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ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

FINANCIAL HIGHLIGHTS			
	Year ended 31 December		Change
	2017	2016	
Results	HK\$'000	HK\$'000	
Revenue	995,958	937,450	6.2%
Gross profit	307,807	347,362	-11.4%
Gross profit margin	30.9%	37.1%	-16.6%
Profit attributable to owners of parent	17,332	55,448	-68.7%
Earnings per share (HK cents)			
Basic and diluted	1.99	7.39	N/A
	As at	As at	
	31 December	31 December	
	2017	2016	
Financial Position	HK\$'000	HK\$'000	Change
Total cash and bank balances (including cash and cash equivalents, and structured deposits)	247,258	318,206	-22.3%
Bank and other borrowings	101,786	114,732	-11.3%
Gearing ratio	13.6%	17.2%	-20.6%
Net asset value per share (HK\$)	0.76	0.90	-16.4%

The board of directors (the “Board”) of CPM Group Limited (the “Company”) announce the consolidated annual results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2017 together with comparative amounts for the corresponding year in 2016 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2017

	Notes	2017 HK\$'000	2016 HK\$'000
REVENUE	4	995,958	937,450
Cost of sales		<u>(688,151)</u>	<u>(590,088)</u>
Gross profit		307,807	347,362
Other income and gains, net	4	9,593	12,827
Selling and distribution expenses		(172,014)	(148,647)
Administrative expenses		(100,400)	(112,227)
Other expenses, net		(19,827)	(23,998)
Finance costs	5	<u>(1,559)</u>	<u>(2,050)</u>
PROFIT BEFORE TAX	6	23,600	73,267
Income tax expenses	7	<u>(6,585)</u>	<u>(17,801)</u>
PROFIT FOR THE YEAR		<u>17,015</u>	<u>55,466</u>
ATTRIBUTABLE TO:			
Owners of the parent		17,332	55,448
Non-controlling interest		<u>(317)</u>	<u>18</u>
		<u>17,015</u>	<u>55,466</u>
EARNINGS PER SHARE			
ATTRIBUTABLE TO ORDINARY			
EQUITY HOLDERS OF THE PARENT			
Basic and diluted	8	<u>HK1.99 cents</u>	<u>HK7.39 cents</u>

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2017

	2017	2016
	HK\$'000	HK\$'000
PROFIT FOR THE YEAR	<u>17,015</u>	<u>55,466</u>
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	43,600	(53,672)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Remeasurement of net pension scheme assets	<u>2,176</u>	<u>339</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	<u>45,776</u>	<u>(53,333)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>62,791</u>	<u>2,133</u>
ATTRIBUTABLE TO:		
Owners of the parent	62,843	2,358
Non-controlling interest	<u>(52)</u>	<u>(225)</u>
	<u>62,791</u>	<u>2,133</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 HK\$'000	2016 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		200,883	188,041
Prepaid land lease payments		19,232	18,389
Available-for-sale investment		300	300
Deposits for purchases of properties, and plant and equipment		8,972	8,662
Net pension scheme assets		4,421	2,372
Deferred tax assets		5,327	7,470
		239,135	225,234
CURRENT ASSETS			
Inventories		71,682	60,955
Trade and bills receivables	10	698,051	445,513
Prepayments, deposits and other receivables		53,076	44,702
Due from the Remaining Group		–	106,555
Structured deposits		–	98,666
Cash and cash equivalents		247,258	219,540
		1,070,067	975,931
CURRENT LIABILITIES			
Trade and bills payables	11	293,604	199,635
Other payables and accruals		111,727	139,797
Due to the Remaining Group		3,166	19,853
Interest-bearing bank and other borrowings		100,770	113,344
Tax payable		15,774	17,088
		525,041	489,717
NET CURRENT ASSETS		545,026	486,214
TOTAL ASSETS LESS CURRENT LIABILITIES		784,161	711,448

	Notes	2017 HK\$'000	2016 HK\$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		1,016	1,388
Deferred tax liabilities		25,154	29,343
Deferred income		2,215	2,346
		<u> </u>	<u> </u>
Total non-current liabilities		28,385	33,077
		<u> </u>	<u> </u>
Net assets		755,776	678,371
		<u> </u>	<u> </u>
EQUITY			
Equity attributable to owners of the parent			
Issued capital	12	100,000	–
Reserves		652,210	674,753
		<u> </u>	<u> </u>
		752,210	674,753
		<u> </u>	<u> </u>
Non-controlling interest		3,566	3,618
		<u> </u>	<u> </u>
Total equity		755,776	678,371
		<u> </u>	<u> </u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1.1 REORGANISATION AND BASIS OF PRESENTATION

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. The shares of the Company (the “Shares”) have been listed on the main board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 10 July 2017 (the “Listing Date”).

The Company is an investment holding company. During the year, the Company’s subsidiaries were engaged in the manufacture and sale of paint and coating products.

Pursuant to the reorganisation (the “Reorganisation”) of the Group in connection with the listing of the Shares on the Stock Exchange, as explained in the paragraph headed “Reorganisation” in the section headed “History, Development and Reorganisation” in the prospectus (the “Prospectus”) of the Company dated 19 June 2017, the Company became the holding company of the companies now comprising the Group on 19 September 2016. Since the companies now comprising the Group were under the common control of the same controlling shareholders before and after the Reorganisation, these financial statements have been prepared using the principles of merger accounting.

In the opinion of the directors of the Company (the “Directors”), CNT Group Limited (“CNT Group”), a company incorporated in Bermuda and listed on the main board of the Stock Exchange, is the ultimate holding company of the Company during the year.

The Company and its subsidiaries are hereafter collectively referred to as the “Group”; whereas CNT Group and its subsidiaries, but excluding the Group, are collectively referred to as the “Remaining Group”.

The consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flow of the Group for the year ended 31 December 2017 include the results and cash flows of all companies now comprising the Group from the earliest date presented or since the date when the subsidiaries and/or business first came under the common control of CNT Group, where this is a shorter period.

Equity interests in subsidiaries and/or business held by parties other than the controlling shareholders, and changes therein, prior to the Reorganisation are presented as non-controlling interests in equity in applying the principles of merger accounting. All intra-group transactions and balances have been eliminated on consolidation.

1.2 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 structured deposits, an available-for-sale investment 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 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 HKAS 7	<i>Disclosure Initiative</i>
Amendments to HKAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>
Amendments to HKFRS 12	<i>Disclosure of Interests in Other Entities:</i>
<i>included in Annual Improvements to HKFRSs 2014-2016 Cycle</i>	<i>Clarification of the Scope of HKFRS 12</i>

None of the above amendments to HKFRSs has had a significant financial effect on these financial statements. Disclosure has been made in a note to the financial statements upon the adoption of amendments to HKAS 7, which require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

3. 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

	2017 HK\$'000	2016 HK\$'000
Hong Kong	86,162	80,233
Mainland China	909,796	857,217
	<u>995,958</u>	<u>937,450</u>

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

(b) Non-current assets

	2017 HK\$'000	2016 HK\$'000
Hong Kong	3,628	4,256
Mainland China	225,459	210,836
	<u>229,087</u>	<u>215,092</u>

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

Information about a major customer

During the year ended 31 December 2017 and 2016, 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, other income and gains, net is as follows:

	2017 HK\$'000	2016 HK\$'000
Revenue		
Sale of paint products	<u>995,958</u>	<u>937,450</u>
Other income and gains, net		
Bank interest income	839	2,402
Government grants*	4,819	4,641
Fair value gains		
Structured deposits	762	3,209
Derivative instrument – transaction not qualifying as hedge	–	10
Recognition of deferred income	295	301
Others	<u>2,878</u>	<u>2,264</u>
	<u>9,593</u>	<u>12,827</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.

5. FINANCE COSTS

An analysis of finance costs is as follows:

	2017 HK\$'000	2016 HK\$'000
Interest on bank loans	1,482	2,005
Interest on finance leases	<u>77</u>	<u>45</u>
	<u>1,559</u>	<u>2,050</u>

6. PROFIT BEFORE TAX

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

	2017 HK\$'000	2016 HK\$'000
Cost of inventories sold	688,151	590,088
Depreciation	18,212	18,174
Amortisation of prepaid land lease payments	513	524
Provision for impairment of trade receivables*	7,967	11,694
Write-back of inventories to net realisable value, net	(2,841)	(5,731)
Loss on disposal of items of property, plant and equipment, net*	61	142
Written off of items of property, plant and equipment*	557	608
Foreign exchange differences, net*	512	71
	<u>688,151</u>	<u>590,088</u>

* 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.

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 (2016: 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% during the year, except for subsidiaries 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% (2016: 15%) had been applied during the year.

	2017 HK\$'000	2016 HK\$'000
Current – Elsewhere		
Charge for the year	10,611	20,283
Overprovision in prior years	(2,515)	–
Deferred	(1,511)	(2,482)
	<u>6,585</u>	<u>17,801</u>
Total tax charge for the year	<u>6,585</u>	<u>17,801</u>

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

The calculation of basic earnings per share for the year ended 31 December 2017 is based on the profit for the year attributable to owners of the parent of HK\$17,332,000 (2016: HK\$55,448,000) and the weighted average number of ordinary shares of 869,863,014 (2016: 750,000,000) in issue during the year, on the assumption that the Reorganisation and the Capitalisation Issue (as defined in note 12(iv)) in connection with the listing of the Shares had been completed on 1 January 2016.

The weighted average number of shares used to calculate the basic earnings per share amount for the year ended 31 December 2017 includes 100 ordinary shares in issue on 8 June 2017 and 749,999,900 new shares issued pursuant to the Capitalisation Issue (as further detailed in note 12(iv)) on the assumption that these shares had been in issue throughout the year ended 31 December 2017.

The weighted average number of shares used to calculate the basic earnings per share amount for the year ended 31 December 2016 was based on 750,000,000 ordinary shares, representing the number of shares immediately after the Capitalisation Issue, as if all these shares had been in issue throughout the year ended 31 December 2016.

No adjustment has been made to the basic earnings per share amount presented for the year ended 31 December 2017 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during the year.

9. DIVIDEND

The Directors have resolved not to declare a final dividend for the year ended 31 December 2017 (2016: Nil).

On 7 June 2017, CP Industries (BVI) Limited, the former holding company of the subsidiaries of the Group prior to the completion of the Reorganisation, declared a special interim dividend of HK\$180,000,000 (2016: Nil) to the Remaining Group. The rate for this dividend and the number of shares ranking for this dividend are not presented as such information is not considered meaningful for the purpose of the financial statements.

10. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance may require. The Group maintains a defined credit policy and credit periods are usually granted ranging from one to three months to normal customers. The Group seeks to maintain strict control over its receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade and bills receivables relate to a large number of diversified customers and reputable banks, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade and bills receivables are non-interest-bearing.

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

	2017 HK\$'000	2016 HK\$'000
Within three months	506,999	380,652
Over three months and within six months	61,802	41,424
Over six months	<u>129,250</u>	<u>23,437</u>
	<u><u>698,051</u></u>	<u><u>445,513</u></u>

11. 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:

	2017 HK\$'000	2016 HK\$'000
Within three months	289,675	198,074
Over three months and within six months	3,622	1,549
Over six months	<u>307</u>	<u>12</u>
	<u><u>293,604</u></u>	<u><u>199,635</u></u>

The trade payables are unsecured, non-interest-bearing and are normally settled within two months. As at 31 December 2017, there was no bills payable. As at 31 December 2016, bill payable with an aggregate carrying amount of HK\$807,000 were secured by certain investment properties owned by the Remaining Group amounted to HK\$334,620,000.

12. SHARE CAPITAL

- (i) The Company was incorporated on 19 September 2016 with initial authorised share capital of HK\$380,000 divided into 3,800,000 shares of a par value of HK\$0.1 each. On the date of incorporation, 1 ordinary share of HK\$0.1 was issued and allotted by the Company.
- (ii) On 11 November 2016, the authorised share capital of the Company increased to HK\$800,000,000 divided into 8,000,000,000 shares of a par value of HK\$0.1 each by the creation of 7,996,200,000 new shares ranking pari passu in all respects with the existing shares.
- (iii) On 8 June 2017, the Company issued and allotted 99 Shares of HK\$0.1 each to the immediate holding company of the Company, namely, CNT Enterprises Limited.
- (iv) Pursuant to the resolution of the sole shareholder of the Company passed on 9 June 2017, the Company issued and allotted a total of 749,999,900 shares, credited as fully paid at par, to CNT Enterprises Limited on the Listing Date by way of capitalisation of the sum of HK\$74,999,990 standing to the credit of the share premium account of the Company (the “Capitalisation Issue”). This Capitalisation Issue was conditional on the share premium account being credited as a result of the issue of new shares to the public in connection with the Company’s initial public offering as detailed in note (v) below.
- (v) In connection with the listing of the Shares on the Stock Exchange, 250,000,000 new shares were issued at a price of HK\$0.86 per share for a total cash consideration, before expenses, of HK\$215,000,000. Dealings in the Shares on the Stock Exchange commenced on the Listing Date.

DIVIDEND

The Directors have resolved not to declare a final dividend for the year ended 31 December 2017.

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 register of members of the Company will be closed from Monday, 28 May 2018 to Thursday, 31 May 2018, 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 annual general meeting of the Company, 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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 25 May 2018.

CHAIRMAN'S STATEMENT

In 2017, China's economy maintained a steady growth with the gross domestic product ("GDP") increasing by 6.9%, despite the economic transformation and China's strict anti-pollution measures. Regarding the paint and coating industry in Mainland China, the apparent consumption of paint and coating products in 2017 grew by 7.0% to 20.3 million tonnes as compared to last year. This growth was attributable to the steady growth of downstream industries, in particular the building and construction industry, furniture industry and automotive industry, the increasing application of protective and environmental-friendly coatings and the continuous expansion of manufacturing industries in Mainland China. Benefited from improved liquidity conditions and a comparatively low interest rate environment, and coupled with a strong demand from downstream industries, the paint and coating market in Mainland China continued to grow steadily.

However, high oil prices affected profit margins in the paint and coating market in Mainland China. During the year, the price of some resins, solvents and pigments increased dramatically as compared to last year. Besides, there was a significant increase of crude oil price in 2017. This sharp increase was compounded by supply shortages of certain key raw materials, such as resins, solvents and titanium dioxide. With the implementation of new stringent environmental protection policies from the local governments, the production activities of numerous resin and solvent suppliers in Mainland China were either interrupted or ceased in order to comply with administrative orders of local environment bureaus. These latest developments have led to the closure of small resin and solvent suppliers, resulting in the reduction in the supply of and the increase in the prices of raw materials. This factor further increased the cost of raw materials and has an adverse impact on the paint and coating market in Mainland China's gross profit margin as well as gross profit during the year 2017.

The overall Group's operating performance declined significantly in 2017.

RESULTS

The Group's revenue for the year amounted to approximately HK\$995.96 million, representing an increase of 6.2% when compared with last year. Gross profit decreased by approximately HK\$39.56 million, representing a decrease of 11.4% when compared with last year.

The Group recorded a profit attributable to the shareholders of the Company of approximately HK\$17.33 million for the year ended 31 December 2017 (2016: approximately HK\$55.45 million), representing a significant decline of 68.7% when compared with last year.

PROSPECTS

China's economy experienced a healthy and synchronous growth in 2017. In 2017, the paint and coating market in Mainland China grew at a rate of 7.0% from 2016 in terms of volume. It experienced a good growth in 2017 with architectural paint and coating products leading the way. The real estate industry grew by approximately 7.7% and was slightly faster than the GDP growth rate in Mainland China. It is notable that industrial coating products also experienced a good growth but it was not as high as that of architectural paint and coating products. In general, the growth of paint and coating market in Mainland China is expected to continue in 2018, although it will be at a slightly slower pace than in 2017.

The Group can achieve future growth through the following main drivers of paint and coating market in Mainland China:

Accelerating the expansion of water-based industrial paint and coating products

The water-based paint and coating market in Mainland China has expanded rapidly in 2017. The production volume of water-based paint and coating products increased by 22.1% to 2.32 million tonnes in 2017 as compared to 1.90 million tonnes in 2016. Over the past few years, more water-based architectural paint and coating products have been used than solvent-based architectural coatings. But the proportion of water-based products in wood coatings, automotive coating and industrial paint and coating products are still relatively low. With the increasing application of water-based paint and coating products, it is predicted that China's water-based paint and coating products will account for up to 20.0% of the market in the next five years. In the next five years, the production volume of water-based industrial paint and coating products will grow at an average rate of 23.0%. It is predicted that the output of water-based industrial paint and coating products in Mainland China in 2018 will be approximately 2.84 million tonnes.

Strengthening our brand presence and foundation

Strengthening the presence of our paint and coating activities in Southern China and Eastern China is a key element of the Group's expansion strategy in Mainland China. In addition, the Group is committed to the philosophy of "quality, consumer and environmental protection first" (品質為上、客戶為先、環保為念) as its core values. We believe that strong brand recognition and marketing efforts are crucial to the success of our business and therefore we place strong emphasis on the marketing and promotion of our brands and products. As people are becoming more aware of environmental protection, paint and coating products will move towards the trend of health, environmental protection and better quality.

Synergies with the acquisition opportunities in the region of Southern China

Apart from the expansion strategy in the retail and wholesale markets, the Group also targets on expanding into the manufacturing sectors, in particular the furniture industry and automotive industry, which had contributed to a large proportion of China's GDP. The Group considered that the consolidation will enable its fast penetration into the furniture industry and automotive industry as well as strengthen its presence in the paint and coating market in Southern China. The Group is looking for acquisition opportunities with advantages in geographical location and logistics infrastructure, and with the industrial structure and comprehensive supporting facilities.

As mentioned in the Prospectus, the Group has prepared budget for pursuing acquisitions of businesses or production facilities.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Our 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 being 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. Our 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 OPERATIONS

Revenue

During the year under review, our revenue increased by 6.2% to HK\$995.96 million in 2017 from HK\$937.45 million in 2016. The following sets forth an analysis of our revenue during the years ended 31 December 2016 and 2017 by our principal products:

	Year ended 31 December		2017		% of change
	2016				
	HK\$'000	%	HK\$'000	%	
Industrial paint and coating products	527,354	56.3	555,696	55.8	5.4
Architectural paint and coating products	195,037	20.8	208,142	20.9	6.7
General paint and coating and ancillary products ⁽¹⁾	<u>215,059</u>	<u>22.9</u>	<u>232,120</u>	<u>23.3</u>	<u>7.9</u>
	<u>937,450</u>	<u>100.0</u>	<u>995,958</u>	<u>100.0</u>	<u>6.2</u>

⁽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 account for 55.8% (2016: 56.3%), 20.9% (2016: 20.8%) and 23.3% (2016: 22.9%) of total revenue of paint business in 2017 respectively. We continue to focus on Mainland China market which contributed to approximately 91.3% (2016: 91.5%) of the total revenue in 2017.

The increase in the revenue from the sales of industrial paint and coating products, architectural paint and coating products, and general paint and coating and ancillary products for the year under review were 5.4%, 6.7% and 7.9% respectively. Such increase was primarily attributed to the expansion of paint and coating market in Mainland China with the industry growth rate at 7.0%. In the meantime, we continue to make appropriate adjustments in our pricing policy, appoint new distributors with streamlined distribution network, and increase direct sales to manufacturers and renovation contractors for property and infrastructure projects in Hong Kong and Mainland China.

Cost of sales

The following set forth an analysis of the cost of sales during the years ended 31 December 2016 and 2017, and the percentage of change.

	Year ended 31 December		2017		% of change
	2016		2017		
	HK\$'000	% to revenue	HK\$'000	% to revenue	
Raw materials	505,612	53.9	601,991	60.4	19.1
Direct labour	57,771	6.2	56,843	5.7	(1.6)
Depreciation	11,147	1.2	10,771	1.1	(3.4)
Production overhead	15,558	1.7	18,546	1.9	19.2
Total	<u>590,088</u>	<u>63.0</u>	<u>688,151</u>	<u>69.1</u>	<u>16.6</u>

Gross profit and gross profit margin of our products

The following set forth an analysis of the gross profit and gross profit margin for each of our principal products for the years ended 31 December 2016 and 2017.

	Year ended 31 December		2017		% of change
	2016		2017		
	HK\$'000	%	HK\$'000	%	
Industrial paint and coating products	204,339	38.7	181,877	32.7	(15.5)
Architectural paint and coating products	71,102	36.5	57,589	27.7	(24.1)
General paint and coating and ancillary products ⁽¹⁾	<u>71,921</u>	<u>33.4</u>	<u>68,341</u>	<u>29.4</u>	<u>(12.0)</u>
	<u>347,362</u>	<u>37.1</u>	<u>307,807</u>	<u>30.9</u>	<u>(16.7)</u>

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

The significant decrease in the gross profit margin of the Group in 2017 was primarily due to the following reasons:

(1) Substantial increase in the cost of raw materials

The raw materials used by the Group include resins, solvents and other materials, of which resins and solvents accounted for a significant portion of the total cost of raw materials. As resins and solvents are the downstream products of crude oil, their market prices generally correlate with the price of crude oil. Since the beginning of the second half of 2017, the international price of crude oil has started to increase notably as opposed to the declining trend since 2014. The oil price maintained an increasing trend throughout the second half of 2017 and closed with the highest level at the end of 2017 since 2014.

Closing at the said highest level of crude oil price also happened at the time when the Group was making most of its sales during the year. The Group's sales is affected by seasonal factors with the majority of its sales recorded in the second half of the year. Hence, the purchase of raw materials in the corresponding period does have an over-weighting effect on the cost of raw materials for the whole year, which increased the cost of sales significantly.

As a result of the said price increase in resins and solvents and other factors, the cost of raw materials increased significantly by 19.1% to HK\$601.99 million in 2017 as compared to HK\$505.61 million in 2016. The increase in the cost of raw materials has adversely affected the gross profit margin of the Group in 2017, causing it to drop from 37.1% in 2016 to 30.9% in 2017.

(2) Curtailment of the number of resin and solvent suppliers in Mainland China

During the second half of 2017, numerous resin and solvent suppliers of the Group in Guangdong province in the PRC ceased their production activities due to a number of reasons. As reported in news media, one of the reasons was that the Chinese government has implemented stringent environmental protection policies in August 2017 which resulted in the closure or relocation of businesses that may emit air pollutants or otherwise contain dangerous particles/components in the production process. Such policies have led to the closure of small resin and solvent suppliers, which resulted in the reduction in the supply of and the increase in the price of the said raw materials. This factor further increased the cost of raw materials and has an adverse impact on the Group's gross profit margin as well as the gross profit for the whole year of 2017.

(3) Adjustment in the pricing policy

The Group adjusted the selling price of our paint and coating products from time to time, taking into consideration the production cost as well as the price levels of similar products offered by our competitors in the markets. The purchase price of major raw materials increased significantly during the second half of 2017. The Group reduced the discount offered to the distributors in the middle of third quarter of 2017, although the Group implemented the adjustment in our pricing policy in the first half of 2017. This reduction only applied to the industrial paint and coating products, and general paint and coating and ancillary products.

In order to further penetrate into the water-based architectural paint and coating markets and increase the market shares in Southern and Central China, the Group will continue to implement the adjustment in our pricing policy in this product segment. The 13th Five-Year Plan for the Development of National Environmental Protection Standards 《國家環境保護標準「十三五」發展規劃》 indicates that the environmental protection industry will have unprecedented opportunities. In the future, the Group will continue to invest in the development of water-based and low VOC (volatile organic compounds) paint and coatings products.

In view of the stringent safety and environmental laws and regulations implemented in recent years by the Chinese Government and respective local authorities, we have established “Environment, Health and Safety” teams at our production plants for the purpose of monitoring and implementing all relevant measures to ensure full compliance with the applicable laws and regulations on safety as well as emission control. The implementation of stringent laws and regulations inevitably increases the compliance costs. However, we consider that such stringent requirements adopted by the Chinese Government would accelerate the healthy development of the paint and coating industry in Mainland China by placing more emphasis on product safety and environmental protection.

Recovery of Hubei production capacity after the fire accident in July 2017

As disclosed in the announcement of the Company dated 30 July 2017, a fire accident occurred at the production plant operated by Hubei Giraffe Paint Mfg. Co., Ltd. (the “Ezhou Production Plant”), a non-wholly owned subsidiary of the Company, situated at Gedian Economic and Technological Development Zone, Ezhou City, Hubei Province, the PRC in the morning of Friday, 28 July 2017. As a result of the fire accident, certain raw materials, finished goods and fixture have been damaged. No person was injured or killed in the fire accident.

After a five-month investigation, repairs and improvements, the Ezhou Production Plant resumed its production in December 2017.

According to the Industrial Development Plan for the 13th Five-Year Plan in Hubei Province 《湖北省工業「十三五」發展規劃》, the Hubei government targeted at achieving the top six in its industrial production output in Mainland China by 2020. The demand for the industrial paint and coating products is expected to be strong in Hubei province. We believe that Ezhou Production Plant will benefit from this target.

The demand for our paint and coating products is also affected by the seasonality factor of the manufacturing industries of toys, electronics and electrical appliances and the pattern that most of the construction, repairs and renovation undertakings will be completed during the second half of a calendar year. As a result, sales of our paint and coating products will generally increase in the second and the fourth quarters of the calendar year.

Looking forward, the selling price of the competitors of paint and coating products is expected to have an upward adjustment at around 5% to 10% in accordance with public information. It is expected that the paint and coating market will have a better growth in terms of turnover in 2018 in Mainland China as compared to 2017.

FINANCIAL REVIEW

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

The Group recorded a profit attributable to the shareholders of the Company of approximately HK\$17.33 million for the year when compared with that of approximately HK\$55.45 million last year. Revenue for the year amounted to approximately HK\$995.96 million, representing an increase of approximately 6.2% when compared with that of last year. Gross profit for the year amounted to approximately HK\$307.81 million, representing a decrease of approximately 11.4% when compared with that of last year. The gross profit margin decreased by 16.6% from 37.1% in 2016 to 30.9% in 2017.

LIQUIDITY AND FINANCIAL INFORMATION

The Group's business operation was generally financed by its internal funding and bank borrowings. Cash and cash equivalents amounted to approximately HK\$247.26 million as at 31 December 2017 when compared with approximately HK\$219.54 million as at 31 December 2016. Total cash and bank balances, including structured deposits, amounted to approximately HK\$247.26 million as at 31 December 2017 when compared with approximately HK\$318.21 million as at 31 December 2016. Bank and other borrowings amounted to approximately HK\$101.79 million as at 31 December 2017 when compared with approximately HK\$114.73 million as at 31 December 2016. The Group's bank and other borrowings mainly carried interest at floating rates. Of the Group's total bank and other borrowings as at 31 December 2017, approximately HK\$100.77 million (99.0%) was payable within one year, approximately HK\$0.39 million (0.4%) was payable in the second year and approximately HK\$0.62 million (0.6%) was payable in the third to fifth years.

Gearing ratio of the Group which was expressed as a percentage of total bank and other borrowings to adjusted capital (as defined below) was 13.6% as at 31 December 2017 when compared with 17.2% as at 31 December 2016.

Liquidity ratio of the Group which was expressed as a percentage of current assets to current liabilities was 2.04 times as at 31 December 2017 when compared with 1.99 times as at 31 December 2016.

For the year under review, the inventory turnover days¹ were 35 days which was slightly different from that of 36 days in 2016. The trade and bills receivables turnover days² were 210 days compared to that of 150 days in 2016. The increase in the trade receivable turnover days were primarily due to the requests by our customers (including distributors) to extend the credit period amid the less favourable industry environment in Mainland China.

Equity and Net Asset Value

Shareholders' funds of the Group as at 31 December 2017 was approximately HK\$752.21 million when compared with approximately HK\$674.75 million as at 31 December 2016. Adjusted capital of the Group, being shareholders' funds less the unrealised leasehold land and building revaluation reserve, as at 31 December 2017 was approximately HK\$745.72 million when compared with approximately HK\$668.26 million as at 31 December 2016. Net assets value per share as at 31 December 2017 was HK\$0.76 when compared with HK\$0.90 as at 31 December 2016, assuming that the total number of 1,000,000,000 and 750,000,000 shares respectively in respect of the Capitalization Issue have been issued.

¹ The calculation of inventory turnover days is based on the average of the beginning and the ending balances of inventories divided by the cost of sales and multiplied by 365 days.

² The calculation of trade and bills receivables turnover days is based on the average of the beginning and the ending balances of trade and bills receivables divided by the revenue and multiplied by 365 days.

Contingent liabilities

At 31 December 2017, the banking facilities granted to various subsidiaries subject to guarantees given to banks by the Company were utilized to the extent of approximately HK\$100.77 million (2016: Nil).

The banking facilities granted to the Remaining Group, which are subject to guarantees given to banks by the Group and a joint guarantee given to a bank by the Group and the ultimate holding company were utilized to the extent of HK\$42.40 million as at 31 December 2016. Such guarantee and guarantees given by the Group were released during the year.

Pledge of assets

As at 31 December 2017, certain land and buildings with an aggregate net book value of HK\$8.00 million (31 December 2016: HK\$8.03 million) were pledged to secure a general banking facility granted to the Group and the related banking facility was not yet utilised as at 31 December 2017.

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 minimize 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 and other 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 2017. The Group will continue to monitor its foreign currency exposure and requirements closely and arrange hedging facilities when necessary.

Capital Expenditure

During the year under review, the Group invested a total sum of HK\$16.28 million (2016: HK\$24.17 million) in the plant and equipment, and the construction of dangerous warehouses.

HUMAN RESOURCES

Headcount as at 31 December 2017 was 1,013 (31 December 2016: 1,030). Staff costs (excluding directors' emoluments) amounted to HK\$159.03 million for the year as compared with HK\$168.25 million last year. The Group has a comprehensive and competitive staff remuneration and benefits system which is based on the performance of individual employees.

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 favorable 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 located 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 recognized 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 makes its estimates based on the aging of its receivable balances, debtors' creditworthiness, past payment history and historical write-off experience. 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.

BUSINESS RISKS

Market Risks

Loss of market share to competitors is the market risk to the Group. The Group's core markets in Hong Kong and Mainland China are subject to increasing competition. Loss of business to competitors resulting from failure to consider changes in the environment in Hong Kong and Mainland China could have an adverse effect on the Group's financial position. The Group has specialized sales and marketing teams and is committed to protect existing business with competitive pricing policies and high quality green and safe paint products.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and system or from external events. Responsibility for managing operational risks basically rests with every function at divisional and departmental levels.

Key functions in the Group are guided by their standard operating procedures, safety standards, limits of authority and reporting framework. The management will identify and assess key operational exposures regularly so that appropriate risk response 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, 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

There is no significant subsequent event after 31 December 2017.

USE OF NET PROCEEDS FROM THE SHARE OFFER

The Company listed the Shares on the Stock Exchange on the Listing Date (the “Listing”). Net proceeds from the Listing were approximately 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. As at the date of this announcement, the net proceeds from the Listing were utilised as follows:

	Actual net proceeds	Amount utilised as at the date of this announcement	Amount unutilised as at the date of this announcement
	HK\$ million	HK\$ million	HK\$ million
(1) Construction of our Xinfeng Production Plant	78.5	(4.1)	74.4
(2) Repayment of our bank loans	19.1	(19.1)	0
(3) Acquisitions of businesses or production assets	42.0	0	42.0
(4) Sales and market campaigns and activities	28.6	(13.2)	15.4
	<u>168.2</u>	<u>(36.4)</u>	<u>131.8</u>
TOTAL	<u>168.2</u>	<u>(36.4)</u>	<u>131.8</u>

The Company is considering an acquisition opportunity by applying the net proceeds from the Listing as well as the internal financial resources of the Group. As of the date of this announcement, the Company has not entered into any legal binding agreement for the purpose. The Company will fully comply with the applicable disclosure requirements under the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) should there be any target businesses or assets acquired for the purpose.

PURCHASE, SALE OR REDEMPTION OF THE SHARES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Shares for the period from the Listing Date to 31 December 2017.

AUDIT COMMITTEE REVIEW

The audit committee of the Company has met the external auditor of the Company, Messrs. Ernst and Young (“EY”), and reviewed the Group’s annual results for the year ended 31 December 2017.

REVIEW OF PRELIMINARY RESULTS ANNOUNCEMENT BY INDEPENDENT AUDITOR

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 2017 as set out in the preliminary announcement have been agreed by EY, to the amounts as 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 in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance 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. From the Listing Date to 31 December 2017, the Company has complied with the code provisions as set out in the Corporate Governance Code 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 throughout the period from the Listing Date to 31 December 2017.

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

Hong Kong, 28 March 2018

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.