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 2018

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2018	2017	
Results	**HK$'000**	HK$'000	Change
Revenue	**617,254**	995,958	-38.0%
Gross profit	**150,943**	307,807	-51.0%
Gross profit margin	**24.5%**	30.9%	-20.7%
Profit/(loss) attributable to shareholders of the Company	**(139,260)**	17,332	N/A
Earnings/(loss) per share (HK cent) Basic and diluted	**(13.93)**	1.99	N/A

	As at 31 December 2018	As at 31 December 2017	
Financial Position	**HK$'000**	HK$'000	Change
Cash and bank balances	**160,280**	247,258	-35.2%
Bank and other borrowings	**220,425**	101,786	116.6%
Gearing ratio	**39.5%**	13.6%	190.4%
Net asset value per share (HK$)	**0.57**	0.76	-25.0%

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 2018 together with comparative amounts for the corresponding year in 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2018

	Notes	**2018** **HK$'000**	2017 HK$'000
REVENUE	4	**617,254**	995,958
Cost of sales		**(466,311)**	(688,151)
Gross profit		**150,943**	307,807
Other income and gains	4	**13,442**	9,593
Selling and distribution expenses		**(169,164)**	(172,014)
Administrative expenses		**(107,603)**	(100,400)
Other expenses, net		**(44,352)**	(19,827)
Finance costs	5	**(5,775)**	(1,559)
PROFIT/(LOSS) BEFORE TAX	6	**(162,509)**	23,600
Income tax credit/(expense)	7	**22,867**	(6,585)
PROFIT/(LOSS) FOR THE YEAR		**(139,642)**	17,015
ATTRIBUTABLE TO:			
Owners of the parent		**(139,260)**	17,332
Non-controlling interest		**(382)**	(317)
		(139,642)	17,015
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic and diluted		**HK(13.93) cent**	HK1.99 cent

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
PROFIT/(LOSS) FOR THE YEAR	**(139,642)**	17,015
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(29,506)**	43,600
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:		
Remeasurement of net pension scheme assets	**(687)**	2,176
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	**4,115**	2,176
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	**(25,391)**	45,776
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	**(165,033)**	62,791
ATTRIBUTABLE TO:		
Owners of the parent	**(164,490)**	62,843
Non-controlling interest	**(543)**	(52)
	(165,033)	62,791

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	**2018** **HK$'000**	2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**220,890**	200,883
Investment property		**15,713**	–
Prepaid land lease payments		**85,571**	19,232
Equity investment designated at fair value through other comprehensive income		**300**	–
Available-for-sale investment		**–**	300
Deposits for purchases of properties, and plant and equipment		**10,675**	8,972
Intangible assets		**805**	–
Net pension scheme assets		**3,687**	4,421
Deferred tax assets		**19,008**	5,327
Total non-current assets		**356,649**	239,135
CURRENT ASSETS			
Inventories		**56,682**	71,682
Trade and bills receivables	10	**424,689**	698,051
Prepayments, deposits and other receivables		**70,878**	53,076
Cash and cash equivalents		**160,280**	247,258
Total current assets		**712,529**	1,070,067
CURRENT LIABILITIES			
Trade payables	11	**184,253**	293,604
Other payables and accruals		**66,299**	111,727
Due to Remaining Group		**68**	3,166
Interest-bearing bank and other borrowings		**219,779**	100,770
Tax payable		**11,531**	15,774
Total current liabilities		**481,930**	525,041
NET CURRENT ASSETS		**230,599**	545,026
TOTAL ASSETS LESS CURRENT LIABILITIES		**587,248**	784,161

	Notes	**2018** **HK$'000**	2017 HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		**646**	1,016
Deferred tax liabilities		**12,383**	25,154
Deferred income		**1,808**	2,215
Total non-current liabilities		**14,837**	28,385
Net assets		**572,411**	755,776
EQUITY			
Equity attributable to owners of the parent			
Issued capital	12	**100,000**	100,000
Reserves		**469,388**	652,210
		569,388	752,210
Non-controlling interest		**3,023**	3,566
Total equity		**572,411**	755,776

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 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, an equity investment and net pension scheme assets, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand ("HK$'000") except when otherwise indicated.

2.2 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 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

The adoption of these new and revised HKFRSs has had no significant financial impact on the Group's results of operation and financial position except for HKFRS 9 *Financial Instruments* and HKFRS 15 *Revenue from Contracts with Customers* as described below:

(a) HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

With the exception of hedge accounting, which the Group has applied prospectively, the Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECLs").

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

	Notes	**Category**	**HKAS 39 measurement Amount** *HK$'000*	**Re-classification** *HK$'000*	**ECL** *HK$'000*	**HKFRS 9 measurement Amount** *HK$'000*	**Category**
Financial assets							
Equity investment designated at fair value through other comprehensive income		N/A	–	300	–	300	FVOCI[1] (equity)
From: Available-for-sale investment	(i)		–	300	–	–	
Available-for-sale investment		AFS[2]	300	(300)	–	–	N/A
To: Equity investment designated at fair value through other comprehensive income	(i)		–	(300)	–	–	
Trade receivables	(ii)	L&R[3]	698,051	–	(21,566)	676,485	AC[4]
			698,351	–	(21,566)	676,785	
Other assets							
Deferred tax assets			5,327	–	3,234	8,561	
Total			703,678	–	(18,332)	685,346	

1 FVOCI: Financial assets at fair value through other comprehensive income
2 AFS: Available-for-sale investments
3 L&R: Loans and receivables
4 AC: Financial assets or financial liabilities at amortised cost

Notes:

(i) The Group has elected the option to irrevocably designate its previous available-for-sale investment as equity investment designated at fair value through other comprehensive income.

(ii) The gross carrying amount of the trade receivables under the column "HKAS 39 measurement – Amount" represents the amount after adjustments for the adoption of HKFRS 15 but before the measurement of ECLs.

Impairment

The following table reconciles the aggregate opening impairment allowances under HKAS 39 to the ECL allowances under HKFRS 9.

	Impairment allowances under HKAS 39 at 31 December 2017	**Re-measurement**	**ECL allowances under HKFRS 9 at 1 January 2018**
	HK$'000	*HK$'000*	*HK$'000*
Trade receivables	38,401	21,566	59,967

Impact on reserves and retained profits

The impact of transition to HKFRS 9 on reserves and retained profits is as follows:

	Retained profits HK$'000	Fair value reserve (non-recycling) HK$'000
Retained profits		
Balance as at 31 December 2017 under HKAS 39	535,777	–
Recognition of expected credit losses for trade receivables under HKFRS 9	(21,566)	–
Reclassification of accumulated impairment losses previously recognised for an equity investment to fair value reserve (non-recycling)	500	(500)
Deferred tax in relation to the above	3,234	–
Balance as at 1 January 2018 under HKFRS 9	517,945	(500)

(b) HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The cumulative effect of the initial application of HKFRS 15 was recognised as an adjustment to the opening balance of retained profits as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 11, HKAS 18 and related interpretations.

The Group has assessed its performance obligations under its arrangements pursuant to HKFRS 15 and has concluded that the adoption of HKFRS 15 does not have a significant impact and thus, no adjustment was made to the opening balance of retained profits at 1 January 2018.

3. OPERATING SEGMENT INFORMATION

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

Geographical information

(a) Revenue from external customers

	2018	2017
	HK$'000	HK$'000
Hong Kong	**46,852**	86,162
Mainland China	**570,402**	909,796
	617,254	995,958

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

(b) Non-current assets

	2018	2017
	HK$'000	HK$'000
Hong Kong	**2,708**	3,628
Mainland China	**330,946**	225,459
	333,654	229,087

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 2018 and 2017, no revenue from any single customer accounted for 10% or more of the total revenue of the Group.

4. REVENUE, OTHER INCOME AND GAINS

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

	2018	2017
	HK$'000	HK$'000
Revenue from contracts with customers	**617,254**	–
Sale of paint and coating products	**–**	995,958
	617,254	995,958

4. REVENUE, OTHER INCOME AND GAINS (continued)

Disaggregated revenue information

For the year ended 31 December 2018	**HK$'000**
Type of paint and coating products sold	
Industrial paint and coating products	**285,288**
Architectural paint and coating products	**199,556**
General paint and coating and ancillary products	**132,410**
	617,254

	2018	2017
	HK$'000	HK$'000
Other income		
Bank interest income	**415**	839
Government grants*	**9,459**	4,819
Recognition of deferred income	**305**	295
Rental income	**2,053**	–
Others	**1,210**	2,878
	13,442	8,831
Gains		
Fair value gains on structured deposits	**–**	762
Total other income and gains	**13,442**	9,593

* 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:

	2018	2017
	HK$'000	HK$'000
Interest on bank loans	**5,716**	1,482
Interest on finance leases	**59**	77
	5,775	1,559

6. PROFIT/(LOSS) BEFORE TAX

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

	2018	2017
	HK$'000	HK$'000
Cost of inventories sold	**466,311**	688,151
Depreciation	**19,547**	18,212
Amortisation of prepaid land lease payments	**1,364**	513
Amortisation of intangible assets	**459**	–
Impairment of trade receivables*	**30,055**	7,967
Write-down/(write-back) of inventories to net realisable value, net	**342**	(2,841)
Loss on disposal of items of property, plant and equipment, net*	**25**	61
Write-off of items of property, plant and equipment*	**297**	557
Foreign exchange differences, net*	**390**	512

* These balances are included in "Other expenses, net" 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 (2017: 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% (2017: 25%) during the year, except for subsidiaries of the Group which qualified as a PRC High and New Technology Enterprise in Mainland China and a lower PRC corporate income tax rate of 15% (2017: 15%) had been applied during the year.

	2018	2017
	HK$'000	HK$'000
Current – Elsewhere		
Charge for the year	**2,206**	10,611
Overprovision in prior years	**–**	(2,515)
Deferred	**(25,073)**	(1,511)
Total tax charge/(credit) for the year	**(22,867)**	6,585

8. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings/(loss) per share for the year ended 31 December 2018 is based on the loss for the year attributable to owners of the parent of HK$139,260,000 (2017: profit of HK$17,332,000) and the weighted average number of ordinary shares of 1,000,000,000 (2017: 869,863,014) in issue during the year.

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

No adjustment has been made to the basic loss per share amount presented for the years ended 31 December 2018 and 2017 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during the years.

9. DIVIDEND

The Directors have resolved not to declare a final dividend for the year ended 31 December 2018 (2017: Nil).

CP Industries (BVI) Limited, a subsidiary of the Company, declared a special interim dividend of HK$180,000,000 to CNT Group, its former holding company, prior to the completion of a reorganisation of the Group on 7 June 2017. The rate for this dividend and the number of shares ranking for this dividend are not presented as such information is not considered meaningful for the purpose of the financial statements.

10. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance may require. The Group maintains a defined credit policy and credit periods are usually granted ranging from one to three months to normal customers. The Group seeks to maintain strict control over its receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In the 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:

	2018	2017
	HK$'000	HK$'000
Within three months	**175,121**	506,999
Over three months and within six months	**87,684**	61,802
Over six months	**161,884**	129,250
	424,689	698,051

11. 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:

	2018	2017
	HK$'000	HK$'000
Within three months	**145,005**	289,675
Over three months and within six months	**35,624**	3,622
Over six months	**3,624**	307
	184,253	293,604

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

12. SHARE CAPITAL

Shares

	2018	2017
	HK$'000	HK$'000
Authorised:		
8,000,000,000 (2017: 8,000,000,000) ordinary shares of HK$0.10 each	**800,000**	800,000
Issued and fully paid:		
1,000,000,000 (2017: 1,000,000,000) ordinary shares of HK$0.10 each	**100,000**	100,000

A summary of the movements in the Company's share capital is as follows:

	Notes	**Number of ordinary shares in issued**	**Issued share capital**	**Share premium account**	**Total**
			HK$'000	HK$'000	HK$'000
At 1 January 2017		**1**	–	**–**	–
		1	–	**–**	–
Issue of new shares	(i)	**99**	–	**–**	–
Issue of new shares pursuant to the Capitalisation Issue	(ii)	**749,999,900**	75,000	**(75,000)**	–
Issue of new shares pursuant to the Share Offer	(iii)	**250,000,000**	25,000	**190,000**	215,000
Share issue expenses		**–**	–	**(20,386)**	(20,386)
At 31 December 2017, 1 January 2018 and at 31 December 2018		**1,000,000,000**	100,000	**94,614**	194,614

Notes:

(i) On 8 June 2017, the Company issued and allotted 99 Shares of HK$0.1 each to the immediate holding company of the Company, namely, CNT Enterprises Limited.

(ii) Pursuant to the resolution of the sole shareholder of the Company passed on 9 June 2017, the Company issued and allotted a total of 749,999,900 shares, credited as fully paid at par, to CNT Enterprises Limited on 10 July 2017 (the "Listing Date") by way of capitalisation of the sum of HK$74,999,990 standing to the credit of the share premium account of the Company (the "Capitalisation Issue").

(iii) In connection with the listing of the shares of the Company on the main board of the Stock Exchange, 250,000,000 new shares were issued at a price of HK$0.86 per share (the "Share Offer") for a total cash consideration, before expenses, of HK$215,000,000.

DIVIDEND

The Directors have resolved not to declare a final dividend for the year ended 31 December 2018 (2017: Nil).

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining shareholders' eligibility to attend and vote at the forthcoming annual general meeting of the Company, the register of members of the Company will be closed from Friday, 31 May 2019 to Wednesday, 5 June 2019, both days inclusive, during the period no transfer of shares will be effected. In order to be entitled to attend and vote at the forthcoming annual general meeting of the Company, all transfers accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Thursday, 30 May 2019.

CHAIRMAN'S STATEMENT

OVERVIEW

In 2018, the growth of the China's economy was slow with the growth of gross domestic product ("GDP") decreased by 1.5%, as compared with 2017. The slow economic growth was primarily due to the sluggish economic condition in the domestic economy in Mainland China as well as the trade tensions between China and the United States starting from the second half of 2018. The dim prospects for the growth of the export business in Mainland China discouraged the investments in the PRC manufacturing sector. The real estate market in Mainland China did not perform well in 2018, which was primarily due to government policies on home prices and the less-than-expected increase in the domestic consumption power of general population in Mainland China. Like other manufacturing industries in Mainland China, the paint and coating industry in Mainland China was also affected by general economic condition in Mainland China as well as certain industry-specific factors, such as the decline in the PRC manufacturing sector, the PRC real property market as well as the environmental protection laws and regulations in Mainland China. According to the National Bureau of Statistics of China, the sales volume of paint and coating products in Mainland China in 2018 decreased by 9.4% as compared to the sales volume in 2017. Such unsatisfactory results were mainly caused by the decrease in the retail sales of construction and decorative paint and coating products by 22.4% and the decrease in the total domestic retail sales of furniture goods (including the paint and coating products for furniture manufacturing purpose) by 19.9%.

In addition to the decreasing demand for paint and coating products, the PRC domestic price of crude oil continued to increase during the year of 2018. This has resulted in the continuous decrease in the profitability amongst paint and coating product manufacturers in Mainland China, and hence led to price reduction/competition for them to penetrate into the market share or maintain sales volume. The continuous rise in crude oil price has led to the increase in the cost of principal raw materials, such as solvent and resin, for the paint and coating industry in Mainland China. Besides, the stringent implementation of environmental protection laws and regulations in Mainland China have resulted in many chemical factories going out of business or reducing their production scale. This explains why the selling prices of pigments and additive in Mainland China increased more than the prices of Xylene and Toluene of solvent.

In response to these challenges, management team of the Group has adopted various business revamp measures or initiatives to stabilise the situation so as to make the Group to be more competitive with the launch of new products and to be more profitable with rationalised cost structure.

Looking ahead, the road ahead is still full of challenges. However, the Board fully supports the business revamp measures and initiatives developed and implemented by the management. With the continued dedication, commitment and hard work of our staff, I remain confident in improving the Group's profitability in the paint and coating products in Mainland China.

RESULTS

The Group's revenue for the year amounted to approximately HK$617.25 million, representing a decrease of 38.0% when compared with last year. The decrease in the revenue was mainly attributable to the weak demand for retail wood coating products in Mainland and Hong Kong, the changes in end-user preferences, the stringent implementation of environmental protection laws and regulations in Mainland China and the effect of the resignation of sale personnels who were responsible for marketing and the promotion of the Group's business in the Eastern China Market. The amount of gross profit in 2018 decreased to HK$150.94 million, representing a decrease of 51.0% as compared to the gross profit of the Group of HK$307.81 million in 2017. The Group recorded a loss attributable to its owners of the parent company of HK$139.26 million in 2018. During the year ended 31 December 2017, the Group recorded a profit attributable to its owners of the parent company of HK$17.33 million. The unsatisfactory performance of the Group during the year ended 31 December 2018 was due to a number of factors. Such factors are set forth in the section headed Management Discussion and Analysis.

PROSPECTS

According to the public information, it is expected that China's economy will encounter additional downward pressure in 2019 due to weaker domestic demand and the effect by the recent trade tension between China and the United States on exports. The International Monetary Fund predicted that the GDP growth rate in Mainland China will be around 6.2% in 2019. During the opening of the National People's Congress in early March 2019, the Chinese premier Mr. Li Keqiang also mentioned that the PRC government would set a low economic growth target for 2019 in a range of 6.0% to 6.5%.

Despite the economic uncertainties in Mainland China due to impacts from the unfavorable macroeconomic conditions and the political trade tensions, the Group remains prudently optimistic about the China's economy and prospect. In the shadow of political trade tensions between China and the United States, the Group expects that the Chinese government will continue to boost up the domestic consumptions in offsetting the drop from exports to overseas, which facilitate one of the main drivers of the economic growth in Mainland China. The Group will enhance its internal risk control and management system and boost operation efficiency in order to respond to the volatile market environment and stabilise business performance with the target to restore the profitability of the Group.

MANAGEMENT'S 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 being used by manufacturers, renovation contractors for property and infrastructure projects and household users. Architectural paint and coating products are used for wall, floor and exterior parts of buildings. 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 OPERATIONS

Revenue

During the year under review, the Group's revenue decreased by 38.0% to HK$617.25 million in 2018 from HK$995.96 million in 2017. The following sets forth an analysis of the Group's revenue during the years ended 31 December 2017 and 2018 by principal products:

	Year ended 31 December				
	2017		**2018**		*% of*
	HK$000	%	**HK$000**	**%**	*change*
Industrial paint and coating products	555,696	55.8	**285,288**	**46.2**	(48.7)
Architectural paint and coating products	208,142	20.9	**199,556**	**32.3**	(4.1)
General paint and coating and ancillary products [(1)]	232,120	23.3	**132,410**	**21.5**	(43.0)
	995,958	100.0	**617,254**	**100.0**	(38.0)

(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 46.2% (2017: 55.8%), 32.3% (2017: 20.9%) and 21.5% (2017: 23.3%) of total revenue of paint business in 2018, respectively. The Group continues to focus on Mainland China market which contributed to approximately 92.4% (2017: 91.3%) of the total revenue in 2018.

Significant Decrease in Revenue

The decrease in revenue from the sales of industrial paint and coating products, architectural paint and coating products, and general paint and coating and ancillary products for the year under review were 48.7%, 4.1% and 43.0% respectively. The decrease in revenue of the Group during the year ended 31 December 2018 was primarily due to the sluggish demand in the retail wood coating market, which is the primary market of the Group's paint and coating products. The demand was generally and adversely affected by the decrease in the number of completed residential units and commercial premises (which suppressed the demand for interior decoration paint and coating products during the year ended 31 December 2018), changes in consumers' preference on on-site home or office decoration (which has an adverse impact on the demand in the retailed wood coating market) and the stringent environmental measures in Mainland China. Moreover, the Group's situation was further affected by the resignation of sale personnels who were responsible for marketing and the promotion of the Group's business in the Eastern China Market. During the year, the Group was operating in a challenging environment with all these factors simultaneously affecting the demand for its paint and coating products and cost of sales.

Furthermore, the decrease in such demand has further intensified the price competition, which had a negative impact on the sales volume of the principal paint and coating products of the Group. Recently, certain domestic and foreign paint and coating manufacturers are setting up new plants to increase their capacity to capture the potential growth in paint and coating market in Mainland China, however, due to the slow economic growth in Mainland China and the decrease in the demand of the paint and coating products in Mainland China, these manufacturers failed to release their production capacity, which has led to an increase in supply and a negative impact on bargaining power of various paint and coating product manufacturers in 2018. In addition, under such adverse situation, some of the small and medium size paint and coating manufacturers had closed down or sold in 2018 and the clearance sale of these factories, at relatively lower price, had further ended the profit margin of paint and coating products in 2018. In particular, there was a sale for a famous paint and coating manufacturer in Shanghai, which engaged in the manufacture of and trading in solvents, coatings, inks and lubricants, in January 2019. The demand for solvent-based paint and coating products was also adversely affected by the increasingly stringent regulations on the use and storage of solvent-based paint and coating products in the target markets of the Group in Mainland China.

On the other hand, the Group's revenue was generated from different sale channels, including distributors, direct sales, cash and credit sales to other customers and showroom sales. The Group's customers include distributors, manufacturers and renovation contractors for property and infrastructure projects. In the past, our revenue which was generated from distributors in Mainland China and Hong Kong was more than 60%. However, due to the unfavorable macroeconomic conditions, the Group recorded a decrease in the sales to distributors in Mainland China and Hong Kong, which affected our sales volume and profitability for the year. The decrease in sales to distributors was primarily due to the reduction in the size of their business in Mainland China and Hong Kong. In addition, the profit margin of distributors continues to be shrunken and is under pressure from increasing costs, such as purchase costs, labour wages and rental expenses of stores, and they are not able to transfer the increasing costs to end customers.

Cost of sales

The following set forth an analysis of the cost of sales during the years ended 31 December 2017 and 2018, and the percentage of change.

	Year ended 31 December				
	2017		**2018**		
	HK$000	% *to revenue*	**HK$000**	***% to revenue***	*% of change*
Raw materials	601,991	60.4	**405,068**	**65.6**	(32.7)
Direct labour	56,843	5.7	**41,927**	**6.8**	(26.2)
Depreciation and production overhead	29,317	3.0	**19,316**	**3.1**	(34.1)
	688,151	69.1	**466,311**	**75.5**	(32.2)

Unexpected Soar in Raw Materials Costs

The raw materials used by the Group include resins, solvents and other materials, of which resins and solvents accounted for a significant portion of the total cost of raw materials. As resins and solvents are the downstream products of crude oil, their market prices generally correlate with the price of crude oil. The crude oil price had continued to soar and reached the year-high level in October 2018. The increase in crude oil price has led to the increase in the prices of solvent and resin, which are the principal raw materials of the Group. The Group's profit for the year was snatched away by the increasing price of raw materials. The overall percentage of raw material costs contributing to the revenue increased by 5.2 percentage point from 60.4% to 65.6%.

Gross profit and gross profit margin of our products

The gross profit margin decreased by 6.4 percentage point to 24.5% during the year under review. The decrease in the gross profit margin was mainly due to the decrease in the amount of revenue and the increase in the cost of sales as a result of the increase in the raw materials prices and fixed production overheads incurred by the Group even though there was the decrease in the production and sales volume of the Group's paint and coating products.

Profitability analysis

The year of 2018 was an extraordinarily challenging year for the Group. The unsatisfactory performance of the Group was principally affected by the following factors:

1. Revenue from sales – The decrease in revenue was the result of a combination of the impact from (i) the downturn in macroeconomic environment in Mainland China; (ii) a decrease in the sales to distributors in Mainland China and Hong Kong; (iii) loss of market share in Eastern China market; (iv) changes in end-user preferences; and (v) certain demand of paint and coating products in Mainland China was shifted to some small-and-medium paint and coating manufacturers which have been closed down and their remaining products were then sold at lower prices to the market. Regarding the negative sale performance, the Group's revenue for the year ended 31 December 2018 decreased significantly, which led to the significant decrease in the gross profit.

2. Cost of raw materials – As mentioned above, the persistently high crude oil price in 2018 led to the relative prices of solvent and resin to increase significantly. As a result, the Group's gross profit for the year was snatched away by the increasing price of raw materials.

3. Other expenses, net – In 2018, the Group adopted the expected credit loss model, taking into account forward-looking information in addition to historical credit loss experience under HKFRS 9, which caused a negative impact on the financial performance of the Group for the year ended 31 December 2018.

   Prior to 1 January 2018, an impairment loss was recognised only on an incurred basis when there was objective evidence of impairment. At 31 December 2017, the overdue trade debtors were not impaired and was related to a number of independent customers for whom there was no recent history of default.

4. Staff costs – In response to the unfavorable market conditions, the Group decided to integrate the production facilities in Mainland China and to streamline the workforces and personnel. The Group then reorganized the production plants in Mainland China to rationalise the production process and to improve production efficiencies. In addition, sale teams and administrative staff were reorganised to increase the efficiency. As a result, one-off redundancy compensation for certain employees in Mainland China was recognized as staff costs during the year.

5. Finance costs – The Group's finance cost increased for the year ended 31 December 2018. Borrowing funds were used to acquire Zhongshan factory and for operating working capital during the year.

6. Renminbi exchange rate – The appreciation in Renminbi in the first half of 2018 had an adverse financial impact to the Group because there was loss making for the Group for the year ended 31 December 2018.

BUSINESS PLANS AND OUTLOOK

The Directors are cautiously optimistic on the business environment of the paint and coating industry in Mainland China in the midst of different challenges encountered by the Group. Whilst the political trade tensions continue between China and the United States, the PRC and foreign paint and coating manufacturers are making decisions that will affect the future development of the paint and coating industry in Mainland China. For example, one of the foreign paint and coating manufacturers made the acquisition of the interests in the paint business (re: decorative paint and coating products) from an investment holding company in Hong Kong, which recorded a profit on the disposal of interests in the paint business for more than HK$2.0 billion. Overall, the well-established paint and coatings manufacturers are optimistic about the future of the paint and coating industry over the next five years, thus some of them invested huge capital in paint and coating industry in Mainland China.

In light of the substantial decrease in revenue, gross profit margin and gross profit for the year ended 31 December 2018, starting from the second quarter of 2018, the Group is in the process of formulating and implementing various business revamp measures and initiatives to improve the business operation and to reduce the costs of the Group. These business initiatives include the following:

1. Stabilising the business performance in the short term

In the short term, the Group aims to stabilise business performance with the target to restore the profitability of the Group. Starting from the second quarter of 2018, the Group has implemented stringent cost control measures with the focus on reducing the fixed production overheads (such as staff costs and consumable items) and administrative expenses (such as reduction of headcount (re: increase redundancy costs in staff cost) and consumable items) and improving the operational efficiency, both at the production and the administrative levels (such as staff costs and consumable items).

The operating expenses of the Group for the year ended 31 December 2018 did not decrease in line with the drop in the Group's revenue for the year ended 31 December 2018. This development, which was primarily due to the heavy redundancy costs incurred, continuous investment in brand building, adversely affected the profitability of the Group. Hence, cost reduction is the primary objective of the Group in 2019. In this regard, the Group has undertaken an in-depth review of the components of the production cost and administrative cost and has identified the potential cost saving aspects. Whilst the impact of such cost saving measures has yet to be reflected in the income statement of the Group, it has slowed down the cash outflow from operation during the last quarter of 2018.

2. **Price increase for paint and coating products**

The Group continues to be diligent in offsetting inflation costs across implementing stringent cost control measures, and improving in the procurement and sourcing process to increase efficiency. Regardless of these efforts, the Group must increase the pricing to ensure that the Group can continue to deliver exceptional technical support and solutions to customers. In the second half of 2018, the Group increased the selling prices of most paint and coating products for twice. Definitely, the Group must increase the selling prices in 2019 if the price of raw materials will extensively increase again in 2019, in order to share the pressure of inflation to end-users.

3. **Improvement in the procurement and sourcing process**

The Group continues to reduce the number of suppliers for the purpose of achieving economies of scale and reducing the purchase price (or increasing the bulk purchase discount) and saving transportation time and cost. This improvement is expected to be implemented with the integration of production facilities of the Group. Through the improvement in the procurement and sourcing process, the Directors expect that the Group would have relatively strong bargaining power to reduce the price of raw materials required.

4. **Enhancing the competitiveness of the Group's products by adjusting the product mix and production distribution channels**

The Directors are well aware of that the implementation of the stringent cost control measures will not be sufficient to turn around the performance of the Group. It is crucial to increase the sales of paint and coating products, and the more important issue is that the increase must be sustainable in light of the latest industry trends and consumers' preference.

In this regard, the Group will focus on solvent-based and water-based paint and coating products. The Group is competing in the paint and coating markets in both Hong Kong and Mainland China that require fast adaptation to continuous changes in end-users' preference and to develop more product lines for targeting the mass market. Consumers require quick reaction and price competitiveness on products, which entails efficient time to market through our product development and supply chain processes. Therefore, the Group aims to simplify the sales channels and gain access to various industrial manufacturers, including but not limited to furniture industry, automotive industry and wind power industry.

The Group also aims to develop more Low Volatile Organic Compounds paint and coating products to address consumers' preferences and to achieve the highest environmental protection standards, and to create value to shareholders of the Company.

5. Integration of the production facilities 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 strengthen its production activities in Shenzhen, Zhongshan and Xinfeng, Guangdong Province, the PRC. The Directors believe that through the increased production activities at these production facilities, the production cost and the lead-time for production will decrease, in order 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 of the Group in Shenzhen, so that such production facilities will become the principal production hub and the product research and development base of the Group.

Subject to the market conditions, the Group plans 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, the scale of the production activities and the nature of paint and coating products which are currently produced at the production facilities in Xuzhou, Jiangsu Province, the PRC and Ezhou, Hubei Province, the PRC will be lowered, so as to maximise the use of these facilities for the benefit of the Group. The under-utilised production facility in Xuzhou has been leased to third parties for rental income. For customers who are located in this region and currently served by the Group through the under-utilised production facility in Xuzhou, the Group explored production cooperation with those selected paint and coating manufacturers on an Original Equipment Manufacturer (OEM) basis.

FINANCIAL REVIEW

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

The Group recorded a loss attributable to the owners of the parent company of approximately HK$139.26 million for the year. During the year ended 31 December 2017, the Group recorded a profit attributable to its parent company of HK$17.33 million. Revenue for the year amounted to approximately HK$617.25 million, representing a decrease of approximately 38.0% when compared with that of last year. Gross profit for the year amounted to approximately HK$150.94 million, representing a decrease of approximately 51.0% when compared with that of last year. The gross profit margin decreased by 20.7% from 30.9% in 2017 to 24.5% in 2018.

LIQUIDITY AND FINANCIAL INFORMATION

The Group's business operation is generally financed by its internal financial resources and bank borrowings. The cash and cash equivalents amounted to HK$160.28 million as of 31 December 2018 as compared with HK$247.26 million as of 31 December 2017. The significant decrease in cash and cash equivalents during the year under review was mainly due to (i) the payments made for the acquisition of the entire equity interest in China Molybdenum & Vanadium Development Limited; and (ii) the use of working capital. Bank and other borrowings amounted to HK$220.43 million as of 31 December 2018 as compared with HK$101.79 million as of 31 December 2017. The Group's bank and other borrowings mainly bear interest at floating rates. Of the Group's total bank and other borrowings as of 31 December 2018, HK$219.78 million (99.7%) is payable within one year, HK$0.42 million (0.2%) is payable in the second year and the remaining balance of HK$0.23 million (0.1%) is payable in the third to fifth years. The significant increase in bank and other borrowings during the year under review was mainly due to (a) the partial payment for the acquisition of the entire equity interest in China Molybdenum & Vanadium Development Limited; and (b) the use of working capital.

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 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 arise.

Gearing ratio of the Group which is expressed as a percentage of total bank and other borrowings to adjusted capital (as defined below) was 39.5% as of 31 December 2018 as compared with 13.6% as of 31 December 2017.

Liquidity ratio of the Group which is expressed as a percentage of current assets to current liabilities was 1.48 times as of 31 December 2018 as compared with 2.04 times as of 31 December 2017.

For the year under review, the inventory turnover days[1] were 44 days which was slightly different from that of 38 days in 2017. The trade and bills receivables turnover days[2] were 251 days compared to that of 256 days in 2017. The increase in the trade receivable turnover days were primarily due to the requests by our customers (including distributors) to extend the credit period amid the less favorable industry environment in Mainland China.

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

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

Equity and Net Asset Value

Shareholders' funds of the Company as of 31 December 2018 was HK$569.39 million as compared with HK$752.21 million as of 31 December 2017. Adjusted capital of the Company, being shareholders' fund less the unrealised leasehold land and building revaluation reserve, as of 31 December 2018 was HK$558.10 million as compared with HK$745.72 million as of 31 December 2017. Net assets value per share as at 31 December 2018 was HK$0.57 compared with HK$0.76 as at 31 December 2017.

Contingent Liabilities

As of 31 December 2018, the banking facilities granted to various subsidiaries subject to guarantees given to banks by the Company were utilised to the extent of HK$219.38 million (31 December 2017: HK$100.77 million).

Pledge of Assets

As of 31 December 2018, certain property, plant and equipment with an aggregate net book value of HK$8.48 million (31 December 2017: HK$9.49 million) were pledged to secure a general banking facility granted to the Group. In addition, at 31 December 2018, an indirect non-wholly owned subsidiary of the Company pledged its shares (2017: Nil) 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 2018. The Group will continue to monitor its foreign currency exposure and requirements closely and arrange hedging facilities when necessary.

Capital Expenditure

During the year under review, the Group invested a total sum of HK$131.73 million (2017: HK$16.28 million) in the plant and equipment, and the construction of dangerous warehouses.

HUMAN RESOURCES

Headcount as at 31 December 2018 was 850 (31 December 2017: 1,013). Staff costs (excluding directors' emoluments) amounted to HK$155.91 million for the year as compared with HK$168.25 million last year. The Group has a comprehensive and competitive staff remuneration and benefits system which is based on the performance of individual employees.

PRINCIPAL RISKS AND UNCERTAINTIES

FINANCIAL RISKS

Interest Rate Risk

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

Currency Rate Risk

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

Credit Risk

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

There is no significant subsequent event after 31 December 2018.

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 these be any change in the use of proceeds, the Company will immediately inform its shareholders 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. As at the date of this announcement, the net proceeds from the Listing were utilised as follows:

	Net proceeds	**Aggregate amount utilised as at 31.12.2018**	**Amount unutilised as at the date of this announcement**
	HK$ million	HK$ million	HK$ million
(1) Construction of our Xinfeng Production Plant	78.5	(26.3)	52.2
(2) Repayment of our bank loans	19.1	(19.1)	0.0
(3) Acquisitions of businesses or production assets	42.0	(42.0)	0.0
(4) Sales and market campaigns and activities	28.6	(28.6)	0.0
	168.2	(116.0)	52.2

The unutilised net proceeds from the Listing have been deposited in the bank accounts of the Group.

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 2018.

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 2018 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 2018, 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 2018.

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

Hong Kong, 28 March 2019

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.