中漆集團有限公司
CPM GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code: 1932

INTERIM REPORT 2020

GOLDEN FLOWER

Contents

Corporate Information

BOARD OF DIRECTORS

Non-executive Director and Chairman

Lam Ting Ball, Paul

Executive Directors

Tsui Ho Chuen, Philip *(Managing Director)*
Li Guangzhong *(Sales Director)*
Wong Anders *(Finance Director)*

Non-executive Director

Chong Chi Kwan

Independent Non-executive Directors

Chiu Kam Hing, Kathy
Chua Joo Bin
Xia Jun

AUDIT COMMITTEE

Chiu Kam Hing, Kathy *(Chairlady)*
Chua Joo Bin
Chong Chi Kwan

REMUNERATION COMMITTEE

Chiu Kam Hing, Kathy *(Chairlady)*
Chong Chi Kwan
Xia Jun

NOMINATION COMMITTEE

Chiu Kam Hing, Kathy *(Chairlady)*
Tsui Ho Chuen, Philip
Xia Jun

COMPANY SECRETARY

Fok Pik Yi, Carol

AUDITORS

Ernst & Young
22nd Floor, CITIC Tower, 1 Tim Mei Avenue
Central, Hong Kong

COMPLIANCE ADVISER

Innovax Capital Limited
Room 2002, 20th Floor, Chinachem Century Tower
178 Gloucester Road, Wanchai, Hong Kong

SHARE REGISTRARS

Hong Kong

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East, Hong Kong

Cayman Islands

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive, PO Box 2681
Grand Cayman, KY1-1111, Cayman Islands

PRINCIPAL BANKERS

Hong Kong

The Hongkong and Shanghai Banking
Corporation Limited
DBS Bank (Hong Kong) Limited

PRC

HSBC Bank (China) Company Limited
Shenzhen Branch

REGISTERED OFFICE

Cricket Square, Hutchins Drive, PO Box 2681
Grand Cayman, KY1-1111, Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

31st Floor, CNT Tower, 338 Hennessy Road
Wanchai, Hong Kong

WEBSITE

www.cpmgroup.com.hk

Interim Results

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

Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2020

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

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2020

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

Condensed Consolidated Statement of Financial Position

As at 30 June 2020

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

Condensed Consolidated Statement of Financial Position

As at 30 June 2020

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

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2020

	Attributable to owners of the parent													
	Issued capital (Unaudited) HK$'000	Share premium account (Unaudited) HK$'000	Merger reserve (Unaudited) HK$'000	Capital contribution^ (Unaudited) HK$'000	Contributed surplus (Unaudited) HK$'000	Fair value reserve of financial assets at fair value through other comprehensive income (Unaudited) HK$'000	Leasehold land and building revaluation reserve (Unaudited) HK$'000	General reserve (Unaudited) HK$'000	Exchange fluctuation reserve (Unaudited) HK$'000	Reserve funds** (Unaudited) HK$'000	Retained profits (Unaudited) HK$'000	Total (Unaudited) HK$'000	Non-controlling interest (Unaudited) HK$'000	Total equity (Unaudited) HK$'000
At 1 January 2020	**100,000**	**94,614**	**(15,017)**	**2,630**	**(18,616)**	**(500)**	**11,291**	**10,485**	**(34,144)**	**28,866**	**351,006**	**530,615**	**3,078**	**533,693**
Loss for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(20,831)**	**(20,831)**	**(18)**	**(20,849)**
Other comprehensive loss for the period:														
Exchange differences on translation of foreign operations	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(12,007)**	**–**	**–**	**(12,007)**	**(53)**	**(12,060)**
Total comprehensive loss for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(12,007)**	**–**	**(20,831)**	**(32,838)**	**(71)**	**(32,909)**
Final 2019 dividend declared and paid	**–**	**–**	**–**	**–**	**(10,000)**	**–**	**–**	**–**	**–**	**–**	**–**	**(10,000)**	**–**	**(10,000)**
At 30 June 2020	**100,000**	**94,614#**	**(15,017)#**	**2,630#**	**(28,616)#**	**(500)#**	**11,291#**	**10,485#**	**(46,151)#**	**28,866#**	**330,175#**	**487,777**	**3,007**	**490,784**
At 1 January 2019	100,000	94,614	(15,017)	2,630	(18,616)	(500)	11,291	10,485	(22,363)	28,866	377,998	569,388	3,023	572,411
Profit/(loss) for the period	–	–	–	–	–	–	–	–	–	–	(48,045)	(48,045)	32	(48,013)
Other comprehensive loss for the period:														
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	–	(411)	–	–	(411)	(5)	(416)
Total comprehensive income/(loss) for the period	–	–	–	–	–	–	–	–	(411)	–	(48,045)	(48,456)	27	(48,429)
At 30 June 2019	100,000	94,614#	(15,017)#	2,630#	(18,616)#	(500)#	11,291#	10,485#	(22,774)#	28,866#	329,953#	520,932	3,050	523,982

** Pursuant to the relevant laws and regulations for foreign investment enterprises, a portion of the profit of certain subsidiaries of the Group in the People's Republic of China (the "PRC") is required to be transferred to the PRC reserve funds which are restricted as to use. These PRC entities are not required to effect any further transfer when the amounts of the PRC reserve funds reach 50% of their registered capital. The PRC reserve funds can be used to make good the future losses of these PRC entities or to increase their registered capital.

These reserve accounts comprise the consolidated reserves of HK$387,777,000 (30 June 2019: HK$420,932,000) in the unaudited condensed consolidated statement of financial position.

^ The capital contribution reserve represents equity-settled share option expense related to the Group's business granted by the ultimate holding company, CNT Group Limited, on behalf of the Group.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating loss before working capital changes	**(3,312)**	(29,039)
Decrease/(increase) in inventories	**6,138**	(4,551)
Decrease/(increase) in trade and bills receivables	**(25,464)**	65,801
Decrease in prepayments, deposits and other receivables	**370**	2,621
Decrease in trade payables	**(440)**	(13,470)
Decrease in other payables and accruals	**(6,344)**	(12,547)
Exchange realignment	**179**	24
Cash generated from/(used in) operations	**(28,873)**	8,839
Interest paid	**(3,777)**	(3,848)
Interest element of lease payments	**(44)**	(129)
Withholding tax paid	**–**	(1,706)
Overseas taxes paid	**(259)**	(541)
Net cash flows from/(used in) operating activities	**(32,953)**	2,615
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	**(6,800)**	(1,188)
Proceeds from disposal of items of property, plant and equipment	**265**	53
Interest received	**571**	334
Proceed from termination of an acquisition agreement	**16,813**	–
Deposits paid for purchases of property, plant and equipment	**(1,783)**	(8,572)
Net cash flows from/(used in) investing activities	**9,066**	(9,373)
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loans	**102,038**	98,473
Repayment of bank loans	**(90,709)**	(104,488)
Dividend paid	**(10,000)**	–
Principal portion of lease payments	**(1,368)**	(1,333)
Net cash flows used in financing activities	**(39)**	(7,348)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(23,926)**	(14,106)
Cash and cash equivalents at beginning of period	**224,372**	160,280
Effect of foreign exchange rate changes, net	**(3,122)**	(128)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**197,324**	146,046
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**197,324**	146,046
Cash and cash equivalents as stated in the condensed consolidated statement of financial position and the condensed consolidated statement of cash flows	**197,324**	146,046

1.1 BASIS OF PREPARATION

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

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

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

2. OPERATING SEGMENT INFORMATION

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

Geographical information

(a) Revenue from external customers

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

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

2. OPERATING SEGMENT INFORMATION (continued)

Geographical information (continued)

(b) Non-current assets

	30 June 2020 (Unaudited) HK$'000	31 December 2019 (Audited) HK$'000
Hong Kong	**1,801**	2,454
Mainland China	**294,610**	318,647
	296,411	321,101

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

Information about a major customer

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

3. REVENUE, OTHER INCOME AND GAINS, NET

An analysis of revenue is as follows:

	Six months ended 30 June	
	2020 (Unaudited) HK$'000	2019 (Unaudited) HK$'000
Revenue from contracts with customers	**267,220**	305,877

Disaggregated revenue information

	Six months ended 30 June	
	2020 (Unaudited) HK$'000	2019 (Unaudited) HK$'000
Type of paint and coating products sold		
Industrial paint and coating products	**99,010**	123,023
Architectural paint and coating products	**119,476**	124,919
General paint and coating and ancillary products	**48,734**	57,935
	267,220	305,877
Timing of revenue recognition		
Goods transferred at a point in time	**267,220**	305,877

3. REVENUE, OTHER INCOME AND GAINS, NET (continued)

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

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

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

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

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

4. FINANCE COSTS

An analysis of finance costs is as follows:

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

5. LOSS BEFORE TAX

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

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

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

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

6. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period (six months ended 30 June 2019: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

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

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

The calculation of basic and diluted loss per share amounts is based on the loss for the period attributable to ordinary equity holders of the parent of HK$20,831,000 (six months ended 30 June 2019: HK$48,045,000) and the weighted average number of ordinary shares of 1,000,000,000 (six months ended 30 June 2019: 1,000,000,000) in issue during the period.

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

8. DIVIDEND

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

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

9. PROPERTY, PLANT AND EQUIPMENT

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

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

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

10. INVESTMENT PROPERTY

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

The Group's investment property is an industrial property in Mainland China. The Directors have determined that the investment property consists of one class of asset, i.e., industrial, based on the nature, characteristics and risks of the property. The Group's investment property was revalued on 30 June 2020 based on the valuation performed by BMI Appraisals Limited, an independent professionally qualified valuer, at HK$14,351,000. The Group's finance department which reports directly to the senior management selects an external valuer to be responsible for the external valuation of the Group's property based on market knowledge, reputation and independence of the external valuer, and whether professional standards are maintained by the external valuer. Fair value of the Group's investment property is generally derived by using the investment approach. The Group's finance department has discussion with the external valuer on the valuation assumptions and valuation results when the valuation is performed for interim and annual financial reporting.

The income capitalisation method is based on the capitalisation of the net income and reversionary income potential by adopting capitalisation rates, which are derived from analysis of rental/sales transactions and valuers' interpretation of prevailing investor requirements or expectations. The prevailing market rent adopted in the valuation has been assessed with reference to recent lettings, within the subject property and other comparable properties. Capitalisation rates are estimated by valuer based on the risk profile of the property being valued.

10. INVESTMENT PROPERTY (continued)

Fair value hierarchy

The following table illustrates how the fair value of the Group's investment property is determined (in particular, the valuation technique and inputs used), as well as the fair value hierarchy into which the fair value measurement is categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurement is observable.

Investment property held by the Group	Fair value hierarchy	Valuation technique	Significant unobservable inputs	Range or weighted average as at 30 June 2020 and 31 December 2019
Industrial property in Mainland China	Level 3	Income capitalisation method	Prevailing market rent (per sq. m. and per month)	RMB23 (2019: RMB25)
			Capitalisation rate	5.5%-6.0% (2019: 5.5%-6.0%)

During the six months ended 30 June 2020, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

Under the investment approach, a significant increase (decrease) in the unit rental rate in isolation would result in a significant increase (decrease) in the fair value of the investment property. A significant increase (decrease) in the term yield and reversion yield in isolation would result in a significant decrease (increase) in the fair value of the investment property.

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Industrial property (Unaudited) HK$'000
Carrying amount at 1 January 2020	**15,393**
Fair value loss	**(759)**
Exchange realignment	**(283)**
Carrying amount at 30 June 2020	**14,351**

11. TRADE AND BILLS RECEIVABLES

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

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

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

12. TRADE PAYABLES

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

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

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

13. SHARE OPTION SCHEME

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

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

14. CAPITAL COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	30 June 2020 (Unaudited) HK$'000	31 December 2019 (Audited) HK$'000
Contracted, but not provided for:		
Purchases of land use rights*	–	1,742
Construction and purchases of items of property, plant and equipment	12,004	6,316
	12,004	8,058

* On 21 January 2008, an indirect wholly-owned subsidiary of the Company entered into an agreement with the government of Xinfeng, Guangdong, the PRC to purchase a parcel of land located in Xinfeng at a consideration of RMB8,220,000, of which RMB6,658,000 had been paid by the indirect wholly-owned subsidiary of the Company as at 31 December 2019. The agreement was terminated during the six months ended 30 June 2020 as detailed in note 3 to the unaudited condensed consolidated interim financial statements.

15. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in the unaudited condensed consolidated interim financial statements, the Group had the following transactions with related parties during the period:

		Six months ended 30 June	
	Notes	2020 (Unaudited) HK$'000	2019 (Unaudited) HK$'000
Rental expenses/lease payments paid to the Remaining Group	(i)	1,514	1,827
Pledge fees paid to the Remaining Group	(ii)	530	–
		2,044	1,827

(i) The Group leased certain office premises from the Remaining Group (CNT Group Limited, the ultimate holding company of the Company, and its subsidiaries, but excluding the Group, are collectively referred to as the "Remaining Group") at rates mutually agreed between the parties.

(ii) Pledge fees were charged by the Remaining Group for pledging certain properties in Hong Kong as securities for certain banking facilities granted to the Group at mutually agreed fees.

(b) The transactions in respect of items (a)(i) and (a)(ii) above are also continuing connected transactions of the Company as defined under Chapter 14A of the Listing Rules.

(c) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2020 (Unaudited) HK$'000	2019 (Unaudited) HK$'000
Short term employment benefits	4,810	4,768
Post-employment benefits	233	250
Total compensation paid/payable to key management personnel	5,043	5,018

16. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, trade and bills receivables, trade payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, interest-bearing bank borrowings, and balances with the Remaining Group approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department which reports directly to the senior management is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The audit committee of the Board reviews the results of the fair value measurement of financial instruments periodically for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the equity investment designated at fair value through other comprehensive income is based on quoted market prices.

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's financial instruments:

	Fair value measurement using			
	Quoted prices in active markets (Level 1) (Unaudited) HK$'000	**Significant observable inputs (Level 2) (Unaudited) HK$'000**	**Significant unobservable inputs (Level 3) (Unaudited) HK$'000**	**Total (Unaudited) HK$'000**
Assets measured at fair value:				
At 30 June 2020				
Equity investment designated at fair value through other comprehensive income	**–**	**300**	**–**	**300**
At 31 December 2019				
Equity investment designated at fair value through other comprehensive income	–	300	–	300

During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (six months ended 30 June 2019: Nil).

17. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These unaudited condensed consolidated interim financial statements were approved and authorised for issue by the Board on 27 August 2020.

BUSINESS REVIEW

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

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

During the first half of 2020, the demand for paint and coating products in Mainland China increased because of the continuous growth in the real property industry, albeit that there was the decrease in demand for paint and coating products in the manufacturing industry in Mainland China, which is regarded as a secondary industry, including the retail business of decorating paint and coating products and the sales of the furniture paint and coating products. The cumulative construction area of construction in progress increased by 2.6% during the first half of 2020, as compared to the increase of 8.8% during the first half of 2019. On the other hand, the cumulative completion area, in terms of size, decreased by 10.5% during the first half of 2020, as compared to the decrease of 12.7% during the first half of 2019. These have slowed down the retail sales of construction and decorative paint and coating products during the first half of 2020 by 21.5%, as compared to the decrease of 22.2% during the first half of 2019, and the retail sales of paint and coating products for furniture goods, including furniture manufacturing purpose, decreased by 26.6% during the first half of 2020, as compared to the decrease of 14.9% during the first half of 2019. The paint and coating industry not only suffered from the economic downturn as a result of the COVID-19, but also the adverse effect of the decrease in the number of completed units in the property development industry during the first half of 2020. Some paint and coating manufacturers in Mainland China who had strengthened conventional sales channels, such as wholesalers or retail dealers, were adversely affected. Following the changes in the customer demands in the market, during the first half of 2020, the Group recorded a similar level of revenue contribution generated from the construction and renovation contractors for property and infrastructure projects, a significant revenue decrease of 29.7% from industrial manufacturers, as well as a decrease of 9.8% in revenue generated from wholesale distributors and retail distributors, as compared to the first half of 2019.

BUSINESS REVIEW (continued)

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

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

On the other hand, following the spread of the COVID-19 in January 2020, the price of crude oil fell sharply amid fears of faltering demand. The Saudi-Russia oil price war triggered in March 2020 caused a further significant drop of crude oil future price in April 2020 to a negative price. Following the agreement on crude oil production cut among OPEC+ members, crude oil future price gradually increased to approximately US$39 WTI (West Texas Intermediate) crude per barrel or US$41 Brent crude per barrel as of 30 June 2020. Overall, the price of crude oil in the first half of 2020 was highly fluctuated as compared to that in the first half of 2019. Whilst there was a decline in international crude oil prices, China's imported by-product of crude oil did not show a corresponding decline due to Renminbi depreciation. As a result, when compared to the decrease in the international crude oil prices, the cost of raw materials in the paint and coating industry did not decrease significantly. Overall, the Group's gross profit margin for the six months ended 30 June 2020 increased by 14.2% as compared to the same period in 2019.

REVIEW OF OPERATIONS

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

Revenue

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

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

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

Decrease in revenue because of the COVID-19

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

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

REVIEW OF OPERATIONS (continued)

Revenue (continued)

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

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

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

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

Geographical analysis of the amount of revenue

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

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

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

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

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

REVIEW OF OPERATIONS (continued)

Revenue (continued)

Geographical analysis of the amount of revenue (continued)

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

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

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

Cost of Sales

Cost of raw materials

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

Direct labour cost

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

Depreciation and production overhead

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

REVIEW OF OPERATIONS (continued)

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

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

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

Other Income and Gains, Net

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

Selling and Distribution Expenses and Administrative Expenses

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

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

REVIEW OF OPERATIONS (continued)

Other Expenses, Net

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

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

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

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

FINANCIAL REVIEW

Liquidity and Indebtedness

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

FINANCIAL REVIEW (continued)

Liquidity and Indebtedness (continued)

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

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

For the six months ended 30 June 2020, the inventory turnover days[1] were 47 days which was slightly different from that of 40 days in 2019. The trade and bills receivables turnover days[2] were 218 days as compared to that of 156 days in 2019. The increase in the trade receivable turnover days was primarily due to the deferral of settlement by customers during the COVID-19.

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

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

Equity and Net Asset Value

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

Contingent Liabilities

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

Pledge of Assets

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

STAFF

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

BUSINESS OUTLOOK

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

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

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

BUSINESS OUTLOOK (continued)

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

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

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

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

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 net proceeds, the Company will immediately inform its shareholders by way of announcement.

The Company listed its shares on the Stock Exchange on 10 July 2017 (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 net 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 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 30 June 2020	Amount unutilised as at 30 June 2020 (Note 1)
	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 Group's 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	(21.5)	10.7
(6) Product research and development centre	–	20.0	20.0	–	20.0
	168.2	–	168.2	(137.5)	30.7

Note 1: For details of the expected timeline for the unutilised net proceeds, please refer to the subsection headed "The Latest Progress in the Construction of Production Facilities and Complex in Mainland China" above in this section.

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

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

Other Information

INTERIM DIVIDEND

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

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

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2020, none of the Directors or chief executives of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as contained in Appendix 10 to the Listing Rules, or which were recorded in the register required to be kept by the Company under Section 352 of the SFO. Nor any of the Directors and the chief executives of the Company had any interest in, or had been granted any right to subscribe for the securities of the Company and its associated corporations (within the meaning of Part XV of the SFO) or had exercised any such right during the period under review.

SHARE OPTIONS

The Company's existing share option scheme was adopted on 4 June 2020 (the "Scheme"). From the date of adoption of the Scheme up to the period ended 30 June 2020, no share option has been granted under the Scheme.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 30 June 2020, the register maintained by the Company under Section 336 of the SFO showed that the following persons had interests in the shares and underlying shares of the Company:

Name	Note	**Capacity**	**Number of shares**	**Percentage of issued share capital**
CNT Enterprises Limited	1	Beneficial owner	750,000,000	75.00%
CNT Group Limited	1	Interest of controlled corporation	750,000,000	75.00%

Note:

(1) The reference to the 750,000,000 shares relate to the same block of 750,000,000 shares beneficially interested by CNT Enterprises Limited.

CNT Enterprises Limited was a wholly-owned subsidiary of CNT Group Limited. CNT Group Limited was deemed under the SFO to be interested in these 750,000,000 shares which were owned by CNT Enterprises Limited.

Save as disclosed above, the Company has not been notified by any person who had interests or short positions in the shares or underlying shares of the Company as at 30 June 2020 which were required to be disclosed to the Company under Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Other Information

CORPORATE GOVERNANCE

The Board recognises the importance of and benefit from good corporate governance practices and has devoted considerable efforts to develop the best corporate governance practices appropriate to the businesses of the Group. Throughout the six months ended 30 June 2020, the Company has applied the principles and complied with the code provisions as set out in the Corporate Governance Code as contained in Appendix 14 to the Listing Rules.

CHANGE IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in the information of the Directors are as follows:

(1) The service contract of each of Mr. Tsui Ho Chuen, Philip, Mr. Li Guangzhong and Mr. Wong Anders, as an executive Director, has been renewed for a term of three years commencing from 9 June 2020.

(2) The letter of appointment of each of Mr. Lam Ting Ball, Paul and Mr. Chong Chi Kwan, as a non-executive Director, has been renewed for a term of three years commencing from 9 June 2020.

(3) The letter of appointment of each of Ms. Chiu Kam Hing, Kathy, Mr. Chua Joo Bin and Mr. Xia Jun, as an independent non-executive Director, has been renewed for a term of three years commencing from 9 June 2020.

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. After specific enquiry by the Company, all Directors confirmed that they have complied with the required standard as set out in the Model Code and the Company's own code during the six months ended 30 June 2020.

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

Hong Kong, 27 August 2020