中漆集團有限公司
CPM GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code: 1932

Interim Report 2021

GOLDEN FLOWER

Contents

Corporate Information

BOARD OF DIRECTORS

Non-executive Director and Chairman

Lam Ting Ball, Paul

Executive Directors

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

Non-executive Director

Chong Chi Kwan

Independent Non-executive Directors

Chiu Kam Hing, Kathy
Chua Joo Bin
Xia Jun

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

Fok Pik Yi, Carol

AUDITORS

Ernst & Young
Certified Public Accountants
Registered Public Interest Entity Auditor
27th Floor, One Taikoo Place, 979 King's Road
Quarry Bay, Hong Kong

COMPLIANCE ADVISER

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

SHARE REGISTRARS

Hong Kong

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

Cayman Islands

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

PRINCIPAL BANKERS

Hong Kong

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

PRC

HSBC Bank (China) Company Limited
Shenzhen Branch

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

WEBSITE

www.cpmgroup.com.hk

Interim Results

The board (the "Board") of directors (the "Directors") of CPM Group Limited (the "Company") presents the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2021 together with comparative amounts for the corresponding period in 2020. The condensed consolidated interim financial statements have not been audited, but have been reviewed by the Board's audit committee.

Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2021

		Six months ended 30 June	
	Notes	**2021 (Unaudited) HK$'000**	2020 (Unaudited) HK$'000
REVENUE	3	**403,797**	267,220
Cost of sales		**(311,475)**	(187,969)
Gross profit		**92,322**	79,251
Other income and gains, net	3	**7,318**	14,273
Selling and distribution expenses		**(52,622)**	(43,053)
Administrative expenses		**(54,544)**	(52,474)
Other expenses, net		**(6,943)**	(15,045)
Finance costs	4	**(2,141)**	(3,647)
LOSS BEFORE TAX	5	**(16,610)**	(20,695)
Income tax expense	6	**(77)**	(154)
LOSS FOR THE PERIOD		**(16,687)**	(20,849)
ATTRIBUTABLE TO:			
Owners of the parent		**(16,791)**	(20,831)
Non-controlling interest		**104**	(18)
		(16,687)	(20,849)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	7	**HK (1.68) cents**	HK (2.08) cents

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2021

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
LOSS FOR THE PERIOD	**(16,687)**	(20,849)
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	**5,509**	(12,060)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	**5,509**	(12,060)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	**(11,178)**	(32,909)
ATTRIBUTABLE TO:		
Owners of the parent	**(11,308)**	(32,838)
Non-controlling interest	**130**	(71)
	(11,178)	(32,909)

Condensed Consolidated Statement of Financial Position

30 June 2021

	Notes	30 June 2021 (Unaudited) HK$'000	31 December 2020 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	**195,388**	197,029
Investment properties	10	**80,107**	79,830
Right-of-use assets		**82,210**	82,554
Equity investment designated at fair value through other comprehensive income		**300**	300
Deposits for purchases of property, plant and equipment		**1,118**	815
Net pension scheme assets		**5,464**	5,464
Deferred tax assets		**16,931**	16,213
Total non-current assets		**381,518**	382,205
CURRENT ASSETS			
Inventories		**97,651**	70,726
Trade and bills receivables	11	**401,817**	385,374
Prepayments, deposits and other receivables		**72,535**	64,708
Structured deposits		**6,005**	5,958
Pledged deposits		**7,990**	–
Cash and cash equivalents		**155,344**	236,412
Total current assets		**741,342**	763,178
CURRENT LIABILITIES			
Trade and bills payables	12	**234,133**	224,530
Other payables and accruals		**69,270**	89,226
Interest-bearing bank borrowings		**223,784**	215,301
Lease liabilities		**3,533**	2,933
Tax payable		**10,175**	10,320
Total current liabilities		**540,895**	542,310
NET CURRENT ASSETS		**200,447**	220,868
TOTAL ASSETS LESS CURRENT LIABILITIES		**581,965**	603,073

Condensed Consolidated Statement of Financial Position

30 June 2021

	30 June 2021 (Unaudited) HK$'000	31 December 2020 (Audited) HK$'000
NON-CURRENT LIABILITIES		
Lease liabilities	**1,701**	1,780
Deferred tax liabilities	**16,552**	16,259
Deferred income	**1,137**	1,281
Total non-current liabilities	**19,390**	19,320
Net assets	**562,575**	583,753
EQUITY		
Equity attributable to owners of the parent		
Issued capital	**100,000**	100,000
Reserves	**459,087**	480,395
	559,087	580,395
Non-controlling interest	**3,488**	3,358
Total equity	**562,575**	583,753

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2021

	Attributable to owners of the parent													
	Issued capital (Unaudited) HK$'000	Share premium account (Unaudited) HK$'000	Merger reserve (Unaudited) HK$'000	Capital contribution^ (Unaudited) HK$'000	Contributed surplus (Unaudited) HK$'000	Fair value reserve (non-recycling) (Unaudited) HK$'000	Leasehold land and building revaluation reserve (Unaudited) HK$'000	General reserve (Unaudited) HK$'000	Exchange fluctuation reserve (Unaudited) HK$'000	Reserve funds** (Unaudited) HK$'000	Retained profits (Unaudited) HK$'000	Total (Unaudited) HK$'000	Non-controlling interest (Unaudited) HK$'000	Total equity (Unaudited) HK$'000
At 1 January 2021	**100,000**	**94,614**	**(15,017)**	**2,630**	**(28,616)**	**(500)**	**32,759**	**10,485**	**14,196**	**28,866**	**340,978**	**580,395**	**3,358**	**583,753**
Profit/(loss) for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(16,791)**	**(16,791)**	**104**	**(16,687)**
Other comprehensive income for the period:														
Exchange differences on translation of foreign operations	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**5,483**	**–**	**–**	**5,483**	**26**	**5,509**
Total comprehensive income/(loss) for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**5,483**	**–**	**(16,791)**	**(11,308)**	**130**	**(11,178)**
Final 2020 dividend declared and paid	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(10,000)**	**(10,000)**	**–**	**(10,000)**
At 30 June 2021	**100,000**	**94,614#**	**(15,017)#**	**2,630#**	**(28,616)#**	**(500)#**	**32,759#**	**10,485#**	**19,679#**	**28,866#**	**314,187#**	**559,087**	**3,488**	**562,575**
At 1 January 2020	100,000	94,614	(15,017)	2,630	(18,616)	(500)	11,291	10,485	(34,144)	28,866	351,006	530,615	3,078	533,693
Loss for the period	–	–	–	–	–	–	–	–	–	–	(20,831)	(20,831)	(18)	(20,849)
Other comprehensive loss for the period:														
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	–	(12,007)	–	–	(12,007)	(53)	(12,060)
Total comprehensive loss for the period	–	–	–	–	–	–	–	–	(12,007)	–	(20,831)	(32,838)	(71)	(32,909)
Final 2019 dividend declared and paid	–	–	–	–	(10,000)	–	–	–	–	–	–	(10,000)	–	(10,000)
At 30 June 2020	100,000	94,614#	(15,017)#	2,630#	(28,616)#	(500)#	11,291#	10,485#	(46,151)#	28,866#	330,175#	487,777	3,007	490,784

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

These reserve accounts comprise the consolidated reserves of HK$459,087,000 (30 June 2020: HK$387,777,000) in the unaudited condensed consolidated statement of financial position.

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

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2021

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating profit/(loss) before working capital changes	**313**	(3,312)
Decrease/(increase) in inventories	**(26,286)**	6,138
Increase in trade and bills receivables	**(13,887)**	(25,464)
Decrease/(increase) in prepayments, deposits and other receivables	**(7,299)**	370
Increase/(decrease) in trade and bills payables	**7,791**	(440)
Decrease in other payables and accruals	**(20,386)**	(6,344)
Exchange realignment	**70**	179
Cash used in operations	**(59,684)**	(28,873)
Interest paid	**(2,129)**	(3,777)
Interest element of lease payments	**(57)**	(44)
Overseas taxes paid	**(740)**	(259)
Net cash flows used in operating activities	**(62,610)**	(32,953)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	**(7,319)**	(6,800)
Proceeds from disposal of items of property, plant and equipment	**147**	265
Interest received	**720**	571
Proceeds from termination of an acquisition agreement	**–**	16,813
Deposits paid for purchases of property, plant and equipment	**(1,649)**	(1,783)
Increase in pledged time deposits with original maturity of more than three months when acquired	**(7,964)**	–
Net cash flows from/(used in) investing activities	**(16,065)**	9,066
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loans	**104,111**	102,038
Repayment of bank loans	**(95,628)**	(90,709)
Dividend paid	**(10,000)**	(10,000)
Principal portion of lease payments	**(2,075)**	(1,368)
Net cash flows used in financing activities	**(3,592)**	(39)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(82,267)**	(23,926)
Cash and cash equivalents at beginning of period	**236,412**	224,372
Effect of foreign exchange rate changes, net	**1,199**	(3,122)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**155,344**	197,324
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**143,169**	197,324
Non-pledged time deposits with original maturity of less than three months when acquired	**12,175**	–
Cash and cash equivalents as stated in the condensed consolidated statement of financial position and the condensed consolidated statement of cash flows	**155,344**	197,324

1.1 BASIS OF PREPARATION

These unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The unaudited condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2020.

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2020, except for the adoption of the following revised Hong Kong Financial Reporting Standards ("HKFRSs") for the first time for the current period's financial statements.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	*Interest Rate Benchmark Reform - Phase 2*
Amendment to HKFRS 16	*COVID-19-Related Rent Concessions beyond 30 June 2021* (early adopted)

The nature and impact of the revised HKFRSs are described below:

(a) Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate ("RFR"). The phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy.

The Group had certain interest-bearing bank borrowings denominated in Hong Kong dollars based on the Hong Kong Interbank Offered Rate and the Hong Kong Prime Rate as at 30 June 2021. Since the interest rates of these borrowings were not replaced by RFRs during the period, the amendment did not have any impact on the financial position and performance of the Group. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply this practical expedient upon the modification of these borrowings provided that the "economically equivalent" criterion is met.

(b) Amendment to HKFRS 16 issued in April 2021 extends the availability of the 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 (the "COVID-19") by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

The Group has early adopted the amendment on 1 January 2021 and applied the practical expedient during the period ended 30 June 2021 to all rent concessions granted by the lessors that affected only payments originally due on or before 30 June 2022 as a direct consequence of the COVID-19. The amendment did not have any impact on the financial position and performance of the Group.

2. OPERATING SEGMENT INFORMATION

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

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Hong Kong	**34,959**	36,752
Mainland China	**368,838**	230,468
	403,797	267,220

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

(b) Non-current assets

	30 June 2021	31 December 2020
	(Unaudited)	(Audited)
	HK$'000	HK$'000
Hong Kong	**3,770**	2,563
Mainland China	**355,053**	357,665
	358,823	360,228

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

Information about a major customer

During the six months ended 30 June 2021 and 2020, no revenue from any single customer accounted for 10% or more of the total revenue of the Group.

3. REVENUE, OTHER INCOME AND GAINS, NET

An analysis of revenue is as follows:

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Revenue from contracts with customers	**403,797**	267,220

Disaggregated revenue information

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Type of paint and coating products sold		
Industrial paint and coating products	**148,401**	99,010
Architectural paint and coating products	**191,332**	119,476
General paint and coating and ancillary products	**64,064**	48,734
	403,797	267,220
Timing of revenue recognition		
Goods transferred at a point in time	**403,797**	267,220

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

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

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Other income and gains, net		
Bank interest income	**631**	571
Interest income from structured deposits	**89**	–
Government grants*	**3,025**	1,171
Government subsidies^	**–**	476
Gain on deposits paid for purchases of property, plant and equipment#	**–**	9,350
Gain on disposal of items of property, plant and equipment, net	**105**	59
Foreign exchange differences, net	**9**	342
Recognition of deferred income	**153**	141
Rental income from investment properties	**2,437**	394
Others	**869**	1,769
	7,318	14,273

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

^ During the six months ended 30 June 2020, 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 31 August 2020.

During the six months ended 30 June 2020, a termination agreement was signed between the government of Xinfeng, Guangdong, the PRC and an indirect wholly-owned subsidiary of the Company, to terminate the previous signed acquisition agreement (i.e. a parcel of land located in Xinfeng). The 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).

4. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interest on bank loans	**2,084**	3,603
Interest expense on lease liabilities	**57**	44
	2,141	3,647

5. LOSS BEFORE TAX

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

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Cost of inventories sold	**311,475**	187,969
Depreciation of property, plant and equipment	**11,632**	10,652
Depreciation of right-of-use assets	**3,555**	2,731
Provision for impairment of property, plant and equipment*	**–**	5,011
Provision for impairment of trade receivables*	**–**	4,517
Write-down/(write-back) of inventories to net realisable value, net[@]	**(6)**	62
Gain on deposits paid for purchases of property, plant and equipment*	**–**	(9,350)
Gain on disposal of items of property, plant and equipment, net*	**(105)**	(59)
Fair value loss on investment properties*	**364**	759
Write-off of items of property, plant and equipment*	**216**	146
Foreign exchange differences, net*	**(9)**	(342)

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

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

6. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period (six months ended 30 June 2020: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

All subsidiaries of the Group established in Mainland China are subject to the PRC corporate income tax at a standard rate of 25% (six months ended 30 June 2020: 25%) during the period, except for a subsidiary of the Group which qualified as a PRC High and New Technology Enterprise in Mainland China and a lower PRC corporate income tax rate of 15% (six months ended 30 June 2020: 15%) had been applied during the period.

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

The calculation of basic and diluted loss per share amounts is based on the loss for the period attributable to ordinary equity holders of the parent of HK$16,791,000 (six months ended 30 June 2020: HK$20,831,000) and the weighted average number of ordinary shares of 1,000,000,000 (six months ended 30 June 2020: 1,000,000,000) in issue during the period.

The Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2021 and 2020.

8. DIVIDEND

At the annual general meeting held on 26 May 2021, the Company's shareholders approved the distribution of the final dividend for the year ended 31 December 2020 of HK1.0 cent (year ended 31 December 2019: HK1.0 cent) per share which amounted to HK$10,000,000 (year ended 31 December 2019: HK$10,000,000).

The Directors have resolved not to declare an interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2021, the Group acquired items of property, plant and equipment at costs of HK$8,666,000 (six months ended 30 June 2020: HK$9,792,000).

Items of property, plant and equipment with an aggregate net book value of HK$42,000 (six months ended 30 June 2020: HK$206,000) were disposed of by the Group during the six months ended 30 June 2021.

In addition, there was no impairment of items of property, plant and equipment (six months ended 30 June 2020: HK$5,011,000) for the six months ended 30 June 2021.

10. INVESTMENT PROPERTIES

	30 June 2021 (Unaudited) HK$'000	31 December 2020 (Audited) HK$'000
Carrying amount at beginning of period/year	**79,830**	15,393
Fair value loss	**(364)**	(1,468)
Transfer from an owner-occupied property	**–**	33,765
Transfer from leasehold land	**–**	27,575
Exchange realignment	**641**	4,565
Carrying amount at end of period/year	**80,107**	79,830

The Group's investment properties are industrial properties located in Xuzhou and Shanghai, the PRC. The Directors have determined that the investment properties consist of one class of asset, i.e., industrial in the PRC, based on the nature, characteristics and risks of the properties. The Group's investment properties were revalued on 30 June 2021 based on the valuations performed by BMI Appraisals Limited, an independent professionally qualified valuer, at HK$80,107,000. The Group's finance department which reports directly to the senior management selects an external valuer to be responsible for the external valuation of the Group's properties based on market knowledge, reputation and independence of the external valuer, and whether professional standards are maintained by the external valuer. Fair values of the Group's investment properties are generally derived by using the investment approach. The Group's finance department has discussions with the external valuer on the valuation assumptions and valuation results when the valuations were performed for interim and annual financial reporting.

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

10. INVESTMENT PROPERTIES (continued)

Fair value hierarchy

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

Investment properties held by the Group	Fair value hierarchy	Valuation technique	Significant unobservable inputs	Range as at 30 June 2021	Range as at 31 December 2020
Industrial properties in Mainland China	Level 3	Income capitalisation method	Prevailing market rents (per sq.m. and per month)	RMB18 and RMB54	RMB21 and RMB46
			Capitalisation rates	5.5% to 6.0%	5.5% to 6.0%

During the six months ended 30 June 2021, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

Under the investment approach, a significant increase (decrease) in the prevailing market rents in isolation would result in a significant increase (decrease) in the fair value of the investment properties. A significant increase (decrease) in the capitalisation rates in isolation would result in a significant decrease (increase) in the fair value of the investment properties.

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

	Industrial properties 30 June 2021 (Unaudited) HK$'000	Industrial properties 31 December 2020 (Audited) HK$'000
Carrying amount at beginning of period/year	**79,830**	15,393
Fair value loss	**(364)**	(1,468)
Transfer from an owner-occupied property	**–**	33,765
Transfer from leasehold land	**–**	27,575
Exchange realignment	**641**	4,565
Carrying amount at end of period/year	**80,107**	79,830

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 receivables balances. Trade and bills receivables are non-interest-bearing.

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

	30 June 2021 (Unaudited) HK$'000	31 December 2020 (Audited) HK$'000
Within three months	**229,740**	229,186
Over three months and within six months	**74,927**	85,485
Over six months	**97,150**	70,703
	401,817	385,374

12. TRADE AND BILLS PAYABLES

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

	30 June 2021 (Unaudited) HK$'000	31 December 2020 (Audited) HK$'000
Within three months	**227,864**	204,398
Over three months and within six months	**5,051**	19,878
Over six months	**1,218**	254
	234,133	224,530

The trade payables are unsecured, non-interest-bearing and are normally settled within two months. As at 30 June 2021, bills payables with an aggregate carrying amount of HK$26,633,000 (31 December 2020: Nil) were secured by time deposits of HK$7,990,000 (31 December 2020: Nil).

13. SHARE OPTION SCHEME

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

The Scheme will expire on 3 June 2030. During the six months ended 30 June 2021 and from the Adoption Date up to 30 June 2020, no share options were granted under the Scheme.

14. CAPITAL COMMITMENTS

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

	30 June 2021 (Unaudited) HK$'000	31 December 2020 (Audited) HK$'000
Contracted, but not provided for:		
Construction and purchases of items of property, plant and equipment	**5,071**	3,278

15. RELATED PARTY TRANSACTIONS

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

		Six months ended 30 June	
	Notes	2021 (Unaudited) HK$'000	2020 (Unaudited) HK$'000
Lease payments paid to the Remaining Group	(i)	**1,415**	1,514
Pledge fees paid to the Remaining Group	(ii)	**530**	530
		1,945	2,044

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

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

(b) The transactions in respect of item (a)(i) and (a)(ii) above are also continuing connected transactions of the Company as defined under Chapter 14A of the Listing Rules, which are exempted from reporting, annual review and independent shareholders' approval under Chapter 14A of the Listing Rules.

(c) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2021 (Unaudited) HK$'000	2020 (Unaudited) HK$'000
Short term employment benefits	**4,884**	4,810
Post-employment benefits	**276**	233
Total compensation paid/payable to key management personnel	**5,160**	5,043

16. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

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

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

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

The fair values of structured deposits are determined in accordance with discounted cash flow analysis with reference to the expected return of structured deposits.

Set out below is a summary of significant unobservable inputs to the valuation of structured deposits together with a quantitative sensitivity analysis as at 30 June 2021 and 31 December 2020:

Financial instruments	Valuation technique	Significant unobservable inputs	Range	Sensitivity of fair value to the inputs/relationship of unobservable inputs to fair value
Structured deposits	Discounted cash flow method	Expected rate of return	30 June 2021: 2.51%-2.65% (31 December 2020: 2.69%-3.00%)	30 June 2021: 10% (31 December 2020: 10%) increase/(decrease) in expected rate of return would not result in significant impact on fair value
		Discount rate	30 June 2021: 1.10% (31 December 2020: 1.10%)	30 June 2021: 10% (31 December 2020: 10%) increase/(decrease) in discount rate would not result in significant impact on fair value

16. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

	Fair value measurement using			
	Quoted prices in active markets (Level 1) (Unaudited) HK$'000	**Significant observable inputs (Level 2) (Unaudited) HK$'000**	**Significant unobservable inputs (Level 3) (Unaudited) HK$'000**	**Total (Unaudited) HK$'000**
At 30 June 2021				
Equity investment designated at fair value through other comprehensive income	**–**	**300**	**–**	**300**
Structured deposits	**–**	**–**	**6,005**	**6,005**
	–	**300**	**6,005**	**6,305**

	Quoted prices in active markets (Level 1) (Audited) HK$'000	Significant observable inputs (Level 2) (Audited) HK$'000	Significant unobservable inputs (Level 3) (Audited) HK$'000	Total (Audited) HK$'000
At 31 December 2020				
Equity investment designated at fair value through other comprehensive income	–	300	–	300
Structured deposits	–	–	5,958	5,958
	–	300	5,958	6,258

The movements in fair value measurements on Level 3 during the period are as follows:

	2021 (Unaudited) HK$'000	2020 (Unaudited) HK$'000
Structured deposits:		
At 1 January	**5,958**	–
Exchange realignment	**47**	–
At 30 June	**6,005**	–

Liabilities measured at fair value:

The Group did not have any financial liabilities measured at fair value as at 30 June 2021 and 31 December 2020.

During the six months ended 30 June 2021, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (six months ended 30 June 2020: Nil).

17. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These unaudited condensed consolidated interim financial statements were approved and authorised for issue by the Board on 27 August 2021.

Management Discussion and Analysis

BUSINESS REVIEW

Major industries in Mainland China recorded a strong rebound in the first half of 2021. National Bureau of Statistics of China (the "NBSC") announced on 16 July 2021 that Mainland China's gross domestic product ("GDP") grew by 12.7% in the first half of 2021, which was higher than the 1.6% GDP contraction in the first half of 2020. Furthermore, Hong Kong experienced a 7.8% growth in GDP in the first half of 2021, which was much better than 9.0% GDP contraction in the same period of 2020. The economic rebound in both Mainland China and Hong Kong was as a result of the efficient and effective measures imposed by the governments in preventing and controlling the spread of the COVID-19.

Geographically, for the first half of 2021, the Eastern, Central and Southern China consistently accounted for two-thirds of Mainland China's GDP. As compared to the first half of 2020, the GDP of Eastern China, Central China and Southern China increased by 17.6%, 18.1% and 16.3% respectively. These growths have been mirrored in the Group's revenue generated from these regions in the first half of 2021, which rose by 56.2% in comparison to the same period in 2020. In contrast, the Group's revenue generated from Hong Kong for the six months ended 30 June 2021 decreased by 4.9%, as compared with the same period in 2020.

In the first half of 2021, the rebound in China's economy boosted the demand for paint and coating products in Mainland China, especially in (i) the real estate industry; (ii) the manufacturing industry; (iii) the retail business of decorating paint and coating products; and (iv) the sales of the furniture paint and coating products.

For the PRC real estate industry, the cumulative construction area of construction-in-progress increased by 10.2% in the first half of 2021, as compared to an increase of 2.6% in the first half of 2020. Furthermore, the cumulative completion area grew by 25.7% in the first half of 2021, as compared to a 10.5% decline in the first half of 2020. In the PRC manufacturing industry, the average capacity utilisation rate in the first half of 2021 grew by 6.8%, as compared to a decline of 5.3% in the first half of 2020. On the other hand, the retail sales of construction and decorative paint and coating products in the first half of 2021 grew by 32.9%, as compared to a decline of 21.5% in the first half of 2020 and the retail sales of paint and coating products for furniture goods, including furniture manufacturing purpose, increased by 30.0% in the first half of 2021, as compared to a decrease of 26.6% in the first half of 2020.

BUSINESS REVIEW (continued)

In Hong Kong's real estate market, the number of sale and purchase agreements of residential and non-residential building units increased by 53.7% from 32,749 units in the first half of 2020 to 50,336 units in the first half of 2021. Following the strong demand in the PRC and Hong Kong paint and coating markets, during the six months ended 30 June 2021, the Group recorded a significant growth in the overall sales of paint and coating products to customers. There has been a 74.0% increase in the sales revenue generated from customers of construction and renovation contractors for property and infrastructure projects, a 32.1% increase in the sales revenue generated from customers of industrial manufacturers and a 39.7% increase in the sales revenue generated from customers of wholesale and retail distributors. As a result, revenue for the six months ended 30 June 2021 increased by 51.1%, as compared to the same period in 2020.

Furthermore, Mainland China and Hong Kong saw a low inflation rate alongside their rebounding economies. For the first half of 2021, inflation rates in Mainland China and Hong Kong ranged between negative 0.3% and 1.3% as well as 0.5% and 2.6%, respectively. The inflation rates, however, did not reflect the operating conditions of the paint and coating industry in Mainland China and Hong Kong. It is important to note that crude oil prices have recovered to the levels before the outbreak of the COVID-19, which had been above US$55 per barrel since March 2021. The gross profit margin of paint and coating manufacturers in Mainland China and Hong Kong in the first half of 2021 decreased significantly, as compared to the first half of 2020. According to the NBSC's information on major industrial producers' ex-factory prices, the overall raw chemical products (including paint and coating products) significantly increased by 12.4% in the first half of 2021. The significant increase was driven by the rising price of chemical products (such as ethylene, propylene and titanium dioxide), which was primarily caused by the sharp increase in crude oil prices, as well as the tight supply and strong demand of raw materials. In contrast, although paint and coating manufacturers in Mainland China and Hong Kong generally increased the prices of paint and coating products in the first half of 2021, such price increases were unable to offset the rise in raw materials costs as mentioned above. Such manufacturers could not largely transfer the increased cost of raw materials to its customers. They could merely adjust upwards its selling prices of selected paint and coating products. According to the NBSC's information on Producer Price Index for Industrial Products, the price of the overall construction materials and other non-metal products (including paint and coating products) in the first half of 2021 increased by merely 0.9%. Due to this market situation, although the Group's overall gross profit for the six months ended 30 June 2021 significantly increased by 16.5%, its overall gross profit margin for the six months ended 30 June 2021 significantly decreased by 22.9%, as compared to the same period in 2020.

Management Discussion and Analysis

REVIEW OF OPERATIONS

As the prevention and control measures taken by the Chinese and Hong Kong governments against the spread of the COVID-19 were effective, both the economies in Mainland China and Hong Kong showed a notable recovery in the first half of 2021. There were strong consumer spending and fixed-asset investments for the six months ended 30 June 2021, and economic activities had resumed. Moreover, the demand for the paint and coating products of the Group was to a less extent affected by the seasonal factor, but the seasonality effect of different manufacturing industries and construction industries would affect the demand for the Group's paint and coating products. Consequently, the downstream markets in Mainland China and Hong Kong have seen a significant growth in the demand for paint and coating products. The Group recorded HK$403.80 million in revenue from Mainland China and Hong Kong for the six months ended 30 June 2021, a record high since its listing. Nonetheless, following the shortage of raw materials, the price of raw materials rose sharply. While sales performance improved significantly in the first half of 2021, the loss attributable to the parent company was reduced by 19.4% to HK$16.79 million, as compared to a loss of HK$20.83 million for the same period last year.

Revenue

During the six months ended 30 June 2021, the Group's revenue increased to HK$403.80 million, as compared to HK$267.22 million for the six months ended 30 June 2020. The table below sets forth an analysis of the Group's revenue for its principal products during the six months ended 30 June 2021 and 2020:

	Six months ended 30 June				
	2021		2020		% of net
	HK$'000	**%**	HK$'000	%	change
Industrial paint and coating products	**148,401**	**36.8**	99,010	37.1	49.9
Architectural paint and coating products	**191,332**	**47.4**	119,476	44.7	60.1
General paint and coating and ancillary products [1]	**64,064**	**15.8**	48,734	18.2	31.5
	403,797	**100.0**	267,220	100.0	51.1

[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.

Increase in revenue due to the sharp rebounding of Mainland China's economy to pre-COVID-19 levels

The Group's overall results have been positively impacted by Mainland China's strong economic recovery. As compared to the six months ended 30 June 2020, the Group's revenue generated in Mainland China increased by 60.0% from HK$230.47 million to HK$368.84 million for the six months ended 30 June 2021. The percentage increase in revenue in Mainland China generated by the sales of industrial paint and coating products, architectural paint and coating products and general paint and coating and ancillary products for the six months ended 30 June 2021 was 53.2%, 67.9% and 53.9% respectively. The rise in revenue in Mainland China during the six months ended 30 June 2021 was largely driven by the economic recovery of Mainland China during the COVID-19. According to the NBSC's information, the sales of the manufacturing industry in Mainland China during the first half of 2021 increased by 28.7% and retail sales of construction and decorative paint and coating products increased by 32.9%, as compared to the first half of 2020. The Group's revenue in Mainland China for the six months ended 30 June 2021, increased by 60.0%. It was a significant improvement for the Group over the general business environment in Mainland China.

REVIEW OF OPERATIONS (continued)

Revenue (continued)

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

After the quick recovery from the COVID-19 in Mainland China, the Group continued to explore opportunities as one of the favoured suppliers of major PRC property developers. The Group's revenue generated from paint and coating products sold to the construction and renovation contractors for property and infrastructure in Mainland China increased by 80.5% to HK$172.86 million for the six months ended 30 June 2021, as compared to HK$95.78 million for the six months ended 30 June 2020. Such increase was mainly a result of the Group's continued market penetration into the property and construction industry in Mainland China.

Further expansion of the sales of the water-based paint and coating products

With the large market penetration of the property and construction industry in Mainland China, the Group's revenue generated from the water-based paint and coating products increased by 61.3% from HK$116.46 million to HK$187.85 million for the six months ended 30 June 2021, as compared to the six months ended 30 June 2020. Water-based paint and coating products contributed 46.5% to the Group's total revenue for the six months ended 30 June 2021, representing an increase of 6.7% from 43.6% for the six months ended 30 June 2020. Such increase was primarily due to the further expansion of the customer base in construction and renovation contractors for property and infrastructure projects.

Geographical distribution of revenue

The Group's revenue generated from Mainland China and Hong Kong accounted for 91.3% and 8.7% respectively for the six months ended 30 June 2021, as compared to 86.2% and 13.8% respectively for the six months ended 30 June 2020. Southern China, Central China and Eastern China accounted for most of the Group's revenue in Mainland China. In aggregate, these regions contributed 82.3% of the Group's total revenue, as compared to 79.6% for the six months ended 30 June 2020.

Significant increase in the sales to construction and renovation contractors for property and infrastructure projects in Southern China, Central China and Eastern China

For the six months ended 30 June 2021, the Group's revenue generated from Southern China, Central China and Eastern China increased by 83.0% to HK$41.43 million, 36.6% to HK$68.17 million and 220.3% to HK$44.79 million respectively, as compared to HK$22.64 million, HK$49.92 million and HK$13.99 million respectively for the six months ended 30 June 2020. These increases were primarily attributable to the Group's continuing to strengthen its cooperation with well-known property developers in Mainland China and the Group's continuing to be recognised as one of the registered suppliers to these property developers in Mainland China.

Decrease in overall sales revenue of paint and coating products in Hong Kong because of the delay in delivery

For the six months ended 30 June 2021, the Group's revenue generated from Hong Kong decreased by 4.9% from HK$36.75 million to HK$34.96 million, as compared to the six months ended 30 June 2020. Such decrease was primarily because the overall shipping time and customs clearance between Mainland China and Hong Kong took longer than usual under the COVID-19 measures.

REVIEW OF OPERATIONS (continued)

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 a substantial portion of the total cost of raw materials. Prices of such raw materials are directly or indirectly affected by crude oil prices. Given that crude oil prices have recovered and were higher than the pre-COVID-19 levels, which have been above US$55 per barrel since March 2021, it has led to a significant increase in raw materials prices. In addition, with the strong demand, the undersupply of such raw materials caused further surges in the price of raw materials. For the six months ended 30 June 2021, the cost of raw materials increased significantly by 72.3%, which was greater than 51.1% of the overall revenue growth as compared to the six months ended 30 June 2020. In contrast, the percentage of the decrease in the gross profit margin was less than the percentage of the net increase in the cost of raw materials (which excluded the cost of raw materials associated with the increased sales) for the six months ended 30 June 2021. This percentage difference was due to improvements in operating efficiency and facility utilisation with high volumes of production.

Direct labour cost

During the six months ended 30 June 2021, direct labour cost significantly increased by 24.0% to HK$20.69 million, which was primarily because of the significant increases of the overall sales revenue.

Depreciation and production overhead

Depreciation and production overhead cost increased by 36.4% to HK$16.37 million for the six months ended 30 June 2021. The increase was primarily due to the newly built facilities of the production plant in Zhongshan (the "Zhongshan Production Plant"), which had fully commenced the operation, and such additional amortisation had begun since the last quarter of 2020. Moreover, other operating expenses, such as electricity and water costs, maintenance expenses and consumable items, increased with the significant rise in sales.

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

Gross profit margin of the Group during the six months ended 30 June 2021 decreased by 22.9% from 29.7% to 22.9%, as compared to the same period in 2020. Such decrease was primarily due to the significant increase in the prices of major raw materials used for paint and coating products. The increase in sales increased the production volume and reduced the Group's average production cost, including depreciation and direct labour, by amortisation. Therefore, a portion of the decrease in gross profit margin was offset by a lower amortisation rate of production costs for the six months ended 30 June 2021.

To reduce the impact on the substantial decline in gross profit margin, the Group has made several upward adjustments in the selling prices of selected paint and coating products in Mainland China and Hong Kong. Moreover, the Group approached certain well-known property developers in Mainland China to obtain their purchase orders and recognise the sales of paint and coating products for the six months ended 30 June 2021.

Despite the significant decline in the gross profit margin, the gross profit for the six months ended 30 June 2021 significantly increased by 16.5% to HK$92.32 million, as compared to the same period in 2020, owing to a surge in revenue during the six months ended 30 June 2021.

REVIEW OF OPERATIONS (continued)

Other Income and Gains, Net

The amount of other income and gains, net for the six months ended 30 June 2021 decreased by 48.7% to HK$7.32 million from HK$14.27 million, as compared to the six months ended 30 June 2020. Such decrease was primarily due to the absence of the gain on deposits paid for purchases of property, plant and equipment of HK$9.35 million for the six months ended 30 June 2021.

Selling and Distribution Expenses and Administrative Expenses

During the six months ended 30 June 2021, selling and distribution expenses increased by 22.2% to HK$52.62 million. Such increase was primarily due to (i) an increase in transportation costs alongside an increase in the sales revenue; (ii) an increase in the advertising and promotion expenses as it was largely reduced for the six months ended 30 June 2020; and (iii) an increase in travelling costs as it was largely reduced for the six months ended 30 June 2020 due to the then restrictions on business and social activities.

Administration expenses increased by 3.9% to HK$54.54 million for the six months ended 30 June 2021, as compared to HK$52.47 million for the same period in 2020. Such increase was primarily due to the appreciation of Renminbi for the six months ended 30 June 2021.

On a different note, the Group improved the efficiency and effectiveness of the operation through the large volume of sales revenue for the six months ended 30 June 2021. Consequently, the percentage of selling and distribution expenses to revenue decreased from 16.1% to 13.0% for the six months ended 30 June 2021, while the percentage of administrative expense to revenue decreased from 19.6% to 13.5% for the same period in 2021, as compared to the six months ended 30 June 2020.

Other Expenses, Net

The amount of other expenses, net for the six months ended 30 June 2021 decreased by 53.9% from HK$15.05 million to HK$6.94 million, as compared to the same period in 2020. Such decrease was primarily due to no provision for the impairment of items of property, plant and equipment and the provision for impairment of trade receivables (six months ended 30 June 2020: HK$5.01 million and HK$4.52 million, respectively), as well as the reduction of a fair value loss on investment properties for the six months ended 30 June 2021. The Group carried out review of the recoverable amount of certain property, plant and equipment for the six months ended 30 June 2021 based on the value-in-use calculations. Accordingly, there was no further provision for the impairment of items of property, plant and equipment for the six months ended 30 June 2021, as compared to HK$5.01 million for the same period in 2020. In addition, due to the improvement in the trade and bills receivables turnover days and the recent economic outlook, there was no additional provision for impairment of trade receivables during the six months ended 30 June 2021, as compared to HK$4.52 million during the six months ended 30 June 2020. Last but not least, the Group recognised a fair value loss on investment properties of HK$0.36 million for the six months ended 30 June 2021, as compared to HK$0.76 million during the same period in 2020.

Although gross profit margin fell by 6.8 percentage points to 22.9%, the Group's sales revenue for the six months ended 30 June 2021 increased by 51.1% to HK$403.80 million and the gross profit for the same period increased by 16.5% to HK$92.32 million. In addition, the Group's operational expenses of selling and distribution costs and administrative costs (as a percentage to revenue) were significantly reduced, which improved the effectiveness of its sales percentage. From other financial perspectives, other than the significant reduction in operating loss of the Group for the six months ended 30 June 2021, the Group's loss of HK$16.69 million for the six months ended 30 June 2021 (six months ended 30 June 2020: loss of HK$20.85 million) would become a profit of HK$1.08 million for the six months ended 30 June 2021 (six months ended 30 June 2020: profit of HK$6.62 million) after excluding finance costs, income tax, depreciation of property, plant and equipment, depreciation of right-of-use assets, provision for impairment of trade receivables, provision for impairment of items of property, plant and equipment and fair value loss on investment properties.

FINANCIAL REVIEW

Liquidity and Indebtedness

The Group's business operation is generally financed by its internal financial resources and bank borrowings. The cash and cash equivalents amounted to HK$155.34 million as at 30 June 2021, as compared to HK$236.41 million as at 31 December 2020. The decrease in the cash and cash equivalents as at 30 June 2021 was mainly due to the change of working capital. Bank borrowings amounted to HK$223.78 million as at 30 June 2021, as compared to HK$215.30 million as at 31 December 2020. The Group's bank borrowings mainly bear interest at floating rates. As at 30 June 2021, the Group's total bank borrowings amounted to HK$223.78 million (100.0%) (31 December 2020: HK$215.30 million (100.0%)) and were payable within one year or on demand.

The Group's cash and bank balances were mainly denominated in Hong Kong dollars and Renminbi, while the Group's bank borrowings were all denominated in Hong Kong dollars. 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 its foreign exchange exposure and consider hedging its foreign currency exposure should the need arises.

Gearing ratio of the Group, expressed as a percentage of total bank borrowings to shareholders' funds, was 40.0% as at 30 June 2021, as compared to 37.1% as at 31 December 2020. Liquidity ratio of the Group, which is expressed as a percentage of current assets to current liabilities, was 1.37 times as at 30 June 2021, as compared to 1.41 times as at 31 December 2020.

For the six months ended 30 June 2021, the inventory turnover days[1] were 57 days, which was slightly different from that of 52 days for the year ended 31 December 2020. The trade and bills receivables turnover days[2] decreased to 180 days for the six months ended 30 June 2021 from 198 days for the year ended 31 December 2020. Such decrease was primarily due to the improvement in sales revenue and the reduction of deferral settlement by customers.

1 The calculation of inventory turnover days is based on the closing balance of inventories divided by the cost of sales times 181 days (31 December 2020: 366 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 181 days (31 December 2020: 366 days).

Equity and Net Asset Value

Shareholders' funds of the Company as at 30 June 2021 amounted to HK$559.09 million, as compared to HK$580.40 million as at 31 December 2020. Net asset value per share as at 30 June 2021 amounted to HK$0.56, as compared to HK$0.58 as at 31 December 2020. Fluctuations in 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.

FINANCIAL REVIEW (continued)

Contingent Liabilities

As at 30 June 2021, the amount of utilised banking facilities granted to various subsidiaries subject to guarantees given by the Company was HK$223.78 million, as compared to HK$215.30 million as at 31 December 2020.

Pledge of Assets

As at 30 June 2021, certain property, plant and equipment, right-of-use assets and cash deposits with aggregate net book value of HK$14.83 million, as compared to HK$7.32 million as at 31 December 2020, were pledged to financial institutions as collaterals for bills payables, bank borrowings and lease liabilities. In addition, as at 30 June 2021 and 31 December 2020, a wholly-owned subsidiary of the Group pledged its shares to secure general banking facilities granted to the Group.

STAFF

As at 30 June 2021, the Group employed a total of 788 employees, as compared to 775 employees as at 30 June 2020. Staff costs, excluding directors' emoluments, amounted to HK$64.45 million for the six months ended 30 June 2021, as compared to HK$60.70 million for the six months ended 30 June 2020. The Group has a comprehensive and competitive staff remuneration and benefits system which is based on the performance of individual employees.

BUSINESS OUTLOOK

COVID-19 update

The Directors expect that the spread of the COVID-19 will slow down in the second half of 2021, though the Delta variant of the COVID-19 is spreading rapidly globally. The global outlook remained challenging as the highly infectious Delta variant poses difficult decisions on governments of different countries in balancing the policies on economic recovery, society and public health. The objection of such policies could also affect the progress of economic recovery.

Since late July 2021, the Delta variant has negatively affected several provinces in Mainland China, which has disrupted its economic recovery. Chinese authorities continued to act quickly with major cities (such as Nanjing and Yangzhou in Jiangsu province) launching mass testing, limiting public transport in high-risk areas and shutting down entertainment venues. Furthermore, local authorities in Mainland China has tightened health protection measures as well as social distance requirements.

The Group has taken various measures and precautions to ensure a safe and healthy working environment so as to minimise the risk of spreading the COVID-19. The Group has reduced business travel and requested that meetings with customers and suppliers be conducted online. Additionally, the Group will also do all it can to prevent the Delta variant and train employees all around so as to ensure a safe production that can brace the sustainable development of its business.

BUSINESS OUTLOOK (continued)

Outlook

As a result of Mainland China's strong economic recovery in the first half of 2021, the GDP growth for the primary, secondary and tertiary industries were 7.8%, 14.8% and 11.8%, respectively. In the second half of the year, the Group expects the development of the paint and coating industry (which is in the secondary industry) to remain steady, despite that continuous trade tensions between China and the United States, currency fluctuations, excess demand of raw materials and increasing local business competition have all made the operating environment of paint and coating industries become increasingly challenging. As far as raw materials are concerned, the Group anticipates that raw materials price of chemical products, which are being used in paint and coating industries, will continue to increase. This is due to the fluctuating crude oil prices as well as the strong manufacturing demand.

Although the amount of loss for the six months ended 30 June 2021 was substantially improved when compared to the same period in 2020, the Group recognises the importance of continuous improvements in its business operations. The Directors believe that the core business initiatives, including adopting appropriate pricing strategies for paint and coating products, improving the procurement and sourcing processes and optimising the product mix and production distribution channels of the Group, remain effective and necessary. In addition, the Group will explore OEM (Original Equipment Manufacturers) collaborations with paint and coating manufacturers to amplify its market share in the PRC, extend geographical sales in the PRC and expand its customer base.

Looking ahead, 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. As a part of the Group's continuous effort to build shareholders' value in the long run as well as to build long-term relationships with customers, the Group remains committed to reviewing and improving the quality of its paint and coating product production facilities and capacity to ensure a reliable, adequate and quality supply. The COVID-19 also created opportunities and threats 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 New Product Research and Development Centre in Mainland China

Due to the new wave of Delta variant, the Group has yet to identify a suitable office building to establish a new product research and development centre in Shenzhen (the "New R&D Centre"). The commencement of business operation of the New R&D Centre has been postponed since 2020. Although the Delta variant 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 the challenges in setting up the New R&D Centre, the Group has been conducting research and development on new paint and coating products. During the six months ended 30 June 2021, 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 six months ended 30 June 2021, such machineries and equipment had been used in the production. As the New R&D Centre is not yet operational, such machineries and equipment have been temporarily placed in other production facilities in Mainland China, and will be moved to the New R&D Centre upon its establishment. It is expected that the Group will locate a suitable office building and establish the New R&D Centre before 30 June 2022. Nevertheless, the situation would be affected by Mainland China's economic setting as mentioned in the paragraphs headed "Use of Net Proceeds from the Share Offer" below.

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.

The Company listed its shares on the Stock Exchange on 10 July 2017 (the "Listing"). Net proceeds from the Listing were 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"). Details of the Reallocation were set out in 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 Proceeds	Use of net proceeds from the Global Offering prior to the Reallocation	The Reallocation	Use of net proceeds subsequent to the Reallocation	Amount unutilised as at 31 December 2020	Amount utilised during the six months ended 30 June 2021	Amount unutilised as at 30 June 2021	Actual and expected timeline for utilising the remaining net proceeds from the Listing
		HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	
(1)	Construction of the production plant in Xinfeng	78.5	(52.2)	26.3	–	–	–	Fully utilised as of 31 December 2019
(2)	Repayment of the bank loans	19.1	–	19.1	–	–	–	Fully utilised as of 31 December 2017
(3)	Acquisitions of business or production assets	42.0	–	42.0	–	–	–	Fully utilised as of 31 December 2018
(4)	Sales and market campaigns and activities	28.6	–	28.6	–	–	–	Fully utilised as of 31 December 2018
(5)	Construction of production facilities for water-based paint and coating products in the Zhongshan Production Plant	–	32.2	32.2	–	–	–	Fully utilised as of 31 December 2020
(6)	Product research and development centre	–	20.0	20.0	19.2	(1.3)	17.9	Expected to be fully utilised by 30 June 2022
		168.2	–	168.2	19.2	(1.3)	17.9	

USE OF NET PROCEEDS FROM THE SHARE OFFER (continued)

As at 30 June 2021, the amount of the unutilised amount of the net proceeds from the Global Offering amounted to HK$17.9 million, which would be used for the establishment of the New R&D Centre. The Directors confirm that such usage has not been changed, but the expected date of commencement of the New R&D Centre would depend on the continuous development of the economy of Mainland China, which would be in turn affected by (i) whether the COVID-19 pandemic is under control with vaccination; (ii) the resumption of normal cross-border and business activities between Hong Kong and Mainland China; and (iii) the relaxation of the quarantine rules currently in force in certain parts of Mainland China. These factors affect the economic situation in Mainland China and the commercial viability of the proposed establishment of the New R&D Centre in Mainland China.

Save for the above, the Directors are not aware of any material change to the proposed usage of the net proceeds set forth above. If there is any further change in the proposed usage of the net proceeds, the Company will make a further announcement in full compliance with the Listing Rules as and when appropriate.

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

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

Other Information

INTERIM DIVIDEND

The Directors have resolved not to declare an interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

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

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

As at 30 June 2021, none of the Directors or chief executives of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as contained in Appendix 10 to the Listing Rules, or which were recorded in the register required to be kept by the Company under Section 352 of the SFO. Nor any of the Directors and the chief executives of the Company had any interest in, or had been granted any right to subscribe for the securities of the Company and its associated corporations (within the meaning of Part XV of the SFO) or had exercised any such right during the period under review.

SHARE OPTIONS

The Company's existing share option scheme was adopted on 4 June 2020 (the "Scheme"). From the date of adoption of the Scheme up to the period ended 30 June 2021, no share option has been granted under the Scheme.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 30 June 2021, the register maintained by the Company under Section 336 of the SFO showed that the following persons had interests in the shares and underlying shares of the Company:

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

Note:

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

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

Save as disclosed above, the Company has not been notified by any person who had interests or short positions in the shares or underlying shares of the Company as at 30 June 2021 which were required to be disclosed to the Company under Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Other Information

CORPORATE GOVERNANCE

The Board recognises the importance of and benefit from good corporate governance practices and has devoted considerable efforts to develop the best corporate governance practices appropriate to the businesses of the Group. Throughout the six months ended 30 June 2021, the Company has applied the principles and complied with the code provisions as set out in the Corporate Governance Code as contained in Appendix 14 to the Listing Rules.

CHANGE IN INFORMATION OF DIRECTORS

There is no change in the information of the Directors required to be disclosed pursuant to Rule 13.51B(1) of 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. After specific enquiry by the Company, all Directors confirmed that they have complied with the required standard as set out in the Model Code and the Company's own code during the six months ended 30 June 2021.

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

Hong Kong, 27 August 2021