 10.0% in the first quarter of 2020, as compared to the increase in GDP of 6.8% in the first quarter of 2019. The manufacturing industry steadily recovered and recorded a growth of 1.8% in the second quarter of 2020, as compared to a growth rate of 5.8% in the second quarter of 2019. Overall, the manufacturing industry in Mainland China shrank by 4.1% during the first half of 2020, as compared to the increase by 6.2% during the first half of 2019. In addition, according to the Manufacturing Producer Price Index for coating, ink, pigment and similar products in Mainland China, the prices of these products during the first half of 2020 were intensely competitive and decreased in the range between 0.2% and 3.1%. As a result of the rapid stimulus, relief programs and quick responses to the COVID-19 by the Chinese government, the performance of the manufacturing industry improved in the second quarter of 2020. Under this market situation, the Group's revenue generated from Mainland China for the six months ended 30 June 2020 decreased by 8.2% (in terms of the original currency of Renminbi), as compared to the same period in 2019.

In addition to the economic conditions in Mainland China, Hong Kong's economy became worse and turned to recession in the first half of 2020 due to the COVID-19. In Hong Kong, a wide range of local economic activities and supply chains were seriously disrupted by the COVID-19. Thus, Hong Kong's GDP contracted sharply by approximately 9.0% in the first half of 2020, as compared to the first half of 2019. Besides, as a result of the fall in private consumption expenditure due to the COVID-19 and social distancing measures carried out by the Hong Kong government, the overall investment expenditure showed a sharp contraction amid weak business sentiment, which reduced the construction activities. With decline in Hong Kong's GDP, the Group's sale of paint and coating products in Hong Kong significantly decreased by 9.5% for the six months ended 30 June 2020, as compared to the last corresponding period.

On the other hand, following the spread of the COVID-19 in January 2020, the price of crude oil fell sharply amid fears of faltering demand. The Saudi-Russia oil price war triggered in March 2020 caused a further significant drop of crude oil future price in April 2020 to a negative price. Following the agreement on crude oil production cut among OPEC+ members, crude oil future price gradually increased to approximately US\$39 WTI (West Texas Intermediate) crude per barrel or US\$41 Brent crude per barrel

as of 30 June 2020. Overall, the price of crude oil in the first half of 2020 was highly fluctuated as compared to that in the first half of 2019. Whilst there was a decline in international crude oil prices, China's imported by-product of crude oil did not show a corresponding decline due to Renminbi depreciation. As a result, when compared to the decrease in the international crude oil prices, the cost of raw materials in the paint and coating industry did not decrease significantly. Overall, the Group's gross profit margin for the six months ended 30 June 2020 increased by 14.2% as compared to the same period in 2019.

REVIEW OF OPERATIONS

Due to the COVID-19, both the Chinese government and the Hong Kong government have implemented public health measures and taken various actions to slow down the spread of the COVID-19. Restrictions on business and social activities, such as full or partial lockdown on road and air travel, suspension of schooling and work from home arrangements, have resulted in the negative impact on the Group's business. Moreover, the demand for the paint and coating products of the Group was to a less extent affected by the seasonal factor, but the seasonal factor would also affect the operation of manufacturing and construction industries. Despite the repercussions of the COVID-19, through the Group's prolonged efforts in achieving improvement on gross profit margin and reduction of operating expenses, the Group recorded a reduction of loss attributable to its parent company by 56.6% of HK\$20.83 million for the six months ended 30 June 2020, as compared to a loss of HK\$48.05 million for the same period in 2019.

Revenue

The amount of revenue of the Group decreased to HK\$267.22 million during the six months ended 30 June 2020, as compared to HK\$305.88 million for the six months ended 30 June 2019. The table below sets forth an analysis of the Group's revenue for its principal products during the six months ended 30 June 2020 and 2019:

	Six months ended 30 June				% of net change
	2020		2019		
	HK\$'000	%	HK\$'000	%	
Industrial paint and coating products	99,010	37.1	123,023	40.2	-19.5
Architectural paint and coating products	119,476	44.7	124,919	40.9	-4.4
General paint and coating and ancillary products ⁽¹⁾	48,734	18.2	57,935	18.9	-15.9
	267,220	100.0	305,877	100.0	-12.6

⁽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.

Decrease in revenue because of the COVID-19

The challenging economic environment has had an adverse impact on the results of the Group. The decrease in the amount of revenue generated from the sales of industrial paint and coating products, architectural paint and coating products, and general paint and coating and ancillary products for the six months ended 30 June 2020 were 19.5%, 4.4% and 15.9% respectively. Such decrease in revenue during the six months ended 30 June 2020 was primarily due to the adverse impact of the COVID-19 in Mainland China and Hong Kong. According to the NBSC, the sales of the manufacturing industry in Mainland China during the first half of 2020 decreased by 4.1% and the retail sales of the construction and decorative paint and coating products during the first half of 2020 decreased by 21.5%, as compared to the first half of 2019. The decrease in sales of paint and coating products of the Group was in the range with the general business environment even though it was adversely affected by the COVID-19.

Despite the depreciation of Renminbi, the revenue of the Group for the six months ended 30 June 2020, in terms of Hong Kong dollars, decreased by 12.6% as compared to the same period in 2019. It was worth noting that, in terms of the original currencies (Renminbi and Hong Kong dollars), the overall revenue of the Group for the six months ended 30 June 2020 decreased by 8.4% as compared to the same period in 2019.

Decline in sales to industrial manufacturers and wholesale distributors and retail distributors

The Group's customers include construction and renovation contractors for property and infrastructure projects, industrial manufacturers and wholesale distributors and retail distributors, which accounted for 38.5%, 23.5% and 38.0% respectively, during the six months ended 30 June 2020, as compared to 34.0%, 29.2% and 36.8% respectively, during the six months ended 30 June 2019. The Group's revenue generated from these customers for the six months ended 30 June 2020 decreased by 1.1%, 29.7% and 9.8% respectively.

The significant decrease in the sales to the industrial manufacturers was caused by the temporarily suspension or reduced scale of operations of the industrial manufacturers in the first quarter of 2020, which was due to the prohibition of commencement of work after the Chinese New Year holidays in Mainland China. Moreover, the continuing tension in the China-US relationship has also affected the export sales of the industrial manufacturers in Mainland China. In addition, the decline in sales to the wholesale distributors and retail distributors was primarily due to the economic slowdown in Mainland China, which led to a temporarily reduction in paint and coating products expenses for potential end-users.

For construction and renovation contractors, the Group maintained a flat revenue for the six months ended 30 June 2020 as compared to the same period in 2019. On the contrary, during the six months ended 30 June 2020, the Group continued to expand the sales to property developers and construction contractors. The revenue generated from the sales to new property developers and construction contractors offset the declines in revenue from the suspension of the Group's production plants under the COVID-19 during the first quarter of 2020.

Geographical analysis of the amount of revenue

For the six months ended 30 June 2020, the Group's revenue generated from Mainland China and Hong Kong accounted for 86.2% and 13.8% respectively. Most of the Group's revenue in Mainland China was generated from Southern China, Central China and Eastern China. These regions, in aggregate, accounted for 79.6% of the Group's total revenue, as compared to 79.9% for the six months ended 30 June 2019.

Significant decrease in sales to industrial manufacturers in Southern China, Central China and Eastern China

For the six months ended 30 June 2020, sales to industrial manufacturers in Southern China, Central China and Eastern China decreased by 29.2% as compared to the same period in 2019. This decrease contributed 52.1% of the Group's total gross amount of decrease in revenue for the six months ended 30 June 2020, as compared to the same period in 2019.

Significant decrease in sales to wholesale distributors and retail distributors in Central China and Eastern China

For the six months ended 30 June 2020, sales to wholesale distributors and retail distributors in Central China and Eastern China decreased by 28.0% as compared to the same period in 2019. This decrease contributed 14.6% of the Group's total gross amount of decrease in revenue for the six months ended 30 June 2020, as compared to the same period in 2019.

Significant decrease in sales to construction and renovation contractors for property and infrastructure projects in Southern China and Eastern China

For the six months ended 30 June 2020, sales to construction and renovation contractors for property and infrastructure projects in Southern China and Eastern China decreased by 16.1% as compared to the same period in 2019. This decrease contributed 14.3% of the Group's total gross amount of decline in revenue for the six months ended 30 June 2020, as compared to the same period in 2019.

On the contrary, during the six months ended 30 June 2020, the Group continued to expand the sales to property developers and construction contractors in Central China, which increased by 17.1% as compared to the same period in 2019. However, such increase was offset against the declines in sales to industrial manufacturers and wholesale distributors and retail distributors in Central China. As a result, the overall revenue generated in Central China decreased by 12.2% for the six months ended 30 June 2020, as compared to the same period in 2019.

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. Due to a sharp fall in global consumption of crude oil after the spread of the COVID-19 in January 2020, the price of crude oil decreased significantly since February 2020 to a negative price in April 2020 and then subsequently rebounded in June 2020. Despite the crude oil prices drop in the first half of 2020, the overall cost of raw materials to revenue decreased only by 13.5% as compared to the same period in 2019. This is because the prices of imported raw materials were also affected by the supply and demand mismatch and the Renminbi depreciation during the six months ended 30 June 2020. As a result, the range of fluctuation in raw materials prices was generally different from the change in the crude oil prices during the six months ended 30 June 2020.

Direct labour cost

Direct labour cost decreased by 2.5% to HK\$16.69 million for the six months ended 30 June 2020, which was primarily attributable to Renminbi depreciation during the six months ended 30 June 2020.

Depreciation and production overhead

Depreciation and production overhead cost decreased by 4.2% to HK\$12.0 million for the six months ended 30 June 2020, which was primarily due to the fact that the intangible assets had been fully amortised during the six months ended 30 June 2019.

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

Gross profit margin of the Group during the six months ended 30 June 2020 increased by 14.2% from 26.0% to 29.7%. The increase in the gross profit margin was primarily due to the change in the product mix and the decrease in the prices of raw materials. However, due to the decrease in the production volume caused by the decrease in sales, the average unit production cost of the Group, such as depreciation and direct labour, increased by amortisation. As a result, part of the increase in the profit margin was offset against the higher amortisation rate of production cost for the six months ended 30 June 2020.

Despite the improvement in gross profit margin, gross profit for the six months ended 30 June 2020 slightly decreased by 0.3% to HK\$79.25 million as compared to the six months ended 30 June 2019, due to the decrease in revenue during the six months ended 30 June 2020.

Other Income and Gains, Net

The amount of other income and gains, net increased by 314.7% to HK\$14.27 million from HK\$3.44 million during the six months ended 30 June 2020. Such increase was primarily due to the gain on deposits paid for purchases of properties, plant and equipment of HK\$9.35 million for the six months ended 30 June 2020. During the six months ended 30 June 2020, a termination agreement was signed between the government of Xinfeng, Guangdong, the PRC and an indirect wholly-owned subsidiary of the Company for terminating the acquisition agreement dated 21 January 2008 in respect of a parcel of land located in Xinfeng. The Xinfeng government paid a compensation of RMB15.00 million (equivalent to HK\$16.81 million) for several initial payments made by the subsidiary. The aggregate carrying amount of such several initial payments was RMB6.66 million (equivalent to HK\$7.46 million). The gain on deposits paid for properties, plant and equipment was HK\$9.35 million.

Selling and Distribution Expenses and Administrative Expenses

The amount of the selling and distribution expenses decreased by 33.5% to HK\$43.05 million and the percentage to revenue also decreased by 24.1% to 16.1% from 21.2% during the six months ended 30 June 2020.

The amount of the administrative expenses during the six months ended 30 June 2020 decreased by 4.2% to HK\$52.47 million, as compared to HK\$54.77 million during the six months ended 30 June 2019. The percentage to revenue of the administrative expenses increased by 9.5% to 19.6% during the six months ended 30 June 2020, as compared to 17.9% for the six months ended 30 June 2019. It was primarily due to the decrease in the amount of revenue during the COVID-19.

Other Expenses, Net

The amount of the other expenses, net comprised of mainly the provision for the impairment of items of property, plant and equipment, the provision for the impairment of trade receivables and the fair value loss on an investment property. Such amount increased by 122.6% to HK\$15.05 million from HK\$6.76 million during the six months ended 30 June 2020. The Group carried out review of the recoverable amount of certain property, plant and equipment for the six months ended 30 June 2020 based on value-in-use calculations. Accordingly, the reviews led to the recognition of the provision for the impairment of items of property, plant and equipment of HK\$5.01 million, as compared to nil during the six months ended 30 June 2019. In addition, due to the impact of the COVID-19 on the economic outlook, the Group made additional provision for impairment of trade receivables of HK\$4.52 million during the six months ended 30 June 2020, as compared to HK\$0.74 million during the six months ended 30 June 2019, and the Group recognised a fair value loss on an investment property of approximately HK\$0.76 million, as compared to nil during the six months ended 30 June 2019.

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

Despite a decrease in revenue, the Group had an improvement on the gross profit margin. Furthermore, the Group's operating expenses of the selling and distribution expenses and the administrative expenses had also significantly reduced. As a result, the Group's loss attributable to its parent company significantly reduced by 56.6% to HK\$20.83 million from HK\$48.05 million as compared to the same period in 2019. From other financial perspectives, other than the significant reduction in operating loss of the Group for the six months ended 30 June 2020, the Group's adjusted EBITDA[#] recorded a positive amount of HK\$6.62 million for the six months ended 30 June 2020, as compared to the negative adjusted EBITDA of HK\$28.78 million for the six months ended 30 June 2019.

[#] Adjusted EBITDA represents earnings before finance costs, income tax, depreciation of property, plant and equipment, depreciation of right-of-use assets, provision for impairment of trade receivables, provision for impairment of items of property, plant and equipment, fair value loss on an investment property and amortisation of intangible assets. While adjusted EBITDA is commonly used as an indicator of operating performance, leverage and liquidity, it is not presented as a measure of operating performance in accordance with HKFRSs and should not be considered as representing net cash flows from operating activities. The computation of the Group's adjusted EBITDA may not be comparable to similarly titled measures of other companies.

FINANCIAL REVIEW

Liquidity and Indebtedness

The Group's business operation is generally financed by its internal financial resources and bank borrowings. The cash and cash equivalents amounted to HK\$197.32 million as of 30 June 2020, as compared to HK\$224.37 million as of 31 December 2019. The decrease in the cash and cash equivalents as of 30 June 2020 was mainly due to the change of working capital. Bank borrowings amounted to HK\$226.32 million as of 30 June 2020 as compared to HK\$215.34 million as of 31 December 2019. The Group's bank borrowings mainly bear interest at floating rates. The Group's total bank borrowings amounted to HK\$226.32 million (100.0%) as of 30 June 2020 is payable within one year.

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

Gearing ratio of the Group, which is expressed as a percentage of total bank borrowings to shareholders' funds, was 46.4% as of 30 June 2020, as compared to 40.6% as of 31 December 2019. Liquidity ratio of the Group, which is expressed as a percentage of current assets to current liabilities, was 1.42 times as of 30 June 2020, as compared to 1.46 times as of 31 December 2019.

For the six months ended 30 June 2020, the inventory turnover days¹ were 47 days which was slightly different from that of 40 days in 2019. The trade and bills receivables turnover days² were 218 days as compared to that of 156 days in 2019. The increase in the trade receivable turnover days was primarily due to the deferral of settlement by customers during the COVID-19.

¹ The calculation of inventory turnover days is based on the closing balance of inventories divided by the cost of sales times 182 days (31 December 2019: 365 days).

² The calculation of trade and bills receivables turnover days is based on the closing balance of trade and bills receivables divided by the revenue times 182 days (31 December 2019: 365 days).

Equity and Net Asset Value

Shareholders' funds of the Company as of 30 June 2020 amounted to HK\$487.78 million as compared to HK\$530.62 million as of 31 December 2019. Net asset value per share as of 30 June 2020 amounted to HK\$0.49, as compared to HK\$0.53 as of 31 December 2019. Fluctuations in the foreign currency exchange rates between Hong Kong dollars (the reporting currency) and Renminbi could have a significant impact and may lead to volatility in the operating results of the Group.

Contingent Liabilities

As of 30 June 2020, the amount of utilised banking facilities granted to various subsidiaries subject to guarantees given by the Company was HK\$222.73 million, as compared to HK\$215.34 million as of 31 December 2019.

Pledge of Assets

As of 30 June 2020, certain property, plant and equipment and right-of-use assets with aggregate net book value of HK\$7.12 million, as compared to HK\$7.62 million as of 31 December 2019, were pledged to financial institutions as collaterals for bank borrowings and lease liabilities. In addition, as of 30 June 2020 and 31 December 2019, a wholly-owned subsidiary of the Group pledged its shares to secure general banking facilities granted to the Group.

STAFF

As of 30 June 2020, the Group employed a total of 775 employees, as compared to 790 employees as of 31 December 2019. Staff costs, excluding directors' emoluments, amounted to HK\$60.70 million for the six months ended 30 June 2020 as compared to HK\$68.85 million for the six months ended 30 June 2019. The Group has a comprehensive and competitive staff remuneration and benefits system which is based on the performance of individual employees.

BUSINESS OUTLOOK

The principal market of the Group is in Mainland China. Notwithstanding the continuing tension in the China-US relationship, as the COVID-19 in Mainland China has been brought under control at present and with the gradual resumption of production and normalisation of economic activities, the paints and coatings market in Mainland China has been demonstrating a recovery in demand since the second quarter of 2020. In terms of the prevention of the COVID-19, the Group remains highly vigilant and continues to closely monitor the impact of the developments on the Group's business and has put in place business contingency plans, such as ongoing measures in preventing the spread of the COVID-19 within production facilities and in monitoring the impact on the supply chain. The Group will keep contingency measures under review as the situation evolves.

In addition to monitoring the impact of the COVID-19, the Group recognises that continuous improvements in its business operations and profitability are required even though the amount of loss for the six months ended 30 June 2020 was considerably less than the same period in 2019. Based on the sales performance for the six months ended 30 June 2020, the Group's sales to construction and renovation contractors for property and infrastructure projects in Central China continued to grow. The Directors believe that the sales to construction and renovation contractors for property and infrastructure projects would be one of the major sources of revenue growth in the foreseeable future. The Directors also believe that the fundamentals of the business initiatives, including boosting its performance by increasing the selling prices of the paint and coating products, improving the procurement and sourcing process, optimising the product mix and production distribution channels of the Group, and integrating the production facilities of the Group in Mainland China, remain necessary.

In order to maintain competitive advantages, the Group will make a proactive effort to optimise the industrial chain for achieving the products and market diversification of its paint and coating products. In the meantime, in order to leverage the foundation of the existing business, the Group has planned to support the “Guangdong-Hong Kong-Macao Greater Bay Area plan”, which targets at Southern China market with a focus on leading cities in the Guangdong Province, the PRC, such as Shenzhen and Zhongshan, to further develop the Group’s business in Mainland China by increasing additional production capacity in the Group’s production plant in Zhongshan (the “Zhongshan Production Plant”). The Group will continue to rationalise production processes and streamline manpower resources in order to improve the production efficiency. In addition, in order to increase the market share, extend the geographical sales and expand the customers base in Mainland China, the Group will continue to explore production cooperation with selected paint and coating manufacturers on an original equipment manufacturer (OEM) basis. The Directors believe that such business focus is beneficial to the business development of the Group with resources to be focused on the target markets where the Group has significant business presence.

The Latest Progress in the Construction of Production Facilities and Complex in Mainland China

The Group’s priority is to move forward the construction of the production facilities (the “Construction of Production Facilities”) and complex in Mainland China, which was under the timetable for the construction of the water-based paint and coating products production facilities at the Zhongshan Production Plant. The expected completion of the Construction of Production Facilities of the first phrase (the “First Phrase”) was scheduled in the second quarter of 2020, but it will be delayed to early third quarter of 2020 as a result of the COVID-19. For the same reason, the commencement of trial production will be delayed to the third quarter of 2020, and its commencement of commercial production will be delayed to the last quarter of 2020. After the commercial production of the First Phrase, the Zhongshan Production Plant will be able to produce solvent-based and water-based paint and coating products for selling to the industrial manufacturers in Southern China. The Group will also provide after-sales-service to these industrial manufacturers.

The construction works in the second phrase is for the production of architectural paint and coating products, which has taken place under an accelerated timeline in the second half of 2020 to ensure all remaining facilities of the Construction of Production Facilities to be completed on schedule. Its trial production will commence in the last quarter of 2020 and the commercial production is planned to commence in the first quarter of 2021.

On the other hand, the Group has been actively exploring and identifying suitable office premises in Shenzhen for setting up a new product research and development centre (the “New R&D Centre”), which is expected to commence business operation around the end of 2020. However, as a result of the lockdown in some areas of China due to the COVID-19, the original scheduled visits of the targeted office premises during the first half of 2020 were delayed. Therefore, the original timetable for completion of the New R&D Centre may be postponed. The Group will try its best effort to look for the selected office premises in the second half of 2020. The set up of the New R&D Centre in Shenzhen is in line with the strategy of the Group which is to focus on encouraging and promoting Shenzhen as an important base for high-tech research, development and manufacturing in Southern China, and more importantly, to employ high caliber candidates for the support of further development of paint and coating products in the Southern China.

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 period under review. 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 period under review.

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. Throughout the six months ended 30 June 2020, the Company has applied the principles and complied with the code provisions as set out in the Corporate Governance Code as contained in Appendix 14 to 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 as 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 as set out in the Model Code and the Company’s own code during the six months ended 30 June 2020.

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

Hong Kong, 27 August 2020

As at the date of this announcement, the Board comprises Mr. Tsui Ho Chuen, Philip, Mr. Li Guangzhong and Mr. Wong Anders as executive Directors; Mr. Lam Ting Ball, Paul and Mr. Chong Chi Kwan as non-executive Directors; and Ms. Chiu Kam Hing, Kathy, Mr. Chua Joo Bin and Mr. Xia Jun as independent non-executive Directors.