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中漆集團有限公司
**CPM GROUP LIMITED**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1932)**

# ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

**FINANCIAL HIGHLIGHTS**

| Results | **Year ended 31 December 2019 HK$'000** | 2018 HK$'000 | Change |
|---|---|---|---|
| Revenue | **713,328** | 617,254 | 15.6% |
| Gross profit | **196,816** | 150,943 | 30.4% |
| Gross profit margin | **27.6%** | 24.5% | 12.7% |
| Loss attributable to shareholders of the Company | **(28,036)** | (139,260) | -79.9% |
| Loss per share (HK cent) Basic and diluted | **(2.80)** | (13.93) | -79.9% |

| Financial Position | **As at 31 December 2019 HK$'000** | As at 31 December 2018 HK$'000 | Change |
|---|---|---|---|
| Cash and cash equivalents | **224,372** | 160,280 | 40.0% |
| Bank and other borrowings | **215,340** | 220,425 | -2.3% |
| Gearing ratio | **40.6%** | 38.7% | 4.9% |
| Net asset value per share (HK$) | **0.53** | 0.57 | -7.0% |

The board of directors (the "Board") of CPM Group Limited (the "Company") announces the consolidated annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2019 together with comparative amounts for the corresponding year in 2018 as follows:

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2019

| | Notes | **2019**<br>**HK$'000** | 2018<br>HK$'000 |
|---|---|---|---|
| REVENUE | 4 | **713,328** | 617,254 |
| Cost of sales | | **(516,512)** | (466,311) |
| Gross profit | | **196,816** | 150,943 |
| Other income and gains, net | 4 | **11,963** | 13,442 |
| Selling and distribution expenses | | **(126,219)** | (169,164) |
| Administrative expenses | | **(113,118)** | (107,603) |
| Other expenses less reversal, net | | **12,170** | (44,352) |
| Finance costs | 5 | **(8,714)** | (5,775) |
| LOSS BEFORE TAX | 6 | **(27,102)** | (162,509) |
| Income tax credit/(expense) | 7 | **(815)** | 22,867 |
| LOSS FOR THE YEAR | | **(27,917)** | (139,642) |
| ATTRIBUTABLE TO: | | | |
| Owners of the parent | | **(28,036)** | (139,260) |
| Non-controlling interest | | **119** | (382) |
| | | **(27,917)** | (139,642) |
| LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | 8 | | |
| Basic and diluted | | **HK (2.80) cent** | HK (13.93) cent |

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

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

| | **2019** | 2018 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| LOSS FOR THE YEAR | **(27,917)** | (139,642) |
| OTHER COMPREHENSIVE LOSS | | |
| Other comprehensive loss that may be reclassified to profit or loss in subsequent periods: | | |
| Exchange difference on translation of foreign operations | **(11,845)** | (29,506) |
| Other comprehensive income that will not be reclassified to profit or loss in subsequent periods: | | |
| Remeasurement of net pension scheme assets | **1,044** | (687) |
| Gain on property revaluation | **–** | 6,403 |
| Income tax effect | **–** | (1,601) |
| | **–** | 4,802 |
| Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods | **1,044** | 4,115 |
| OTHER COMPREHENSIVE LOSS FOR THE YEAR | **(10,801)** | (25,391) |
| TOTAL COMPREHENSIVE LOSS FOR THE YEAR | **(38,718)** | (165,033) |
| ATTRIBUTABLE TO: | | |
| Owners of the parent | **(38,773)** | (164,490) |
| Non-controlling interest | **55** | (543) |
| | **(38,718)** | (165,033) |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

| | Notes | **2019**<br>**HK$'000** | 2018<br>HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | **209,048** | 220,890 |
| Investment property | 10 | **15,393** | 15,713 |
| Right-of-use assets | | **87,138** | – |
| Prepaid land lease payments | | **–** | 85,571 |
| Intangible assets | | **–** | 805 |
| Equity investment designated at fair value through other comprehensive income | | **300** | 300 |
| Deposits for purchases of properties, plant and equipment | | **9,522** | 10,675 |
| Net pension scheme assets | | **4,694** | 3,687 |
| Deferred tax assets | | **16,277** | 19,008 |
| Total non-current assets | | **342,372** | 356,649 |
| CURRENT ASSETS | | | |
| Inventories | | **56,158** | 56,682 |
| Trade and bills receivables | 11 | **304,494** | 424,689 |
| Prepayments, deposits and other receivables | | **62,378** | 70,878 |
| Cash and cash equivalents | | **224,372** | 160,280 |
| Total current assets | | **647,402** | 712,529 |
| CURRENT LIABILITIES | | | |
| Trade payables | 12 | **145,626** | 184,253 |
| Other payables and accruals | | **69,171** | 66,299 |
| Due to the Remaining Group | | **–** | 68 |
| Interest-bearing bank and other borrowings | | **215,340** | 219,779 |
| Lease liabilities | | **2,658** | – |
| Tax payable | | **10,460** | 11,531 |
| Total current liabilities | | **443,255** | 481,930 |
| NET CURRENT ASSETS | | **204,147** | 230,599 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **546,519** | 587,248 |

| | 2019 | 2018 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| NON-CURRENT LIABILITIES | | |
| Lease liabilities | **631** | – |
| Interest-bearing bank and other borrowings | **–** | 646 |
| Deferred tax liabilities | **10,709** | 12,383 |
| Deferred income | **1,486** | 1,808 |
| Total non-current liabilities | **12,826** | 14,837 |
| Net assets | **533,693** | 572,411 |
| EQUITY | | |
| **Equity attributable to owners of the parent** | | |
| Issued capital | **100,000** | 100,000 |
| Reserves | **430,615** | 469,388 |
| | **530,615** | 569,388 |
| **Non-controlling interest** | **3,078** | 3,023 |
| Total equity | **533,693** | 572,411 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. CORPORATE AND GROUP INFORMATION

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

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were engaged in the manufacture and sale of paint and coating products, and investment holding.

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 of Hong Kong Limited (the "Stock Exchange"), is the ultimate holding company of the Company.

CNT Group and its subsidiaries, but excluding the Group, are collectively referred to as the "Remaining Group".

## 2.1 BASIS OF PREPARATION

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

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

| | |
|---|---|
| Amendments to HKFRS 9 | *Prepayment Features with Negative Compensation* |
| HKFRS 16 | *Leases* |
| Amendments to HKAS 19 | *Plan Amendment, Curtailment or Settlement* |
| Amendments to HKAS 28 | *Long-term Interests in Associates and Joint Ventures* |
| HK(IFRIC)-Int 23 | *Uncertainty over Income Tax Treatments* |
| *Annual Improvements 2015–2017 Cycle* | *Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23* |

Except for the amendments to HKFRS 9 and HKAS 19, and *Annual Improvements* to HKFRSs 2015-2017 Cycle, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

HKFRS 16 did not have any significant impact on leases where the Group is the lessor.

The Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations.

***New definition of a lease***

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

***As a lessee – Leases previously classified as operating leases***

*Nature of the effect of adoption of HKFRS 16*

The Group has lease contracts for various items of property, machinery, motor vehicles and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

*Impacts on transition*

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position. This includes the lease assets recognised previously under finance leases of HK$1,123,000 that were reclassified from property, plant and equipment.

For the leasehold land and buildings (that were held to earn rental income and/or for capital appreciation) previously included in investment properties and measured at fair value, the Group has continued to include them as investment properties at 1 January 2019. They continue to be measured at fair value applying HKAS 40.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease

***As a lessee – Leases previously classified as finance leases***

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases. Accordingly, the carrying amounts of the right-of-use assets and the lease liabilities at 1 January 2019 were the carrying amounts of the recognised assets and liabilities (i.e. finance lease payables) measured under HKAS 17.

***Financial impact at 1 January 2019***

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

| | Increase/ (decrease) HK$'000 |
|---|---|
| **Assets** | |
| Increase in right-of-use assets | 93,656 |
| Decrease in property, plant and equipment | (1,123) |
| Decrease in prepaid land lease payments | (85,571) |
| Decrease in prepayments, deposits and other receivables | (2,889) |
| Increase in total assets | 4,073 |
| **Liabilities** | |
| Increase in lease liabilities | 5,118 |
| Decrease in interest-bearing bank and other borrowings | (1,045) |
| Increase in total liabilities | 4,073 |

The lease liabilities as at 1 January 2019 reconciled to the operating leases commitments as at 31 December 2018 is as follows:

| | HK$'000 |
|---|---|
| **Operating lease commitments as at 31 December 2018** | 5,064 |
| Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019 | (4,645) |
| Add: Payments for optional extension periods not recognised as at 31 December 2018 | 3,912 |
| | 4,331 |
| Weighted average incremental borrowing rate as at 1 January 2019 | 5.54% |
| Discounted operating lease commitments as at 1 January 2019 | 4,073 |
| Add: Finance lease liabilities recognised as at 31 December 2018 | 1,045 |
| Lease liabilities as at 1 January 2019 | 5,118 |

(b) Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continued to be measured at amortised cost in accordance with HKFRS 9. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

(c) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether there were any uncertain tax positions. The Group determined that the interpretation did not have any significant impact on the financial position or performance of the Group.

## 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 and related services. Since this is the only reportable operating segment of the Group, no further operating segment analysis thereof is presented.

### Geographical information

(a) Revenue from external customers

| | **2019** | 2018 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Hong Kong | **75,167** | 46,852 |
| Mainland China | **638,161** | 570,402 |
| | **713,328** | 617,254 |

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

(b) Non-current assets

| | **2019** | 2018 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Hong Kong | **2,454** | 2,708 |
| Mainland China | **318,647** | 330,946 |
| | **321,101** | 333,654 |

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

### Information about a major customer

During the years ended 31 December 2019 and 2018, 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 is as follows:

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| *Revenue from contracts with customers* | | |
| Sale of paint and coating products | **713,328** | 617,254 |

### (i) Disaggregated revenue information

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| **Type of paint and coating products sold** | | |
| Industrial paint and coating products | **292,525** | 285,288 |
| Architectural paint and coating products | **286,456** | 199,556 |
| General paint and coating and ancillary products | **134,347** | 132,410 |
| | **713,328** | 617,254 |
| **Timing of revenue recognition** | | |
| Goods transferred at a point in time | **713,328** | 617,254 |

An analysis of other income and gains is as follows:

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| **Other income and gains, net** | | |
| Bank interest income | **692** | 415 |
| Government grants* | **5,079** | 9,459 |
| Gain on disposal of items of property, plant and equipment | **72** | – |
| Foreign exchange differences, net | **226** | – |
| Recognition of deferred income | **291** | 305 |
| Rental income from an investment property | **811** | – |
| Other rental income | **2,212** | 2,053 |
| Others | **2,580** | 1,210 |
| | **11,963** | 13,442 |

* 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:

| | **2019** | 2018 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Interest on bank loans | **8,486** | 5,716 |
| Interest on finance leases | **–** | 59 |
| Interest expense on lease liabilities | **228** | – |
| | **8,714** | 5,775 |

## 6. LOSS BEFORE TAX

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

| | **2019** | 2018 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Cost of inventories sold | **516,512** | 466,311 |
| Depreciation of property, plant and equipment | **20,580** | 19,547 |
| Depreciation of right-of-use assets | **5,753** | – |
| Amortisation of prepaid land lease payments | **–** | 1,364 |
| Amortisation of intangible assets | **815** | 459 |
| Provision for/(reversal of provision for) impairment of trade receivables* | **(27,490)** | 30,055 |
| Write-down of inventories to net realisable value, net | **43** | 342 |
| Loss/(gain) on disposal of items of property, plant and equipment, net* | **(72)** | 25 |
| Write-off of items of property, plant and equipment* | **850** | 297 |
| Foreign exchange differences, net* | **(226)** | 390 |

* These balances are included in "Other income and gains, net" for gains and "Other expenses less reversal, 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 (2018: 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% (2018: 25%) during the year, except for a subsidiary of the Group which qualified as a PRC High and New Technology Enterprise in Mainland China and a lower PRC corporate income tax rate of 15% (2018: 15%) had been applied during the year.

| | **2019** | 2018 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Current – Elsewhere | | |
| Charge for the year | **815** | 2,206 |
| Overprovision in prior years | **(654)** | – |
| Deferred | **654** | (25,073) |
| Total tax charge/(credit) for the year | **815** | (22,867) |

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

The calculation of basic and diluted loss per share amounts is based on the loss for the year attributable to ordinary equity holders of the parent of HK$28,036,000 (2018: HK$139,260,000) and the weighted average number of ordinary shares of 1,000,000,000 (2018: 1,000,000,000) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2019 and 2018.

## 9. DIVIDEND

| | **2019** | 2018 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Proposed final – HK1.0 cent (2018: Nil) per ordinary share | **10,000** | – |

The proposed final dividend for the year is subject to the approval of the Company' s shareholders at the forthcoming annual general meeting. The actual amount will be accounted for as an appropriation of the distributable reserves for the year ending 31 December 2020.

## 10. INVESTMENT PROPERTY

| | **2019** | 2018 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Carrying amount at beginning of year | **15,713** | – |
| Transfer from owner-occupied property | **–** | 11,175 |
| Transfer from prepaid land lease payments | **–** | 4,390 |
| Exchange realignment | **(320)** | 148 |
| Carrying amount at end of year | **15,393** | 15,713 |

The Group's investment property was revalued on 31 December 2019 based on a valuation performed by BMI Appraisals Limited, an independent professionally qualified valuers, at HK$15,393,000. 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 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 loss allowance, is as follows:

| | **2019** | 2018 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within three months | **191,356** | 175,121 |
| Over three months and within six months | **74,470** | 87,684 |
| Over six months | **38,668** | 161,884 |
| | **304,494** | 424,689 |

## 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:

| | **2019** | 2018 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within three months | **143,964** | 145,005 |
| Over three months and within six months | **1,426** | 35,624 |
| Over six months | **236** | 3,624 |
| | **145,626** | 184,253 |

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

## DIVIDEND

The Directors have resolved to recommend to the shareholders of the Company the payment of a final dividend of HK1.0 cent per share for the year ended 31 December 2019 (2018: Nil) amounting to HK$10,000,000 (2018: Nil). The final dividend, if approved by the shareholders of the Company at the forthcoming annual general meeting, will be paid on Tuesday, 23 June 2020 to the shareholders of the Company whose names appear on the Company's register of members on Thursday, 11 June 2020.

## 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, 1 June 2020 to Thursday, 4 June 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 29 May 2020.

For the purpose of determining shareholders' entitlement to the proposed final dividend, the register of members of the Company will be closed from Wednesday, 10 June 2020 to Thursday, 11 June 2020, both days inclusive, during the period no transfer of shares will be effected. In order to qualify for the proposed final dividend, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 9 June 2020.

## CHAIRMAN'S STATEMENT

### OVERVIEW

The slowdown in the global economy in 2019 was primarily due to the ongoing trade tensions between China and the United States ("China-US trade tensions"). This development has resulted in slow economic growth in China, which affected not only the consumers in the PRC, but also the PRC manufacturers in a wide range of industries. As compared to 2018, the growth of China's economy in 2019 was slow with the growth in the gross domestic products ("GDP") decreased by approximately 7.6%, even though the GDP's growth rate in China in 2019 was still within the range between 6.0% and 6.5%. There were three primary economic growth drivers in China, namely, the domestic consumption, the infrastructure investment and the volume and value of export trade. According to the National Bureau of Statistics of China in 2019, the level of the domestic consumption contributed 57.8% of the overall economic growth, as compared to the same of 65.9% in 2018, and the level of the gross capital formation contributed 31.2% of the overall economic growth in 2019, as compared to the same of 41.5% in 2018. China's exports soared and became more competitive, as a result of the depreciation of Renminbi during the year. The contribution of the net export of goods and services was around 11.0% of the overall growth in China, as compared to the negative growth of 7.4% in 2018. The overall depreciation of Renminbi was around 4.3% in 2019, which was consistent with the relatively weak economic performance of China in 2019, according to the International Monetary Fund.

The paint and coating industry in China is one of the secondary industry which contributed to the GDP growth in China with the overall average growth rate of the secondary industry of 5.8% in 2019, which was 10.0% less than the same in 2018. The direct contribution of paint and coating industry to the secondary industry was significant, as the aggregate sales volume of paint and coating products in China in 2019 increased by 38.3%, as compared to the negative growth of 9.5% in 2018. In addition, the Manufacturing Producer Price Index for coating, ink, pigment and similar products in China in 2019 continued to increase in the range between -0.3% and 3.6%. In 2019, one of the reasons for the significant increase in the growth of the paint and coating industry was attributable to the increasing property sales, which accelerated the increase in the demand for paint and coating products. The cumulative construction area of property projects in China in 2019 increased by 8.7%, as compared to the increase of 5.2% in 2018. The cumulative completion area of property projects in China in 2019 increased by 2.6%, as compared to the decrease of 7.8% in 2018. However, the growth in the paint and coating industry in 2019 was partially offset by the decrease in the retail consumption of the construction and decorative paint and coating products and the furniture paint and coating products. The retail sales of the construction and decorative paint and coating products decreased by 17.5% in 2019, as compared to the decrease of 22.4% in 2018; and the retail sales of furniture goods (including the paint and coating products for furniture manufacturing purpose) decreased by 12.4% in 2019, as compared to the decrease of 19.9% in 2018. The overall improvement in the paint and coating industry is benefited from the further reduction of the value-added tax rates in the PRC.

On the other hand, the prices of the raw materials in the paint and coating industry decreased slightly in 2019. Although there were intermittent fluctuations in the international crude oil prices during the year, the average crude oil prices were on decreasing trends. The weighted average crude oil prices in 2019 decreased by 10.9%, as compared to the same in 2018. The decreasing crude oil prices were due to the excessive supply and the less than expected increase in demand, as a result of the slow economic growth (and production activities) in major oil-consuming countries (including the PRC). Whilst the international crude oil prices were decreasing, the PRC imported by-product prices of crude oil did not experience the corresponding level of decrease, due to the depreciation of Renminbi. Hence, the cost of raw materials in the paint and coating industry did not decrease to any significant extent as compared to the decrease in the international crude oil prices.

## RESULTS

In 2019, the overall paint and coating market in the PRC remained challenging. Price competitions, fluctuations in raw materials prices and the depreciation of Renminbi led to the fluctuations in the costs of sales, which in turn affected the gross profit margin during the year. On the other hand, the macroeconomic situation in the PRC remained uncertain amid escalation of the China-US trade tensions, which has resulted in a less favourable business environment and reduced the average spending by the consumers in China.

In response to the unfavourable business environment, the Group has implemented effective business revamp measures and initiatives and has achieved a better financial performance in 2019, as compared to the same in 2018. The Group's revenue in 2019 amounted to approximately HK$713.33 million, representing an increase of 15.6%, as compared to the amount of revenue of approximately HK$617.25 million in 2018. The amount of gross profit in 2019 increased to HK$196.82 million, representing a significant increase of 30.4%, as compared to the amount of gross profit of approximately HK$150.94 million in 2018. The Group's loss attributable to its owners of the parent company reduced accordingly to approximately HK$28.04 million in 2019, as compared to the same of approximately HK$139.26 million in 2018. Although the Group still recorded a net loss position in 2019, the financial performance of the Group in 2019 clearly indicated that the business of the Group has been improved.

The improvement in the financial performance of the Group was primarily a result of the Group's proactive business revamp measures and initiatives, which have been implemented since the second half of 2018, but effects of which have been reflected in the performance of the Group in 2019. The Group has increased the prices of selected paint and coating products, improved the procurement and sourcing process, enhanced the product portfolio, streamlined the distribution channels and integrated the operation of different production facilities. Further information on these measures and initiatives are set forth in the section headed "Management Discussion and Analysis" below.

## BUSINESS OUTLOOK

The market sentiment and business outlook in China and Hong Kong have been plagued by the China-US trade tensions and more importantly, the outbreak of the coronavirus disease 2019 (the "COVID-19") around the world during the first quarter of 2020. Although the Chinese and the Hong Kong governments have implemented measures to combat the COVID-19, it is inevitable that the outbreak will hit the economic prosperity of China and Hong Kong. The extent of such impact remains uncertain. We hope that the epidemic will be gradually brought under control and the overall economic and business activities in China and Hong Kong can resume to normal in the next several months.

Despite the economic uncertainties in China and Hong Kong due to the China-US trade tensions and the COVID-19, the Group will continue to enhance its internal control and risk management systems and boost production efficiency in response to the challenging business environment.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

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

### REVIEW OF OPERATION

#### Revenue

For the year ended 31 December 2019, the Group's revenue increased by 15.6% to HK$713.33 million in 2019 from HK$617.25 million in 2018. The following sets forth an analysis of the Group's revenue for the years ended 31 December 2019 and 2018 by principal products:

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2019** | | 2018 | | % of |
| | **HK$'000** | **%** | HK$'000 | % | Change |
| Industrial paint and coating products | **292,525** | **41.0** | 285,288 | 46.2 | 2.5 |
| Architectural paint and coating products | **286,456** | **40.2** | 199,556 | 32.3 | 43.5 |
| General paint and coating and ancillary products [(1)] | **134,347** | **18.8** | 132,410 | 21.5 | 1.5 |
| | **713,328** | **100.0** | 617,254 | 100.0 | 15.6 |

(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.

Industrial paint and coating products, architectural paint and coating products, and general paint and coating and ancillary products accounted for 41.0% (2018: 46.2%), 40.2% (2018: 32.3%) and 18.8% (2018: 21.5%) of total revenue of paint business in 2019 respectively. The Group continues to focus on the PRC market which contributed to 89.5% (2018: 92.4%) of the total revenue in 2019.

### Increase in Revenue

The increase 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 year ended 31 December 2019 were 2.5%, 43.5%, and 1.5% respectively. The significant increase in revenue from the sales of architectural paint and coating products during the year was primarily due to the increase in sales to renowned property developers in the PRC and therefore the Group had boosted its sales of architectural paint and coating products. In addition, the Group has recorded an increase in sales of industrial paint and coating products to industrial manufacturers. Despite the depreciation of Renminbi, the revenue of the Group for the year ended 31 December 2019, in terms of Hong Kong dollars, increased by 15.6%. It was worth noting that, in terms of the original currencies (Renminbi and Hong Kong dollars), the overall revenue of the Group for the year ended 31 December 2019 increased by 20.2%.

#### *Expansion of the Customer Base*

During the year, the Group expanded the sales to property developers and industrial manufacturers. The Group succeeded in increasing the percentage of revenue generated from these customers, rather than relying on the sales through wholesalers and retail dealers. On the other hand, the revenue from water-based paint and coating products increased by 45.3% to approximately HK$283.02 million, as compared to the previous year. There were two major water-based paint and coating products, namely emulsion paint products and water-based wood coating products, which had recorded a double-digit growth.

### Geographical Analysis of the Amount of Revenue

Geographically, a majority of the Group's revenue was generated from the Southern China, the Central China and the Eastern China. Revenue generated from these regions amounted to approximately HK$592.49 million for the year ended 31 December 2019, as compared to approximately HK$544.39 million for the year ended 31 December 2018.

#### *Sales Breakthrough in the Central China*

The sales to customers in the Central China increased by 38.6% for the year ended 31 December 2019, which was primarily due to the fact that the Group became one of the registered suppliers of the property developers. Accordingly, the Group boosted its sales of architectural paint and coating products by selling these products to the property developers in the Central China during the year.

#### *Regain the Market Share in Hong Kong*

In addition, the sales to customers in Hong Kong increased significantly by 60.4% for the year ended 31 December 2019, which was primarily due to the enhancement in product mix and the increase in distribution networks in order to promote the sales of the branded water-based architectural paint and coating products and the supply of water-based architectural paint and coating products to contractors for government projects in Hong Kong as well as contractors in the private sector.

### *Increase in the Revenue Contribution from New Customers in the Southern China and the Eastern China*

For the year ended 31 December 2019, the Group recorded an increase in the amount of sales to the industrial manufacturers in furniture, automotive, wind power, electric automobile and electric adaptor industries in the Southern China and the Eastern China, as compared to the year ended 31 December 2018. In addition, the Group adjusted its sales strategy to customers in the Southern China and the Eastern China by promoting direct sales, rather than relying on the wholesalers and retail dealers.

## Cost of Sales

The following sets forth an analysis of the cost of sales for the years ended 31 December 2019 and 2018 and the percentage of change.

| | **Year ended 31 December** | | | | |
|---|---|---|---|---|---|
| | **2019** | | 2018 | | |
| | **HK$'000** | **% to revenue** | HK$'000 | % to revenue | % of Change |
| Raw materials | **464,624** | **65.1** | 405,068 | 65.6 | 14.7 |
| Direct labour | **27,466** | **3.9** | 41,927 | 6.8 | -34.5 |
| Depreciation and production overhead | **24,422** | **3.4** | 19,316 | 3.1 | 26.4 |
| | **516,512** | **72.4** | 466,311 | 75.5 | 10.8 |

### *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. The crude oil prices directly or indirectly affect the prices of such raw materials. As the overall crude oil prices fluctuated over the year of 2019, some of the raw materials prices were unstable and did not follow the movement of crude oil prices. For example, the overall crude oil prices for the year ended 31 December 2019 decreased by 10.8%, as compared to the same for the year ended 31 December 2018. In addition, the prices of imported raw materials were also affected by the depreciation of Renminbi for the year ended 31 December 2019. As a result, the fluctuation in raw materials prices was generally inconsistent with the change in the crude oil prices for the year ended 31 December 2019.

***Direct Labour***

The direct labour cost decreased by 34.5% to approximately HK$27.47 million for the year ended 31 December 2019, which was primarily due to the Group's integration of the production facilities in the PRC and the streamline of the workforce and personnel in 2018.

***Depreciation and Production Overhead***

The depreciation and production overhead cost increased by 26.4% to approximately HK$24.42 million for the year ended 31 December 2019, which was primarily due to the additional depreciation in the assets at the production plant in Zhongshan (the "Zhongshan Production Plant"), which was acquired by the Group in August 2018.

***Gross Profit and Gross Profit Margin***

The gross profit of the Group for the year ended 31 December 2019 increased by 30.4% to approximately HK$196.82 million as compared to the previous year. The gross profit margin of the Group for the year ended 31 December 2019 increased by 12.7% to 27.6%. The increase in the gross profit margin was mainly due to the increase in the average selling prices of the paint and coating products of the Group, the production volume and the production efficiency with the production cost increased to a lesser extent. A significant part of the production cost of the Group, such as depreciation and direct labour, would not increase at the same pace as the production volume. The increase in the average total selling prices of the paint and coating products of the Group was primarily due to the change in the product mix and the general increase in the selling prices of the industrial paint and coating products and architectural paint and coating products since the second half of 2018.

**Selling and Distribution Expenses**

The amount of the selling and distribution expenses for the year ended 31 December 2019 decreased by 25.4% to approximately HK$126.22 million and the percentage to revenue for the year ended 31 December 2019 also decreased by 35.4% to 17.7% from 27.4% from the previous year. The decrease in the amount was mainly due to the effect of business revamp measures carried out by the Group, such as the reduction of long-distance transportation costs due to proximity to customers, reduction of advertising expenses at non-target locations and saving on the staff costs after the manpower reduction in 2018. The decrease in the percentage was primarily due to the increase in the revenue as a result of the Group's efforts.

**Profitability Analysis**

The Group recorded a loss attributable to its parent company of approximately HK$28.04 million for the year ended 31 December 2019, which was considerably less than the amount of loss of approximately HK$139.26 million for the year ended 31 December 2018. The Group has implemented key business revamp measures and initiatives to improve the amount of loss making of the Group. The objective of these business initiatives was to implement strategic plans to realign the strategic directions and priorities and to improve the efficiency of the business operations of the Group. From the financial perspective, other than the significant reduction of the operating loss of the Group for the year ended 31 December 2019, the EBITDA (which is the operating profit plus depreciation and amortisation) also recorded a positive amount of approximately HK$8.76 million for the year ended 31 December 2019, as compared to the negative EBITDA of approximately HK$135.36 million for the year ended 31 December 2018. This achievement is contributed by the Group's appropriate business revamp measures and initiatives to respond to the dynamic market environment and the implementation of a better structure to promote the sales of the products of the Group. The performance of the Group was principally affected by the following factors:

1. Revenue from sales – Excluding the impact on the effect of devaluation of Renminbi, the Group's overall revenue generated from various geographical locations in China had improvements because of the marketing initiatives implemented by the Group throughout 2019. The combined results of the increasing customer base in the property sector and the expansion of sales network in the Central China increased the sales of paint and coating products in the Central China in 2019. The upward adjustment in the Group's prices of selected paint and coating products in China and Hong Kong also contributed to the revenue growth in 2019.

2. Cost of raw materials – As mentioned above, the price trends of the international crude oil in 2019 led to the significant decrease in the cost of purchase of solvent and resin. This cost benefit was, however, reduced by the depreciation of Renminbi against the US dollars during the year. As a result, the Group's gross profit margin only experienced a minor improvement.

3. Other gains and expenses, net (net reversal of provision for impairment of trade receivables) – The Group reversed certain amount of provision for impairment of trade receivables with strengthened collection efforts and tightened credit period provided to customers. The efforts also improved the cash position of the Group with reduced number of days for the collection of accounts receivable.

4. Staff costs – The Group reduced the number of staff to 790 as of 31 December 2019, as compared to 850 as of 31 December 2018. This staff reduction also reduced the staff cost to approximately HK$140.80 million for the year ended 31 December 2019, as compared to approximately HK$155.96 million, excluding directors' remunerations, for the year ended 31 December 2018.

5. Selling and distribution expenses – As a result of the business revamp measures conducted, the Group reduced the long-distance transportation costs due to proximity to customers, reduction of advertising expenses at non-target locations and saving on the staff costs after the manpower reduction in 2018.

6. Finance costs – One of the significant components of the increased amount of finance costs for the year ended 31 December 2019 to approximately HK$2.24 million, as compared to approximately HK$1.0 million for the year ended 31 December 2018, was the finance cost incurred by the Group for the acquisition of the Zhongshan Production Plant in August 2018.

7. Renminbi exchange rate – The depreciation in Renminbi during the second half of 2019 had an adverse financial impact on the Group.

## BUSINESS PLANS AND OUTLOOK

The Group recognises that continuous improvements in its business operations and profitability are required even though the amount of loss for the year ended 31 December 2019 was considerably less than the same in 2018. The Directors believe that the fundamentals of the business initiatives, including boosting its business 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 the PRC, remain effective and necessary. The Group discontinued the expansion plan of the production plant in Xinfeng and is strengthening the production activities at the Zhongshan Production Plant. In addition, in order to increase the Group's market share in the PRC, extend the geographical sales in the PRC and expand the customers base, the Group will continue to explore production cooperation with those selected paint and coating manufacturers on an original equipment manufacturer (OEM) basis.

The Group will evaluate new opportunities and challenges in the PRC market, amid the emerging threat arising from the outbreak of the COVID-19 and the challenging business environment. The Group has implemented the business continuity plans during the epidemic immediately and has implemented other business revamp measures as follows:

### Business Continuity Plans during the COVID-19 Outbreak

In response to the COVID-19 outbreak, the PRC government has stepped up the efforts and adopted measures to stop the spread of the COVID-19 by strengthening the community-based prevention and controlling work across the provinces in the PRC, suspending the public transport within some PRC cities as well as cutting airport and railway stations services to outgoing travellers. The PRC government has actively coordinated resources under a joint prevention and control mechanism to address the shortage of masks, amid the outbreak of the COVID-19, in order to increase the mask production capacity and supply; and the local governments have introduced measures to partially close off communities and tighten entry restrictions, in order to support commercial enterprises with epidemic control and prevention conditions and to resume operation in February 2020 in most areas in the PRC.

The Group has been following the development of the COVID-19 epidemic closely and has implemented business continuity plans to minimise the disruption to the Group's operations and business and ensure that the Group's business remain viable during the epidemic. The COVID-19 outbreak is a non-adjusting event after financial year end and does not result in any adjustments to the consolidated financial statements for the year ended 31 December 2019.

The Group has taken the following steps to ensure adequate preparation for business continuity:

***Holistic approach in monitoring the impact of the COVID-19 outbreak on production plants***

The Group does not only focus on employees' well-being but also on the effective risk management in all different aspects. Securing operations, supply and distribution channels, and managing relationship with employees, customers and suppliers are to the core components of the Group's approach. In addition, the Group's plans for frequent communications with employees, customers and suppliers could help reducing the risk of harmful over-reaction that could reduce the Group's economic loss that may be arisen from the COVID-19 outbreak. In addition, the Group had engaged in a number of information sharing with the relevant government authorities to ensure the implementation of the latest epidemic prevention measures to be implemented across the Group's operations in the PRC.

These actions helped to reduce the Group's exposure to the COVID-19 outbreak and prevent the Group from any material adverse impact or disruption. To be most effective, such actions had been incorporated into the Group's routine risk management practices.

***Resuming production since the middle of February 2020***

Since the outbreak of the COVID-19, a number of provinces and municipalities in the PRC have taken emergency public health measures and various actions to prevent the spread of the COVID-19 in the community, including imposing restriction on the resumption date of production after the Chinese New Year holidays.

The operation of the Group's production plants in the PRC has been suspended after the statutory Chinese New Year holidays as part of the PRC government's measures in containing the spread of the COVID-19. After inspection being done at the production plants in Shaijing, Zhongshan and Xinfeng by the relevant government authorities, the Group received official endorsements on production resumption on 15 February 2020 for these production plants. As such, these production plants have resumed production on 17 February 2020.

As there are tighter restrictions in Hubei province in containing the spread of the COVID-19, the operation of the Group's production plant in Hubei has been suspended longer than other production plants of the Group since the statutory Chinese New Year holidays. Hubei province had taken various emergency public health measures and actions to control the epidemic, including travel and trade restrictions and epidemiological surveillance. Finally the production plant in Hubei has been given the green light to resume production on 23 March 2020.

***Preventing the spread of the COVID-19 within the production facilities***

The most direct effect of the COVID-19 on the Group's activities is the potential health threat to employees. The Group has taken various measures and precautions to provide a safe and healthy work environment and reduce the risk of spreading the COVID-19 in workplace. The Group has reduced business travels and requested that meetings and communications with customers or suppliers should be conducted by electronic means. Employees who are suspected contagious patients or who have been to any overseas countries or areas in the past 14 days are required to report to their supervisors and subject to the compulsory quarantine and self-monitoring to comply with the measures of the Hong Kong government. The Group tried to mitigate the potential risks which will cause threats to employees and proactively create a safe and healthy work environment.

***Monitoring the impact on the supply chain***

The outbreak of the COVID-19 has significantly disrupted complex national supply chains in the PRC. In 2019, the Group recorded cost saving from the improvement in the procurement and sourcing process, but like other business, the Group has encountered demand issue following the outbreak of the COVID-19. To mitigate the risk associated with suppliers in the PRC, the Group has explored procurement sources from different countries quickly, including U.S., Japan, New Zealand, Australia, Germany, Norway, Korea, Taiwan, Malaysia and Hong Kong, to avoid shortage or disruption of supply in the PRC.

In addition, in order to maintain a minimum level of on-site inventory and low defect rate, the Group has reduced the lead time for production and achieved just-in-time production management. The Group is also prepared to maintain a higher level of the safety stock level of certain critical raw materials to ensure that the Group would not be affected by any interruption to the supply chain. In addition to the increasing safety stock level, the Group has also increased the stock levels maintained at its strategic production plants in the Southern China.

## Other Business Measures and Initiatives

### *Developing new business segment for the production and sales advanced building decoration materials*

In recent years, together with the rapid increase in the per capita income and the rising living standards in the PRC, the focus is gradually shifted to the increase investment in the real property. In the PRC property market, the potential residential property buyers are not satisfied by the basic decoration in the residential units, and they request for the innovative design with good finishing. Therefore, this change of preference amongst the consumers represents one of the major considerations of property developers in the PRC.

Moreover, according to the public information, the estimation of fully-fitted apartments (精裝房) accounted for 32.8% of the total housing development in the PRC in 2019, as compared to that of 27.5% in 2018. The estimated average percentage of the fully-fitted apartments to all commodity properties in third tier cities of the PRC, such as Shantou, Jingzhou and Luoyang, has reached 34.4% and this growing trend will continue, as compared to that of 26.6% in 2017.

As disclosed before, the Group has launched a new product of Exterior Decorative Insulation Wall Board (the "EDIWB") in April 2018, which is a newly-developed light building material. The EDIWB have all features of different types of paint and coating products and can be applied directly on surface areas without different layers of insulation materials. The Group is a strategic construction partner for the installation of the EDIWB in Henan province, the PRC.

With years of experience and product testing, the Group is currently in cooperation with a number of suppliers for this new business development and to ensure compliance with national standards and energy conservation. In this partnership, the Group has imposed the standards of advanced construction materials. The Group has also conducted the market research and assessment before making any significant capital investment. The advanced construction materials include formaldehyde-free wooden boards, low levels of radioactive materials, polymeric waterproofing membrane and etc.

Leveraging the Group's reputation and the effort in maintaining the existing network with property developers and other customers, it has advantages to expand its business into building decoration materials. This business expansion can help to develop a strong customer relationship, which would increase the brand awareness and visibility through developing a new business segment of advanced building decoration materials in the building decoration materials industry.

### *Increasing marketing efforts*

The expanded customer base led to the increase in sales for the year ended 31 December 2019. In order to further promote paint and coating products to the expanded customer base, except for the active communications with customers and advertising in new media for paint and coating industry materials, the Group's sales and marketing team will continue to devote its effort in different marketing initiatives, such as participating in local exhibition shows and seminars and workshop organised by intra-industry players and associations of the construction industry in the PRC and Hong Kong, and enhancing the Group's social networking website and increasing the visibility of the website to existing or potential customers. The Group believes that the strengthened marketing efforts will further increase the intra-industry players' awareness of the Group and further strengthen the Group's business presence and visibility in the paint and coating industry.

### *Integrating the production facilities and complex in Mainland China*

Most of the revenue of the Group is generated from sales to customers in the Southern China. In this connection, the Group decides to further strengthen its production activities in Shenzhen and Zhongshan. The Directors believe that through the increased production activities at these production facilities, the production cost and the lead-time for production will decrease, which will be able to meet the demand from the newly targeted customers in the construction and manufacturing industries in Guangdong province, the PRC. In particular, the Group will continue to enhance the production activities at the production facilities in Shenzhen, so that such production facilities will become the principal production hub and the product research and development base of the Group.

Save as mentioned above, the Group has planned to construct a new production plant for the production of water-based paint and coating products in Zhongshan, Guangdong province, the PRC.

Through the above integration of production facilities, the Group continues to assess how to further improve the productivity and utilisation in the Group's production facilities and complex, including the lease out of production facilities and complex (with low utilisation rates) to align with the Group's production facilities expansion plan in the Southern China, which can maximise the use of spare space in these facilities and complex to enhance operational efficiency of the Group.

## 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 bills receivables turnover days.

The Group recorded a loss attributable to the owners of the parent company of approximately HK$28.04 million for the year, the amount of which was reduced by 79.9% as compared to a loss of approximately HK$139.26 million for the year ended 31 December 2018. Revenue for the year amounted to approximately HK$713.33 million, representing an increase of 15.6% when compared to that of previous year. Gross profit for the year amounted to approximately HK$196.82 million, representing an increase of 30.4% when compared to that of the previous year. The gross profit margin increased by 12.7% from 24.5% in 2018 to 27.6% in 2019.

## LIQUIDITY AND FINANCIAL INFORMATION

### 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 approximately HK$224.37 million as of 31 December 2019, as compared to approximately HK$160.28 million as of 31 December 2018. The increase in the cash and cash equivalents as of 31 December 2019 was mainly due to the better settlement progress from customers. Bank and other borrowings amounted to approximately HK$215.34 million as of 31 December 2019 as compared to approximately HK$220.43 million as of 31 December 2018. The Group's bank and other borrowings mainly bear interest at floating rates. The Group's total bank and other borrowings amounted to approximately HK$215.34 million (100.0%) as of 31 December 2019 is payable within one year.

The Group's cash and bank balances and bank and other 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 and other borrowings to shareholders' funds, was 40.6% as of 31 December 2019, as compared to 38.7% as of 31 December 2018. Liquidity ratio of the Group, which is expressed as a percentage of current assets to current liabilities, was 1.46 times as of 31 December 2019, as compared to 1.48 times as of 31 December 2018.

For the year ended 31 December 2019, the inventory turnover days[1] were 40 days which was slightly shorter from that of 44 days in 2018. The trade and bills receivables turnover days[2] were 156 days as compared to that of 251 days in 2018. The shorter trade receivable turnover days for the year ended 31 December 2019 was primarily due to the better settlement progress from customers.

1 The calculation of inventory turnover days is based on the closing balance of inventories divided by the cost of sales times 365 days (31 December 2018: 365 days).

2 The calculation of trade and bills receivables turnover days is based on the closing balance of trade and bills receivables divided by the revenue times 365 days (31 December 2018: 365 days).

### Equity and Net Asset Value

Shareholders' funds of the Company as of 31 December 2019 amounted to approximately HK$530.62 million as compared to approximately HK$569.39 million as of 31 December 2018. Net asset value per share as of 31 December 2019 amounted to HK$0.53, as compared to HK$0.57 as of 31 December 2018. 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 31 December 2019, the amount of utilised banking facilities granted to various subsidiaries subject to guarantees given by the Company was approximately HK$215.34 million (31 December 2018: HK$219.38 million).

### Pledge of Assets

As of 31 December 2019, certain property, plant and equipment and right-of-use assets with aggregate net book value of approximately HK$7.62 million (31 December 2018: HK$8.48 million) were pledged to financial institutions as collaterals for bank and other borrowings and lease liabilities. In addition, as of 31 December 2019 and 2018, a wholly-owned subsidiary of the Company pledged its shares to secure general banking facilities granted to the Group.

## TREASURY MANAGEMENT

### Funding and Treasury Policy

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

### Foreign Currency Exposure

The Group's cash, bank balances and bank 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 2019. The Group will continue to monitor its foreign currency exposure and requirements closely and arrange hedging facilities when necessary.

### Capital Expenditure

During the year ended 31 December 2019, the Group invested a total sum of approximately HK$15.41 million (2018: HK$136.00 million) in the plant and equipment, and the construction of dangerous warehouses.

## HUMAN RESOURCES

Headcount as at 31 December 2019 was 790 (31 December 2018: 850). Staff costs (excluding directors' emoluments) amounted to approximately HK$140.80 million for the year as compared to approximately HK$155.96 million in the previous 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 the PRC and the Group's sales and purchases were mainly conducted in Hong Kong dollars and Renminbi. The Group also has significant investments in the PRC and its statement of financial position can be affected by movements in the exchange rate between Hong Kong dollars and Renminbi.

### Credit Risk

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

## 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 the PRC are subject to increasing competition. Loss of business to competitors resulting from failure to consider changes in the environment in Hong Kong and the PRC could have an adverse effect on the Group's financial position. The Group has specialised 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

Save as disclosed above, there is no significant subsequent event after 31 December 2019.

## USE OF NET PROCEEDS FROM THE SHARE OFFER

The Group's business objectives and planned use of net proceeds as disclosed in the prospectus of the Company dated 19 June 2017 (the "Prospectus") were based on the best estimation of future market conditions made by the Group at the time of preparing the Prospectus and subject to the risk factors as stated in the Prospectus. The actual use of net proceeds was based on the actual market situation. Should there be any further change in the use of proceeds, the Company will immediately inform shareholders of the Company by way of announcement.

The Company listed its 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 and the Company will review the use of net proceeds in view of the market situation. On 29 July 2019, the Board resolved to change the use of the remaining unutilised proceeds from the Global Offering (as defined in the Prospectus) (the "Reallocation"). For details of the Reallocation, please refer to the announcement of the Company dated 29 July 2019. The following table sets forth the status of the use of net proceeds from the Global Offering:

| | Use of net proceeds from the Global Offering prior to the Reallocation | The Reallocation | Use of net proceeds subsequent to the Reallocation | Aggregate amount utilised as at 31 December 2019 | Amount unutilised as at 31 December 2019 |
|---|---|---|---|---|---|
| | HK$ million | HK$ million | HK$ million | HK$ million | HK$ million |
| (1) Construction of the production plant in Xinfeng | 78.5 | (52.2) | 26.3 | (26.3) | – |
| (2) Repayment of the bank loans | 19.1 | – | 19.1 | (19.1) | – |
| (3) Acquisitions of businesses or production assets | 42.0 | – | 42.0 | (42.0) | – |
| (4) Sales and market campaigns and activities | 28.6 | – | 28.6 | (28.6) | – |
| (5) Construction of production facilities for water-based paint and coating products in the Zhongshan Production Plant | – | 32.2 | 32.2 | (13.1) | 19.1 |
| (6) Product research and development centre | – | 20.0 | 20.0 | – | 20.0 |
| | 168.2 | – | 168.2 | (129.1) | 39.1 |

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

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

## AUDIT COMMITTEE REVIEW

The audit committee of the Board has met the external auditors of the Company, Messrs. Ernst and Young ("EY"), and reviewed the Group's annual results for the year ended 31 December 2019.

## REVIEW OF PRELIMINARY RESULTS ANNOUNCEMENT BY INDEPENDENT AUDITORS

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2019 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. For the year ended 31 December 2019, the Company has complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

## CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard 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 year ended 31 December 2019.

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

Hong Kong, 27 March 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.*