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(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1932)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

FINANCIAL HIGHLIGHTS			
Results	Year ended 31 December		Change %
	2020 HK\$'000	2019 HK\$'000	
Revenue	712,886	713,328	-0.1
Gross profit	215,951	196,816	9.7
Gross profit margin	30.3%	27.6%	9.8
Loss attributable to shareholders of the Company	(10,801)	(28,036)	-61.5
Loss per share (HK cents) Basic and diluted	(1.08)	(2.80)	-61.5
Financial Position	As at 31 December 2020 HK\$'000	As at 31 December 2019 HK\$'000	Change %
Cash and cash equivalents and structured deposits	242,370	224,372	8.0
Bank borrowings	215,301	215,340	-
Gearing ratio	37.1%	40.6%	-8.6
Net asset value per share (HK\$)	0.58	0.53	9.4

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 2020 together with comparative amounts for the corresponding year in 2019 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
REVENUE	4	712,886	713,328
Cost of sales		<u>(496,935)</u>	<u>(516,512)</u>
Gross profit		215,951	196,816
Other income and gains, net	4	22,318	11,963
Selling and distribution expenses		(97,867)	(126,219)
Administrative expenses		(107,249)	(113,118)
Other expenses less reversal, net		(39,699)	12,170
Finance costs	5	<u>(6,092)</u>	<u>(8,714)</u>
LOSS BEFORE TAX	6	(12,638)	(27,102)
Income tax credit/(expense)	7	<u>1,903</u>	<u>(815)</u>
LOSS FOR THE YEAR		<u>(10,735)</u>	<u>(27,917)</u>
ATTRIBUTABLE TO:			
Owners of the parent		(10,801)	(28,036)
Non-controlling interest		<u>66</u>	<u>119</u>
		<u>(10,735)</u>	<u>(27,917)</u>
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic and diluted		<u>HK (1.08) cents</u>	<u>HK (2.80) cents</u>

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2020

	2020	2019
	HK\$'000	HK\$'000
LOSS FOR THE YEAR	<u>(10,735)</u>	<u>(27,917)</u>
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	<u>48,554</u>	<u>(11,845)</u>
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Remeasurement of net pension scheme assets	773	1,044
Gain on property revaluation	28,624	–
Income tax effect	(7,156)	–
	<u>21,468</u>	<u>–</u>
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	<u>22,241</u>	<u>1,044</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	<u>70,795</u>	<u>(10,801)</u>
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	<u><u>60,060</u></u>	<u><u>(38,718)</u></u>
ATTRIBUTABLE TO:		
Owners of the parent	59,780	(38,773)
Non-controlling interest	<u>280</u>	<u>55</u>
	<u><u>60,060</u></u>	<u><u>(38,718)</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		197,029	209,048
Investment properties	10	79,830	15,393
Right-of-use assets		82,554	87,138
Equity investment designated at fair value through other comprehensive income		300	300
Deposits for purchases of property, plant and equipment		815	9,522
Net pension scheme assets		5,464	4,694
Deferred tax assets		16,213	16,277
		<hr/>	<hr/>
Total non-current assets		382,205	342,372
CURRENT ASSETS			
Inventories		70,726	56,158
Trade and bills receivables	11	385,374	304,494
Prepayments, deposits and other receivables		64,708	62,378
Structured deposits	12	5,958	–
Cash and cash equivalents		236,412	224,372
		<hr/>	<hr/>
Total current assets		763,178	647,402
CURRENT LIABILITIES			
Trade payables	13	224,530	145,626
Other payables and accruals		89,226	69,171
Interest-bearing bank borrowings		215,301	215,340
Lease liabilities		2,933	2,658
Tax payable		10,320	10,460
		<hr/>	<hr/>
Total current liabilities		542,310	443,255
		<hr/>	<hr/>
NET CURRENT ASSETS		220,868	204,147
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		603,073	546,519
		<hr/>	<hr/>

	2020	2019
	HK\$'000	HK\$'000
NON-CURRENT LIABILITIES		
Lease liabilities	1,780	631
Deferred tax liabilities	16,259	10,709
Deferred income	1,281	1,486
	<u> </u>	<u> </u>
Total non-current liabilities	19,320	12,826
	<u> </u>	<u> </u>
Net assets	583,753	533,693
	<u> </u>	<u> </u>
EQUITY		
Equity attributable to owners of the parent		
Issued capital	100,000	100,000
Reserves	480,395	430,615
	<u> </u>	<u> </u>
	580,395	530,615
	<u> </u>	<u> </u>
Non-controlling interest	3,358	3,078
	<u> </u>	<u> </u>
Total equity	583,753	533,693
	<u> </u>	<u> </u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

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

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

In the opinion of the directors of the Company (the “Directors”), CNT Group Limited, 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.

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, 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 investment properties, an equity investment, structured deposits 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 *Conceptual Framework for Financial Reporting 2018* and the following revised HKFRSs for the first time for the current year’s financial statements.

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

The nature and the impact of the *Conceptual Framework for Financial Reporting 2018* and the revised HKFRSs are described below:

- (a) *Conceptual Framework for Financial Reporting 2018* (the “Conceptual Framework”) sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.
- (b) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.
- (c) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate (“RFR”). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.

- (d) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the coronavirus disease 2019 (“COVID-19”) pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively. The amendments did not have any impact on the financial position and performance of the Group.

- (e) 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, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group has only one reportable operating segment which is the paint and coating products segment engaged in the manufacture and sale of paint and coating products. 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

	2020 HK\$'000	2019 HK\$'000
Hong Kong	68,078	75,167
Mainland China	644,808	638,161
	<u>712,886</u>	<u>713,328</u>

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

(b) Non-current assets

	2020 HK\$'000	2019 HK\$'000
Hong Kong	2,563	2,454
Mainland China	357,665	318,647
	<u>360,228</u>	<u>321,101</u>

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

Information about a major customer

During the years ended 31 December 2020 and 2019, no revenue from any single customer accounted for 10% or more of the total revenue of the Group.

4. REVENUE, OTHER INCOME AND GAINS, NET

An analysis of revenue is as follows:

	2020 HK\$'000	2019 HK\$'000
<i>Revenue from contracts with customers</i>	<u>712,886</u>	<u>713,328</u>
Disaggregated revenue information		
	2020 HK\$'000	2019 HK\$'000
Type of paint and coating products sold		
Industrial paint and coating products	275,470	292,525
Architectural paint and coating products	316,282	286,456
General paint and coating and ancillary products	<u>121,134</u>	<u>134,347</u>
	<u>712,886</u>	<u>713,328</u>
Timing of revenue recognition		
Goods transferred at a point in time	<u>712,886</u>	<u>713,328</u>

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

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

	2020	2019
	HK\$'000	HK\$'000
Other income and gains, net		
Bank interest income	1,234	692
Government grants*	2,847	5,079
Government subsidies^	2,872	–
Gain on deposits paid for purchases of property, plant and equipment#	9,350	–
Gain on disposal of items of property, plant and equipment, net	474	72
Foreign exchange differences, net	–	226
Recognition of deferred income	287	291
Rental income from investment properties	2,016	811
Other rental income	1,967	2,212
Others	1,271	2,580
	<u>22,318</u>	<u>11,963</u>

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

^ Government subsidies were granted from the Employment Support Scheme under the Anti-epidemic Fund of the Hong Kong government. As a condition of receiving the subsidies from the Employment Support Scheme, the Group undertook not to make redundancies until 30 November 2020.

During the year ended 31 December 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 Xinfeng government 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).

5. FINANCE COSTS

An analysis of finance costs is as follows:

	2020	2019
	HK\$'000	HK\$'000
Interest on bank loans	5,990	8,486
Interest expense on lease liabilities	102	228
	<u>6,092</u>	<u>8,714</u>

6. LOSS BEFORE TAX

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

	2020	2019
	HK\$'000	HK\$'000
Cost of inventories sold	496,935	516,512
Depreciation of property, plant and equipment	22,450	20,580
Depreciation of right-of-use assets	6,274	5,753
Amortisation of intangible assets	–	815
Foreign exchange differences, net*	1,050	(226)
Write-down of inventories to net realisable value, net [@]	595	43
Gain on deposits paid for purchases of property, plant and equipment*	(9,350)	–
Reversal of provision for impairment of trade receivables*	(462)	(27,490)
Staff termination cost*	18,926	–
Provision for impairment of property, plant and equipment*	5,011	–
Fair value loss on investment properties*	1,468	–
Gain on disposal of items of property, plant and equipment, net*	(474)	(72)
Write-off of items of property, plant and equipment*	274	850
	<u>274</u>	<u>850</u>

* These balances are included in “Other income and gains, net” for gains and “Other expenses less reversal, net” for losses and reversal of provision for impairment of trade receivables in the consolidated statement of profit or loss.

[@] The balance is included in “Cost of sales” 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 (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% (2019: 25%) during the year, except for a subsidiary of the Group which qualified as a PRC High and New Technology Enterprise in Mainland China and a lower PRC corporate income tax rate of 15% (2019: 15%) had been applied during the year.

	2020 HK\$'000	2019 HK\$'000
Current – Elsewhere		
Charge for the year	793	815
Overprovision in prior years	(1,097)	(654)
Deferred	(1,599)	654
	<u> </u>	<u> </u>
Total tax charge/(credit) for the year	<u><u>(1,903)</u></u>	<u><u>815</u></u>

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

The calculation of basic and diluted loss per share amounts is based on the loss for the year attributable to ordinary equity holders of the parent of HK\$10,801,000 (2019: HK\$28,036,000) and the weighted average number of ordinary shares of 1,000,000,000 (2019: 1,000,000,000) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2020 and 2019.

9. DIVIDEND

	2020 HK\$'000	2019 HK\$'000
Proposed final – HK1.0 cent (2019: HK1.0 cent) per ordinary share	<u><u>10,000</u></u>	<u><u>10,000</u></u>

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. The actual amount will be accounted for as an appropriation of the distributable reserves for the year ending 31 December 2021.

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 per share which amounted to HK\$10,000,000.

10. INVESTMENT PROPERTIES

	2020 HK\$'000	2019 HK\$'000
Carrying amount at beginning of year	15,393	15,713
Fair value loss	(1,468)	–
Transfer from an owner-occupied property	33,765	–
Transfer from leasehold land	27,575	–
Exchange realignment	4,565	(320)
	<u>79,830</u>	<u>15,393</u>
Carrying amount at end of year	<u>79,830</u>	<u>15,393</u>

The Group's investment properties were revalued on 31 December 2020 based on a valuation performed by BMI Appraisals Limited, an independent professionally qualified valuer, at HK\$79,830,000. Fair values of the Group's investment properties are generally derived by using the investment approach.

11. TRADE AND BILLS RECEIVABLES

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

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

	2020 HK\$'000	2019 HK\$'000
Within three months	229,186	191,356
Over three months and within six months	85,485	74,470
Over six months	70,703	38,668
	<u>385,374</u>	<u>304,494</u>

12. STRUCTURED DEPOSITS

Structured deposits were stated at fair value and represented several wealth management products issued by a bank. As at 31 December 2020, the aggregate principal of deposits was fully guaranteed by the bank while the rates of return were not guaranteed. These deposits were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest. The Group used the structured deposits primarily to enhance the return on investment.

13. 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:

	2020 HK\$'000	2019 HK\$'000
Within three months	204,398	143,964
Over three months and within six months	19,878	1,426
Over six months	<u>254</u>	<u>236</u>
	<u><u>224,530</u></u>	<u><u>145,626</u></u>

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

DIVIDEND

The Directors have resolved to recommend to the shareholders of the Company the payment of a final dividend of HK1.0 cent per share for the year ended 31 December 2020 (2019: HK1.0 cent) amounting to HK\$10,000,000 (2019: HK\$10,000,000). The final dividend, if approved by the shareholders of the Company at the forthcoming annual general meeting, will be paid on Friday, 25 June 2021 to the shareholders of the Company whose names appear on the Company's register of members on Thursday, 10 June 2021.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining shareholders' eligibility to attend and vote at the forthcoming annual general meeting of the Company, the register of members of the Company will be closed from Monday, 31 May 2021 to Thursday, 3 June 2021, both days inclusive, during the period no transfer of shares will be effected. In order to be entitled to attend and vote at the forthcoming annual general meeting of the Company, all transfers accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 28 May 2021.

For the purpose of determining shareholders' entitlement to the proposed final dividend, the register of members of the Company will be closed from Wednesday, 9 June 2021 to Thursday, 10 June 2021, both days inclusive, during the period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 8 June 2021.

CHAIRMAN'S STATEMENT

OVERVIEW

In 2020, due to the global lockdown caused by the COVID-19 and the dramatic changes in the global production network and demand, the global economy went downturn and the volume of international trade slumped. Accordingly, governments of main countries implemented different policies to provide stimulus to the economy. According to the International Monetary Fund (the "IMF"), China has taken a series of monetary stimulus policies to maintain a fiscal stimulus to around 4.7% of its gross domestic product ("GDP"). Together with the successful implementation of COVID-19 containment measures, including stringent testing protocol, large-scale mobility restrictions at the national level, mandatory quarantine for returning migrant workers, China recorded a GDP growth at the rate of 2.3% in 2020 and was the only major economy to report a positive GDP growth in the year of 2020.

According to the information from National Bureau of Statistics of China (the “NBSC”), in terms of the tertiary industry classification, the paint and coating industry is integrated into the manufacturing industry sector of the secondary industry. Looking at the industry performance, the growth rate of the secondary industry was 2.6% in 2020, which was 55.2% less than the same in 2019. The growth rate of the industry sector was 2.4% in 2020, which was 57.9% less than the same in 2019.

When comparing with the industry performance, the Group suffered less than the industry’s average rate. The Group anticipated a decline in the manufacturing sector in Mainland China that, save for the fast-growing manufacturing segments of pharmaceutical and computer, communication and other electronic equipment which would record a positive growth in 2020, the general manufacturing segments of vehicle and plant and machinery, with which the Group’s businesses are associated, would record a negative growth in 2020. Therefore, the Group has been striving to enhance the architectural paint and coating products in China and Hong Kong markets. Despite the decrease in the growth rate of the construction sector in Mainland China by 37.5% to 3.5% in 2020, as compared to the corresponding growth rate of 5.6% in 2019, the Group recorded a significant growth in the sale of paint and coating products to customers in the construction sector in Mainland China. Not only aligning the growth trend of the construction sector in Mainland China, but the Group’s revenue generated from the architectural paint and coating products in Mainland China also significantly increased by 14.7% in 2020 as compared to the same in 2019, and the Group’s revenue generated from the construction and renovation contractors for property and infrastructure projects increased by 21.7% in 2020 as compared to the same in 2019. On the other hand, the Group recorded a significant decline in the revenue generated from the manufacturing customers by 21.6% in 2020 as compared to the same in 2019. It was expected that the significant growth in the revenue generated from customers in the construction sector had been offset partly by the decline in the revenue generated from the manufacturing customers of the Group.

Furthermore, according to the information from the NBSC, contributions from the gross domestic capital, net export of goods and services and the final consumption expenditure to China’s GDP growth in 2020 changed significantly to 94.0%, 28.0% and -22.0% respectively, from 31.2%, 11.0% and 57.8% respectively, in 2019. Besides the significant decline in the final consumption expenditure, as one of the components of the gross domestic capital, the growth rate in the purchase of machinery and equipment also decreased by 7.1% in 2020 as compared to 2019. Consistent with the decline in the final consumption expenditure and the purchase of machinery and equipment, the Group’s revenue generated from the customers which engaged in the production and sales of various products (ranging from machinery and mechanical equipment, customer electronics, toys, electrical appliances, furniture to marine and automotive parts and components and household users) significantly decreased by 17.8% in 2020 as compared to the same in 2019. Hence, the Group’s overall revenue generated from the industrial manufacturers in 2020 significantly decreased by 21.6% as compared to the same in 2019.

As illustrated above, the final consumption expenditure as part of China's GDP growth recorded -22.0% in 2020, as compared to 57.8% in 2019, which was primarily due to the COVID-19 pandemic. The growth rate of the total national expenditure per capita recorded a decrease of 1.6% in 2020 as compared to an increase of 8.6% in 2019, despite an increase in the total national disposable income per capita by 4.7% in 2020. In terms of the classification of consumption categories, the growth rate of the total expenditure on household facilities, articles and services per capita recorded -1.7% in 2020, as compared to 4.7% in 2019. Aligning with the decline in the total national expenditure on household facilities, articles and services per capita in 2020, the Group's revenue generated from wholesale and retail distributors in 2020 decreased by 1.7% as compared to the same in 2019.

In terms of different geographical locations, the Eastern China, the Central China and the Southern China consistently accounted for approximately two-third of China's GDP in 2020. The GDP growth rate of the Eastern China, the Central China and the Southern China for the year of 2020 significantly decreased by 83.8%, 99.6% and 94.5% to 1.2%, 0.1% and 0.4% respectively, as compared to the GDP growth rate of 7.5%, 9.0% and 7.8% respectively, in 2019. Despite such decline, the Group's revenue generated from the Eastern China in 2020 increased by 22.0% as compared to the same in 2019, which was primarily attributable to the significant annual growth in the sales of paint and coating products sold to property developers and renovation contractors in the Eastern China during the year. On the other hand, outperforming the decline in GDP growth in the Central China, the Group's revenue generated from the Central China in 2020 remained stable, as compared to the year ended 31 December 2019. However, in line with the decline in GDP growth in the Southern China, the Group's revenue generated from the Southern China decreased by 8.2% in 2020 as compared to the year ended 31 December 2019, which was primarily due to the decline in the annual sales of paint and coating products to industrial manufacturers in the Southern China during the year.

Looking into the economic performance in Hong Kong, the GDP growth rate was -6.1% in 2020 as compared to -1.2% in 2019. The property and construction sector in Hong Kong suffered adverse impacts from the COVID-19 pandemic leading to delays in construction projects. Furthermore, the stringent preventive measures for controlling the spread of COVID-19 as well as the overall economic downturn also undermined the purchasing desire among potential commercial and residential property buyers. According to the public information, the GDP generated from the construction industry in Hong Kong decreased by 8.2% in 2020 as compared to the year of 2019. Overall, the Group's revenue generated from customers in Hong Kong decreased by 9.4% in 2020, as compared to the year ended 31 December 2019.

On the other hand, the COVID-19 pandemic caused turbulences in the manufacturing sector and adversely affected the global supply chain. Availability and supply of certain major raw materials used in the paint and coating industry was unstable, leading to an increase in raw materials costs. Although the average price of crude oil in 2020 was lower than the average price in 2019 as a result of the COVID-19 pandemic and the Saudi-Russia oil price war, the price was offset by the increase in other raw materials costs. In addition, despite the decline in international crude oil prices, China's imported crude oil by-product prices did not experience the corresponding level of decrease due to the depreciation of Renminbi in the first six months of 2020. Hence, the cost of raw materials in the paint and coating industry did not decrease to any significant extent as compared to the decrease in the international crude oil prices. Overall, the Group's gross profit margin in 2020 increased by 9.8%, as compared to the same in 2019.

RESULTS

The Group has implemented effective business revamp measures and initiatives and has achieved a better financial performance in 2020, as compared to the same in 2019. The Group's revenue amounted to approximately HK\$712.89 million in 2020, representing a slight decrease of 0.1%, as compared to the revenue of approximately HK\$713.33 million in 2019, despite of the COVID-19 pandemic. The gross profit in 2020 increased to approximately HK\$215.95 million, representing an increase of 9.7%, as compared to the gross profit of approximately HK\$196.82 million in 2019. The Group's loss attributable to its owners of the parent company significantly reduced to approximately HK\$10.80 million, as compared to the same of HK\$28.04 million in 2019. Although the Group still recorded a net loss position in 2020, the financial performance of the Group in 2020 showed that the business of the Group has been improved.

The improvement in the financial performance of the Group was primarily a result of the Group's ongoing adjustment to the business revamp measures and initiatives, but effects of which have been reflected in the performance of the Group in 2020. During the COVID-19 pandemic, the Group has implemented a proactive approach to the procurement and sourcing process in order to mitigate the appreciation of raw materials costs. In addition, significant improvements were made in relation to the reduction in transportation cost and advertising expenses.

BUSINESS OUTLOOK

The market sentiment and business outlook in Mainland China have been plagued by the China-US trade tensions since 2017. On the other hand, concerning the COVID-19 pandemic, COVID-19 vaccines have started rolling out in a global scale since the beginning of 2021. Stringent preventive measures implemented throughout the outbreak in 2020 up to now have stabilised the COVID-19 situation in Mainland China and Hong Kong and the local retail market has begun to recover. With gradual lessening of stringent measures, consumers have begun to regain their inclination to spend. Economies in Mainland China and Hong Kong are expected to resume growth in 2021, but still, the breadth and strength of the recovery are subject to uncertainty. According to the IMF, the expected GDP growth rates in Mainland China and Hong Kong are 8.1% and 3.7% respectively in the post COVID-19 period.

In order to fully grasp the opportunities brought by the market recovery, the Group will absorb up-to-date market trends and consumer needs, broaden the applications of paint and coating products and engage in research and development on more environmentally-friendly products. The Group will also strengthen the sales to industrial manufacturers and the construction and renovation contractors of property and infrastructure projects through an integration of production facilities in the Southern China.

Despite the uncertainties and foreseeable challenges, the Group remains optimistic about the performance of the paint and coating industry in the PRC. The Group will continue to fine-tune its existing business revamp measures and initiatives and to enhance its internal control and risk management systems, so as to boost its production efficiency in response to the challenging business environment.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

REVIEW OF OPERATION

Revenue

For the year ended 31 December 2020, the Group's revenue amounted to approximately HK\$712.89 million, representing a slight decrease of 0.1%, as compared to the amount of revenue of approximately HK\$713.33 million in 2019, despite the COVID-19 pandemic. The following sets forth an analysis of the Group's revenue for the years ended 31 December 2020 and 2019 by principal products:

	Year ended 31 December				% of net change
	2020		2019		
	HK\$'000	%	HK\$'000	%	
Industrial paint and coating products	275,470	38.6	292,525	41.0	-5.8
Architectural paint and coating products	316,282	44.4	286,456	40.2	10.4
General paint and coating and ancillary products ⁽¹⁾	121,134	17.0	134,347	18.8	-9.8
	<u>712,886</u>	<u>100.0</u>	<u>713,328</u>	<u>100.0</u>	<u>-0.1</u>

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

Industrial paint and coating products, architectural paint and coating products, and general paint and coating and ancillary products accounted for 38.6% (2019: 41.0%), 44.4% (2019: 40.2%) and 17.0% (2019: 18.8%) of the total revenue of paint and coating business in 2020 respectively. The Group continues to focus on the PRC market which contributed to 90.5% (2019: 89.5%) of the total revenue in 2020.

Stable revenue despite COVID-19 pandemic

Total revenue of the Group in 2020 was rather stable with a decrease of just 0.1% from 2019. For the year ended 31 December 2020, the amount of revenue generated from the sales of industrial paint and coating products, and general paint and coating and ancillary products decreased by 5.8% and 9.8% respectively, while the amount of revenue generated from the sales of architectural paint and coating products increased by 10.4%. The decrease in the sales of industrial paint and coating products, and general paint and coating and ancillary products to industrial manufacturers, wholesale distributors and retail distributors was compensated by the increase in the sales of architectural paint and coating products to construction and renovation contractors for property and infrastructure projects. Such decreases in revenue during the year ended 31 December 2020 were primarily due to the adverse impact of the COVID-19 pandemic in Mainland China and Hong Kong.

It was worth noting that, in terms of the original revenue generating currencies (Renminbi and Hong Kong dollars), the overall revenue of the Group for the year ended 31 December 2020 increased by 0.4% as compared to the year ended 31 December 2019. However, due to the fluctuation in Renminbi exchange rates in the range between -6.4% and 6.1% during the year, revenue of the Group for the year ended 31 December 2020, in terms of Hong Kong dollars, decreased by 0.1% as compared to the year ended 31 December 2019.

Expansion of the sales of the water-based paint and coating products

For the year ended 31 December 2020, the sales volume of the water-based paint and coating products of the Group increased by 16.9% as compared to the year ended 31 December 2019. The contribution from the water-based paint and coating products to the Group's total revenue increased by 9.4% to 43.5% for the year ended 31 December 2020, as compared to the contribution of 39.7% for the year ended 31 December 2019. Such increase was primarily due to the continued expansion of the customer based in construction and renovation contractors for property and infrastructure projects.

Significant increase in the sales to construction and renovation contractors for property and infrastructure projects in Mainland China

The Group's revenue generated from solvent-based and water-based paint and coating products sold to the construction and renovation contractors for property and infrastructure in Mainland China increased by 17.6% to approximately HK\$296.50 million for the year ended 31 December 2020, as compared to approximately HK\$252.03 million for the year ended 31 December 2019.

Despite the COVID-19 pandemic during the year, such increase was primarily due to the large market penetration by the Group into the property and construction industry in Mainland China, ahead of the growth of the property and construction industry in Mainland China. According to the information from the NBSC, the cumulative construction area of in-progress construction projects increased by 3.7% in 2020, as compared to the increase of 8.7% in 2019. Moreover, the cumulative completion area, in terms of size, decreased by 4.9% in 2020, as compared to the increase of 2.6% in 2019.

Significant decline in the sales to industrial manufacturers in Mainland China

For the year ended 31 December 2020, the Group's revenue generated from industrial manufacturers in Mainland China significantly decreased by 21.6%, as compared to the year ended 31 December 2019. These industrial manufacturers were particularly engaged in the production and sales of various products (ranging from customer electronics, machinery and mechanical equipment, toys, electrical appliances, furniture to marine and automotive parts and components and household users). Such significant decrease was primarily due to the adverse impact of the COVID-19 pandemic. It was in line with the decrease in the final consumption which recorded a contribution to GDP in Mainland China of -22.0% in 2020.

According to the information from the NBSC, the retail sales of furniture goods (including the paint and coating products for furniture manufacturing purpose) decreased by 18.9% in 2020, as compared to the decrease of 12.4% in 2019. Outperforming the industry performance, the Group's revenue generated from the furniture manufacturing industry for the year ended 31 December 2020 significantly increased by around 34.7% as compared to the year ended 31 December 2019.

In addition, following an increasing demand for electric vehicles in alignment with the national policy on promoting the use of renewable energy products, the Group has entered into this emerging industry by obtaining a recognition as a registered supplier of the electric vehicle manufacturer and supplied the industrial paint and coating products to the electric vehicle manufacturers. For the year ended 31 December 2020, revenue generated from the electric vehicle industry significantly increased by 51.0% as compared to the year ended 31 December 2019.

Decline in the sales to wholesale distributors and retail distributors in Mainland China and Hong Kong

For the year ended 31 December 2020, the Group's revenue generated from wholesale distributors and retail distributors decreased by 1.8%, as compared to the year ended 31 December 2019. It was primarily due to the adverse impact of the COVID-19 pandemic during the year. According to the NBSC, the GDP growth rate of the wholesale and retail trade sector in Mainland China decreased by 1.3% in 2020, as compared to the increase of 5.4% in 2019, and the retail sales of the construction and decorative paint and coating products decreased by 15.1% in 2020, as compared to the decrease of 17.5% in 2019. The decrease in revenue generated from wholesale distributors and retail distributors was in line with the decline in industry performance but outperformed the decline in industry performance for retail sales of the construction and decorative paint and coating products in Mainland China.

In addition, for the year ended 31 December 2020, the Group's revenue generated from wholesale distributors and retail distributors in Hong Kong decreased by 1.7%, as compared to the year ended 31 December 2019. It was mainly due to the adverse effects of the COVID-19 pandemic. According to the Census and Statistics Department of Hong Kong, the estimation of sales amount in hardware, metalware, paints and other building renovation materials, which are classified in the other consumer goods, not elsewhere classified in the type of retail outlet in Hong Kong, decreased by 10.0% in 2020, as compared to the year of 2019. Despite a decrease in revenue generated from wholesale distributors and retail distributors in Hong Kong, the Group's performance was better than the industry average.

Geographical Analysis of Revenue

Geographically, for the year ended 31 December 2020, the Group's revenue generated from Mainland China and Hong Kong accounted for 90.5% and 9.5% respectively, as compared to 89.5% and 10.5% respectively for the year ended 31 December 2019. The majority of the Group's revenue was generated from the Southern China, the Central China and the Eastern China. Revenue generated from these regions, in aggregate, accounted for 83.0% of the Group's total revenue for the year ended 31 December 2020, as compared to 83.2% for the year ended 31 December 2019.

Large market penetration of the property and construction industry in Mainland China

The Group's revenue generated from construction and renovation contractors for property and infrastructure projects in Mainland China increased by 21.7% for the year ended 31 December 2020, as compared to the year ended 31 December 2019. During the year, even though the revenue generated in the Southern China decreased by 1.4%, the revenue generated in the Eastern China, the Central China, the Northern China and the Southwest China increased by 73.2%, 16.3%, 43.4% and 97.7% respectively. Such increase was primarily due to the expansion of customer base of construction and renovation contractors nationwide in Mainland China.

Significant decrease in sales to industrial manufacturers in the Southern China and the Central China

For the year ended 31 December 2020, sales to industrial manufacturers in the Eastern China and the Central China decreased by 24.1% and 34.9% respectively, as compared to the year ended 31 December 2019. These industrial manufacturers are mainly engaged in the production and sales of machinery and equipment. According to the information from the NBSC, among the sectors in the Industrial Classification for National Economic Activities, the gross domestic fixed capital formation in the mining industry sector and the manufacturing sector significantly decreased by 14.1% and 2.2% respectively in 2020, as compared to the same in 2019. The significant decrease in gross domestic fixed capital formation in Mainland China in 2020 resulted in the significant decrease in the Group's revenue generated from industrial manufacturers in the Southern China and the Central China.

Decrease in sales to construction and renovation contractors for property and infrastructure projects in Hong Kong

For the year ended 31 December 2020, sales to property construction and renovation contractors for property and infrastructure in Hong Kong decreased by 32.0% as compared to the year ended 31 December 2019. Such decrease was primarily due to the delays in delivery of key construction materials and closure of supply chain in Mainland China in early 2020, as well as delays or cancellation of tender exercise which resulted in delays and disruption to the progress of the works on construction and renovation projects in Hong Kong during the COVID-19 pandemic.

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. In 2020, the overall crude oil prices dropped, possibly leading to price reductions of raw materials used for paint and coating products. However, a large number of raw materials, suppliers and other ingredient manufacturers were affected or disrupted in their productions due to employee illness and certain community lockdowns in the first half of 2020 under the COVID-19 pandemic, and hence, led to the shortage of raw materials and the increases in their respective prices in the second half of 2020. Despite a challenging situation, the overall costs of raw materials to revenue decreased by only 5.0% as compared to the year ended 31 December 2019.

Direct labour cost

Compared with the year ended 31 December 2019, direct labour cost remained stable at a similar level for the year ended 31 December 2020 as the number of labours remained at a similar level as previous year.

Depreciation and production overhead

Depreciation and production overhead cost increased significantly by 11.8% for the year ended 31 December 2020, which was primarily due to the additional depreciation and other running expenses arising from the newly built facilities of the production plant in Zhongshan (the “Zhongshan Production Plant”) which was under different phases of trial production in the reporting year.

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

For the year ended 31 December 2020, the gross profit margin of the Group increased by 9.8% from 27.6% to 30.3% and the gross profit increased by 9.7% from approximately HK\$196.82 million to approximately HK\$215.95 million as compared to the year ended 31 December 2019. The increase in the gross profit margin and gross profit were primarily due to the change in the product mix and the decrease in the prices of raw materials. However, due to the additional depreciation and other running expenses arising from the Zhongshan Production Plant, which was operating under different phases of the trial production period in the reporting year, the average unit production cost of the Group increased by amortisation. As a result, part of the increase in the profit margin and the gross profit were offset against the higher amortisation rate of production cost for the year ended 31 December 2020.

Other Income and Gains, Net

The amount of other income and gains, net increased by 86.6% to approximately HK\$22.32 million for the year ended 31 December 2020, as compared to the year ended 31 December 2019 of approximately HK\$11.96 million. Such increase was primarily due to the gain on deposits paid for purchases of properties, plant and equipment of approximately HK\$9.35 million. During the year ended 31 December 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 approximately RMB15.00 million (equivalent to approximately HK\$16.81 million) 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 RMB6.66 million (equivalent to approximately HK\$7.46 million). The gain on deposits paid for properties, plant and equipment was approximately HK\$9.35 million.

Selling and Distribution Expenses and Administrative Expenses

For the year ended 31 December 2020, the amount of the selling and distribution expenses decreased by 22.5% from approximately HK\$126.22 million to approximately HK\$97.87 million and the percentage to revenue decreased by 22.6% from 17.7% to 13.7%, as compared to the year ended 31 December 2019. The decreases were primarily due to (i) the significant decrease in the average transportation costs; (ii) the reduction in staff cost which was due to the temporary reduction and exemption of enterprises' contributions to the premiums of basic pension insurance, unemployment insurance, and work-related injury insurance (hereinafter referred to as "Three Social Insurances") for the period from February 2020 to December 2020 in Mainland China; and (iii) the reduction in advertising expenses during the COVID-19 pandemic.

Note: The significant decrease in the average transportation costs was primarily due to the large reduction in the price of transportation charge in Mainland China, the free of all toll roads in Mainland China for the period from mid-February 2020 to early May 2020 and the significant decrease in the price of diesel. According to the statistics from Ministry of Public Security of the PRC, the registration of new cargo trucks increased by 18.4% in 2020 and resulted in an increase of the supply of cargo trucks in the PRC trucking industry. In addition, according to the information from NBSC, the aggregate volume (in tonnes) of the PRC cargo traffic decreased by 13.2% in 2020 and resulted in inefficiency in the PRC trucking industry. Due to the oversupply in the PRC trucking industry, it resulted in the large reduction in the price of transportation charge in Mainland China.

In addition, during the year ended 31 December 2020, the amount of the administrative expenses decreased by 5.2% from approximately HK\$113.12 million to approximately HK\$107.25 million and the percentage to revenue of the administrative expenses decreased by 5.7% from 15.9% to 15.0%, as compared to the year ended 31 December 2019. It was primarily due to the reduction in staff cost for the same reason as mentioned above.

Other Expenses less reversal, net

The net amount of the other expenses less reversal was recorded as expenses of approximately HK\$39.70 million for the year ended 31 December 2020, as compared to the net reversal expenses of approximately HK\$12.17 million for the year ended 31 December 2019. For the year ended 31 December 2020, the net amount of the other expenses less reversal comprised of mainly staff termination payments, local taxes and levies and stamp duties, provision for the impairment of items of property, plant and equipment, fair value loss on investment properties and reversal of the provision for the impairment of trade receivables, amounting to approximately HK\$18.93 million, HK\$13.30 million, HK\$5.01 million, HK\$1.47 million and -HK\$0.46 million respectively. Firstly, the staff termination payments were in relation to the integration of the production facilities in the Southern China (please refer to the paragraphs headed “Business Plans and Outlook” below for further information). Secondly, local taxes and levies and stamp duties remained stable at a similar level as compared to the year ended 31 December 2019 of approximately HK\$13.39 million. Thirdly, the Group carried out review of the recoverable amount of certain property, plant and equipment for the year ended 31 December 2020 based on the 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 approximately HK\$5.01 million, as compared to nil during the year ended 31 December 2019. Fourthly, the Group recognised a fair value loss on investment properties of HK\$1.47 million, as compared to nil for the year ended 31 December 2019. Fifthly, based on the historical past due and the forward-looking economic status, the Group only reversed the provision for impairment of trade receivables of approximately HK\$0.46 million for the year ended 31 December 2020, as compared to HK\$27.49 million for the year ended 31 December 2019.

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

Profitability Analysis

Despite the revenue remained stable for the year ended 31 December 2020, the Group had an improvement in the gross profit margin. Furthermore, the Group's selling and distribution expenses and the administrative expenses were both significantly reduced. As a result, the Group recorded a loss attributable to its parent company of approximately HK\$10.80 million for the year ended 31 December 2020, which was considerably less than the amount of loss of approximately HK\$28.04 million for the year ended 31 December 2019. The implementation of the Group's ongoing business measures and initiatives continued to improve the amount of loss of the Group. The objective of these business measures and initiatives was to implement strategic plans to realign the strategic directions and priorities and to improve the efficiency of the business operations of the Group. From other financial perspectives, the Group's loss of approximately HK\$10.74 million for the year ended 31 December 2020 (31 December 2019: loss of approximately HK\$27.92 million) would have become a profit of approximately HK\$28.19 million for the year ended 31 December 2020 (31 December 2019: loss of approximately HK\$18.73 million) after excluding finance costs, income tax, depreciation of property, plant and equipment, depreciation of right-of-use assets, reversal of provision for impairment of trade receivables, provision for impairment of items of property, plant and equipment, fair value loss on investment properties and amortisation of intangible assets. This achievement is contributed by the Group's appropriate business revamp measures and initiatives to respond to the challenging environments and with the clear implementation of business strategy to maintain the stable sales of the products of the Group during the COVID-19 pandemic. The performance of the Group was principally affected by the following factors:

1. Revenue from sales – Excluding the impact on the effect of fluctuation in Renminbi exchange rates, the Group's overall revenue remained stable at a similar level for the sales of paint and coating products, as compared to the year ended 31 December 2019. It was primarily due to the significant revenue growth in the customers of construction and renovation contractors for property and infrastructure projects to offset the decline in the revenue generated from the customers of wholesale and retail distributors and industrial manufacturers during the COVID-19 pandemic.

2. Cost of raw materials – As mentioned in the paragraphs headed “Cost of Sales” above, the drop in crude oil price resulted in a decrease in the price of major raw materials which were used for paint and coating products. However, the possible reduction in raw materials price was largely offset by the shortage of supply of these raw materials due to suppliers’ insufficient productions, as a result of the COVID-19 pandemic in 2020.
3. Other income and gains, net – The Group had two one-off transactions during the year, including the gain on deposits paid for purchases of properties, plant and equipment of approximately HK\$9.35 million and the subsidies provided by the Hong Kong government under the Employment Support Scheme under Anti-epidemic Fund of approximately HK\$2.87 million.
4. Staff costs – Due to the temporary reduction and exemption of enterprises’ contributions to the premiums of Three Social Insurances for the period from February 2020 to December 2020 in Mainland China, the overall PRC and Hong Kong pension contributions of the Group decreased by 68.1%, as compared to the year ended 31 December 2019.
5. Selling and distribution expenses – The average transportation expenses of the Group decreased significantly by 28.9% as compared to the year ended 31 December 2019, which was primarily due to the large reduction in the price of transportation charge and other related expenses in Mainland China. Staff cost decreased significantly by 14.7% as compared to the year ended 31 December 2019, which was primarily due to the temporary reduction and exemption of enterprises’ contributions to the premiums of Three Social Insurances in Mainland China. Advertising expenses significantly decreased by 54.4% for the year ended 31 December 2020 as lower priority was put to marketing and advertising campaigns during the COVID-19 pandemic. In addition, due to the reduction in the business events and gatherings during the COVID-19 pandemic, the Group recorded a significant decline in the travelling expenses, entertainment expenses and other related expenses, as compared to the year ended 31 December 2019.
6. Other expenses less reversal, net – For the year ended 31 December 2020, the Group newly incurred such expenses of approximately HK\$25.41 million: staff termination payments were in relation to the integration of the production facilities in the Southern China (please refer to the paragraphs headed “Business Plans and Outlook” below for further information); the provision for the impairment of items of property, plant and equipment; and the fair value loss on investment properties. At the same time, based on the historical past due and the forward-looking economic status, the reversal of provision for impairment of trade receivables significantly decreased by 98.3% as compared to the year ended 31 December 2019.

7. Finance costs – The Group’s finance costs decreased by 30.1% as compared to the year ended 31 December 2019. It was primarily due to the significant decrease in the average borrowing interest rate of overall one-month HIBOR (Hong Kong Interbank Offered Rate) and three-month HIBOR as compared to the year of 2019.
8. Renminbi exchange rate against Hong Kong dollars – The fluctuation in Renminbi during the year ended 31 December 2020 had an adverse financial impact on the Group’s operating results.

BUSINESS PLANS AND OUTLOOK

The Group recognises that continuous improvements in its business operations and profitability are important even though the amount of loss for the year ended 31 December 2020 was considerably improved when compared with 2019. The Directors believe that the fundamentals of the business initiatives, including boosting its business performance by increasing the selling prices of the paint and coating products, improving the procurement and sourcing process, optimising the product mix and production distribution channels of the Group, and integrating the production facilities of the Group in the PRC, remain effective and necessary. In addition, in order to increase the Group’s market share in the PRC, extend the geographical sales in the PRC and expand the customers base, the Group will continue to explore production cooperation with selected paint and coating manufacturers on an OEM (Original Equipment Manufacturers) basis.

Due to the effective and efficient control of COVID-19 in Mainland China, China’s economy had been largely recovered in the last quarter of 2020 and is expected to be driven by rising domestic demand in 2021. As an indication of such recovery, the Group remains optimistic and expects a steady growth in the demand of paint and coating products from the manufacturing and construction sectors.

Apart from uncertainties under the COVID-19 pandemic, the China-US relationship remains tense with possibility to further distorting the economic outlook on the recovery of China and Hong Kong. The Group will remain vigilant and be ready to respond to further deterioration in the paint and coating industry in Mainland China and Hong Kong. In addition, in order to enhance the shareholders’ value of the Group in the long term and build the long-term customer relationships, the Group continues to review and enhance its production facilities and its production capacity in providing a reliable, adequate and quality supply of paint and coating products. In addition, the COVID-19 created threats and opportunities which have changed the business environment in which the Group operates. The Group will continue to identify business and acquisition opportunities that could enhance the development of the paint and coating business in the PRC. Given that the ongoing integration and enhancement of production facilities in the Guangdong-Hong Kong-Macao Greater Bay Area, the Group is ready to capitalise the opportunities that may arise in this uniquely challenging period.

Latest Progress in the Construction of New Production Facilities and R&D Centre in Mainland China

Upon the first-phase and the second-phase completion of the construction of the production facilities at the Zhongshan Production Plant, it has undergone successful trial productions in 2020 and is expected to be in full production of the solvent-based and water-based paint and coating products in 2021. 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 the Southern China. The Group will also provide after-sales-service to these industrial manufacturers.

On the other hand, due to the COVID-19 pandemic, the Group has yet to identify suitable office premises in Shenzhen for setting up a new product research and development centre (the “New R&D Centre”). The commencement of business operation of the New R&D Center has been postponed since 2020. Although the COVID-19 pandemic has delayed the progress of setting up the New R&D Centre, such establishment is in line with the strategy of the Group to focus on encouraging and promoting Shenzhen as an important base for high-tech research, development and manufacturing in the 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. Despite there are hurdles in setting up the New R&D Centre, the Group has been conducting research and development of new and modified paint and coating products. During the year, the Group continually invented new paint and coating products as well as new and modified paint and coating formulations. The Group purchased machineries and equipment for the use of product development. During the year, these machineries and equipment had been used for product development. Since the New R&D Centre is not ready, the Group thus temporarily placed such machineries and equipment in other production plants in the PRC. They will be moved to the New R&D Centre upon establishment. In 2021, the Group will make every effort to locate the suitable premises.

Integrating and altering the production facilities in the Southern China

In 2020, more than 40.0% of the revenue of the Group was contributed from the water-based paint and coating products or from the architectural paint and coating products. In addition, the manufacturing production of water-based paint and coating products in the production plant in Shajing (the “Shajing Production Plant”) increased more than 80.0%, as compared to the year ended 31 December 2019. Accordingly, except for the newly-built production plant for the production of water-based paint and coating products in the Zhongshan Production Plant, the Group decided to rationalise all solvent-based paint and coating products of manufacturing operations of the Shajing Production Plant and integrate it to the production plant in Xinfeng (the “Xinfeng Production Plant”) and the Zhongshan Production Plant, and decided to focus on the production capacity of water-based paint and coating products in the Shajing Production Plant.

In order to further increase the production capacity of water-based paint and coating products in the Shajing Production Plant, the Group planned to carry out the alterations and additions works in the Shajing Production Plant (the “Alteration and Additions Works”) for the manufacturing of water-based paint products in 2021. This new production line will focus on the production of water-based architectural paint and coating products. The Group expects that the new designed annual production capacity will reach the provision for the construction and renovation contractors for property and infrastructure projects in the Southern China, and expects the completion of the Alteration and Additions Works and the commercial productions in the first half of 2021.

Through the integration of production facilities as mentioned above, the Group continues to evaluate the ways to further improve the productivity and utilisation of the Group’s production facilities in order to align with the Group’s expansion plan for production facilities in the Guangdong-Hong Kong-Macao Greater Bay Area, and to enhance the operational efficiency of the Group.

FINANCIAL REVIEW

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

The Group recorded a loss attributable to the owners of the parent company of approximately HK\$10.80 million for the year ended 31 December 2020, the amount of which was reduced by 61.5% as compared to a loss of approximately HK\$28.04 million for the year ended 31 December 2019. Revenue for the year amounted to approximately HK\$712.89 million, representing a decrease of 0.1% when compared to that of previous year. Gross profit for the year amounted to approximately HK\$215.95 million, representing an increase of 9.7% when compared to that of the previous year. The gross profit margin increased by 9.8% from 27.6% in 2019 to 30.3% in 2020.

LIQUIDITY AND FINANCIAL INFORMATION

Liquidity and Indebtedness

The Group's business operation is generally financed by its internal financial resources and bank borrowings. Total cash and cash equivalents and structured deposits, amounted to approximately HK\$242.37 million as of 31 December 2020, as compared to approximately HK\$224.37 million as of 31 December 2019. The increase in the cash and cash equivalents as of 31 December 2020 was mainly due to the improvement in the cash conversion cycle and the Renminbi appreciation as of 31 December 2020. Bank borrowings amounted to approximately HK\$215.30 million as of 31 December 2020 as compared to approximately HK\$215.34 million as of 31 December 2019. The Group's bank borrowings mainly bear interest at floating rates. As of 31 December 2020, the Group's total bank borrowings amounted to approximately HK\$215.30 million (100.0%) (31 December 2019: approximately HK\$215.34 million (100.0%)) is payable within one year).

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

Gearing ratio of the Group, which is expressed as a percentage of total bank borrowings to shareholders' funds, was 37.1% as of 31 December 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 1.41 times as of 31 December 2020, as compared to 1.46 times as of 31 December 2019.

For the year ended 31 December 2020, the inventory turnover days¹ were 52 days which was longer than that of 40 days in 2019. The longer inventory turnover days for the year ended 31 December 2020 was primarily due to the increase in the inventory level of raw materials and finished goods in order to prepare for the recovery of the manufacturing and the construction sectors for the first quarter of 2021. On the other hand, the trade and bills receivables turnover days² were 198 days as compared to that of 156 days in 2019. The longer trade receivables turnover days for the year ended 31 December 2020 was primarily due to the significant increase in the outstanding amounts which were past due within six months.

¹ The calculation of inventory turnover days is based on the closing balance of inventories divided by the cost of sales times 366 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 366 days (31 December 2019: 365 days).

Equity and Net Asset Value

Shareholders' funds of the Company as of 31 December 2020 amounted to approximately HK\$580.40 million as compared to approximately HK\$530.62 million as of 31 December 2019. Net asset value per share as of 31 December 2020 amounted to HK\$0.58, 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 31 December 2020, the amount of utilised banking facilities granted to various subsidiaries subject to guarantees given by the Company was HK\$215.30 million (31 December 2019: HK\$215.34 million).

Pledge of Assets

As of 31 December 2020, certain property, plant and equipment and right-of-use assets with aggregate net book value of approximately HK\$7.32 million (31 December 2019: approximately HK\$7.62 million) were pledged to financial institutions as collaterals for bank borrowings and lease liabilities. In addition, as of 31 December 2020 and 2019, a wholly-owned subsidiary of the Company pledged its shares to secure general banking facilities granted to the Group.

TREASURY MANAGEMENT

Funding and Treasury Policy

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

Foreign Currency Exposure

The Group's cash, bank balances and bank 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 2020. The Group will continue to monitor its foreign currency exposure and requirements closely and arrange hedging facilities when necessary.

Capital Expenditure

During the year ended 31 December 2020, the Group invested a total sum of approximately HK\$26.10 million (2019: approximately HK\$15.41 million) in the plant and equipment, and the construction of new production facilities.

HUMAN RESOURCES

Headcount as at 31 December 2020 was 783 (31 December 2019: 790). Staff costs (excluding directors' emoluments) amounted to approximately HK\$130.56 million for the year as compared to approximately HK\$140.80 million in the previous year. The Group has a comprehensive and competitive staff remuneration and benefits system which is based on the performance of individual employees.

PRINCIPAL RISKS AND UNCERTAINTIES

Financial Risks

Interest Rate Risk

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

Currency Rate Risk

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

Credit Risk

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

Market Risks

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

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and system or from external events. Responsibility for managing operational risks basically rests with every function at divisional and departmental levels. Key functions in the Group are guided by their standard operating procedures, safety standards, limits of authority and reporting framework. The management will identify and assess key operational exposures regularly so that appropriate risk response can be taken.

ENVIRONMENTAL POLICIES AND PERFORMANCE

During the year, the Group has carried out the following environmental works for the paint business of the Group with the aims of "Prevention First, Protect the Environment, Comply with Laws and Regulations, and Environmental Sustainability":

1. effective monitoring on air emission and source of water pollution in accordance with the relevant statutory and regulatory requirements;
2. disposal of hazardous solid waste via qualified waste disposal service providers;
3. effective use of water and electricity; and
4. education to the staff on environmental protection laws and regulations to enhance their awareness on environmental protection.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year, as far as the Group is aware, there was no material breach of or non-compliance with applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

EVENTS AFTER THE REPORTING DATE

Save as disclosed above, there is no significant subsequent event after 31 December 2020.

USE OF NET PROCEEDS FROM THE SHARE OFFER

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

The Company listed its shares on the Stock Exchange on 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 proceeds from the Global Offering (as defined in the Prospectus) (the "Reallocation"). For details of the Reallocation, please refer to the announcement of the Company dated 29 July 2019. The following table sets forth the status of the use of net proceeds from the Global Offering:

	Use of net proceeds from the Global Offering prior to the Reallocation HK\$ million	The Reallocation HK\$ million	Use of net proceeds subsequent to the Reallocation HK\$ million	Aggregate amount utilised as at 31 December 2020 HK\$ million	Amount unutilised as at 31 December 2020 HK\$ million
(1) Construction of the Xinfeng Production Plant	78.5	(52.2)	26.3	(26.3)	-
(2) Repayment of the bank loans	19.1	-	19.1	(19.1)	-
(3) Acquisitions of businesses or production assets	42.0	-	42.0	(42.0)	-
(4) Sales and market campaigns and activities	28.6	-	28.6	(28.6)	-
(5) Construction of production facilities for water-based paint and coating products in the Zhongshan Production Plant	-	32.2	32.2	(32.2)	-
(6) Product research and development centre	-	20.0	20.0	(0.8)	19.2 ^{Note 1}
	<u>168.2</u>	<u>-</u>	<u>168.2</u>	<u>(149.0)</u>	<u>19.2</u>

Note 1: For details of the latest status and the expected time of the utilisation of the remaining proceeds, please refer to the paragraphs headed "Latest Progress in the Construction of New Production Facilities and R&D Centre in Mainland China" in the announcement.

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 year ended 31 December 2020. The Board has not yet authorised any plan for other material investments or additions of capital assets.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the 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 2020.

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 2020 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 2020, 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 2020.

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

Hong Kong, 30 March 2021

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.