



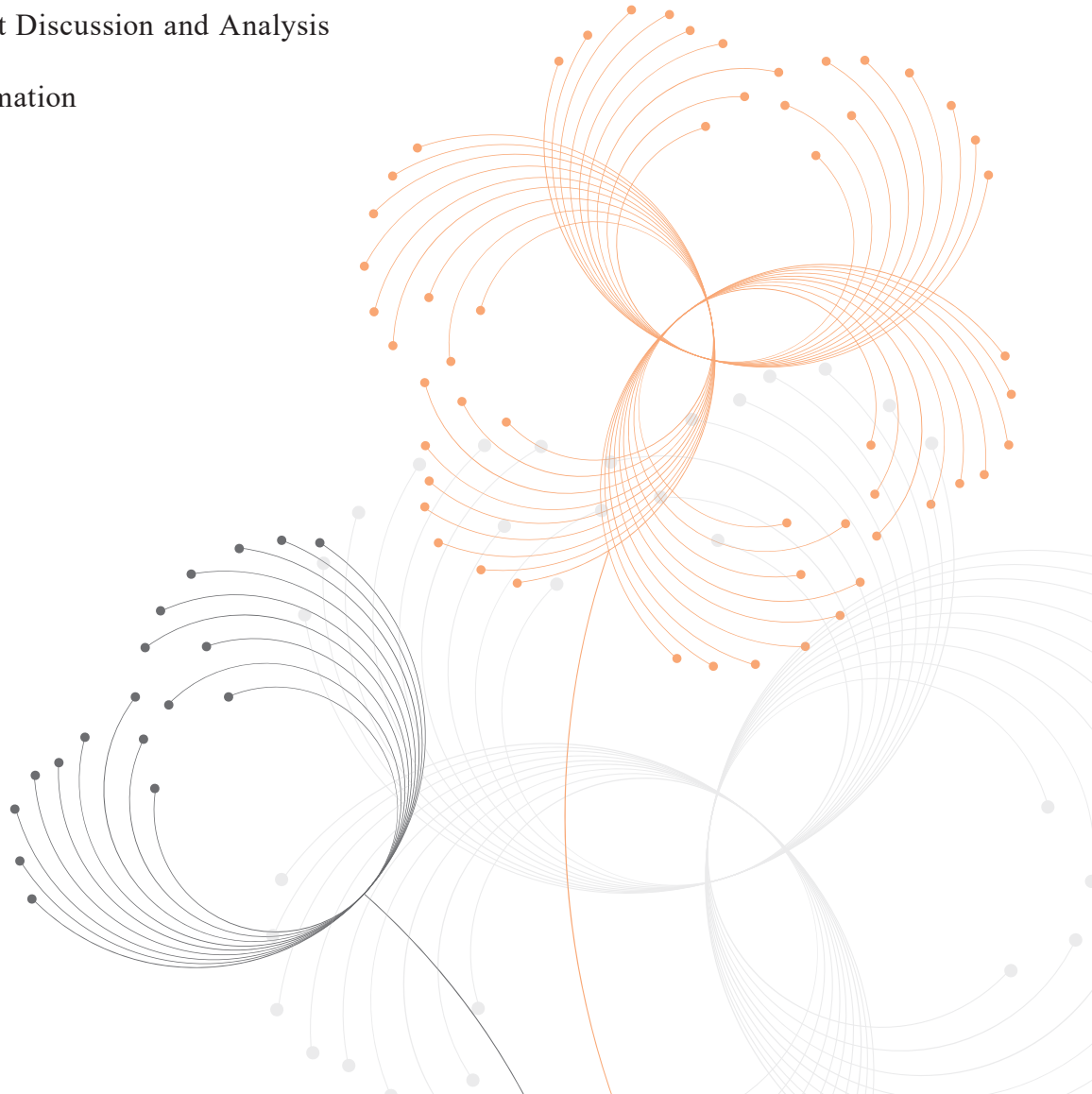
(Incorporated in the Cayman Islands with limited liability)

INNOVATION **GROWTH**

INTERIM REPORT 2024

Contents

- 2 Corporate Information
- 3 Condensed Consolidated Statement of Profit or Loss
- 4 Condensed Consolidated Statement of Comprehensive Income
- 5 Condensed Consolidated Statement of Financial Position
- 7 Condensed Consolidated Statement of Changes in Equity
- 8 Condensed Consolidated Statement of Cash Flows
- 10 Notes to the Condensed Consolidated Financial Statements
- 27 Management Discussion and Analysis
- 39 Other Information



Corporate Information

HONORARY CHAIRMAN

Lam Ting Ball, Paul

BOARD OF DIRECTORS

Executive Director and Chairman

Tsui Ho Chuen, Philip (*Managing Director*)

Executive Directors

Li Guangzhong (*Sales Director*)

Mak Chi Wah (*Finance Director*)

Non-executive Director

Chong Chi Kwan

Independent Non-executive Directors

Chua Joo Bin

Xia Jun

Meng Jinxia

AUDIT COMMITTEE

Chua Joo Bin (*Chairman*)

Xia Jun

Chong Chi Kwan

REMUNERATION COMMITTEE

Xia Jun (*Chairman*)

Chong Chi Kwan

Chua Joo Bin

NOMINATION COMMITTEE

Xia Jun (*Chairman*)

Tsui Ho Chuen, Philip

Chua Joo Bin

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

SHARE REGISTRARS

Hong Kong

Tricor Investor Services Limited

17/F, Far East Finance Centre

16 Harcourt Road, 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

Nanyang Commercial Bank, Limited

PRC

HSBC Bank (China) Company Limited

Bank of China Limited

Shenzhen Rural Commercial Bank

Corporation Limited

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 condensed consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2024 together with comparative amounts for the corresponding period in 2023. 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 2024

	Notes	Six months ended 30 June	
		2024 (Unaudited) HK\$'000	2023 (Unaudited) HK\$'000
REVENUE	3	148,322	243,887
Cost of sales		(90,188)	(170,515)
Gross profit		58,134	73,372
Other income and gains, net	3	6,596	9,716
Selling and distribution expenses		(28,990)	(34,882)
Administrative expenses		(37,684)	(45,980)
Other expenses, net		(5,605)	(6,844)
Finance costs	4	(5,885)	(6,391)
LOSS BEFORE TAX	5	(13,434)	(11,009)
Income tax expense	6	(1,201)	(340)
LOSS FOR THE PERIOD		(14,635)	(11,349)
ATTRIBUTABLE TO:			
Owners of the parent		(14,972)	(11,508)
Non-controlling interest		337	159
		(14,635)	(11,349)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	7		
Basic and diluted		HK (1.50) cents	HK (1.15) cents



Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2024

	Six months ended 30 June	
	2024 (Unaudited) HK\$'000	2023 (Unaudited) HK\$'000
LOSS FOR THE PERIOD	<u>(14,635)</u>	<u>(11,349)</u>
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>(13,166)</u>	<u>(32,472)</u>
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:		
Gains on properties revaluation	-	7,406
Income tax effect	-	(1,851)
	<u>-</u>	<u>5,555</u>
OTHER COMPREHENSIVE LOSS FOR THE PERIOD	<u>(13,166)</u>	<u>(26,917)</u>
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	<u>(27,801)</u>	<u>(38,266)</u>
ATTRIBUTABLE TO:		
Owners of the parent	<u>(28,037)</u>	<u>(38,288)</u>
Non-controlling interest	<u>236</u>	<u>22</u>
	<u>(27,801)</u>	<u>(38,266)</u>



Condensed Consolidated Statement of Financial Position

As at 30 June 2024

	Notes	30 June 2024 (Unaudited) HK\$'000	31 December 2023 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	96,073	110,000
Investment properties	10	308,802	309,087
Right-of-use assets		31,888	34,593
Equity investment designated at fair value through other comprehensive income		300	300
Deposits for purchases of property, plant and equipment		4,079	4,185
Deposits and prepayments		479	764
Deferred tax assets		17,078	17,502
Total non-current assets		458,699	476,431
CURRENT ASSETS			
Inventories		24,486	27,353
Trade and bills receivables	11	137,977	171,852
Prepayments, deposits and other receivables		52,915	53,286
Pledged deposits		37,163	98,994
Cash and cash equivalents		146,883	144,943
Total current assets		399,424	496,428
CURRENT LIABILITIES			
Trade and bills payables	12	140,596	195,523
Other payables and accruals		46,541	53,502
Interest-bearing bank borrowings		112,984	120,745
Lease liabilities		2,050	2,646
Tax payable		8,839	9,054
Total current liabilities		311,010	381,470
NET CURRENT ASSETS		88,414	114,958
TOTAL ASSETS LESS CURRENT LIABILITIES		547,113	591,389



Condensed Consolidated Statement of Financial Position

As at 30 June 2024

	30 June 2024 (Unaudited) HK\$'000	31 December 2023 (Audited) HK\$'000
NON-CURRENT LIABILITIES		
Loans from the Parent Group*	79,117	95,970
Lease liabilities	2,806	3,630
Deferred tax liabilities	39,910	39,661
Deferred income	190	334
Deposits received	4,042	3,154
	<hr/>	<hr/>
Total non-current liabilities	126,065	142,749
	<hr/>	<hr/>
Net assets	421,048	448,640
	<hr/> <hr/>	<hr/> <hr/>
EQUITY		
Equity attributable to owners of the parent		
Issued capital	100,000	100,000
Reserves	316,637	344,465
	<hr/>	<hr/>
	416,637	444,465
	<hr/>	<hr/>
Non-controlling interest	4,411	4,175
	<hr/>	<hr/>
Total equity	421,048	448,640
	<hr/> <hr/>	<hr/> <hr/>

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



Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2024

	Attributable to owners of the parent														Total equity (Unaudited) HK\$'000
	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	Share option reserve (Unaudited) HK\$'000	Reserve Funds ^{**} (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Non-controlling interest (Unaudited) HK\$'000	
At 1 January 2024	100,000	94,614	(15,017)	2,630	(28,616)	(500)	179,200	10,485	(39,429)	7,292	29,819	103,987	444,465	4,175	448,640
Profit/(loss) for the period	-	-	-	-	-	-	-	-	-	-	-	(14,972)	(14,972)	337	(14,635)
Other comprehensive loss for the period:															
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	(13,065)	-	-	-	(13,065)	(101)	(13,166)
Total comprehensive income/(loss) for the period	-	-	-	-	-	-	-	-	(13,065)	-	-	(14,972)	(28,037)	236	(27,801)
Equity-settled share option arrangements	-	-	-	-	-	-	-	-	-	209	-	-	209	-	209
Transfer of share option reserve upon the lapse of share options	-	-	-	-	-	-	-	-	-	(735)	-	735	-	-	-
At 30 June 2024	<u>100,000</u>	<u>94,614[†]</u>	<u>(15,017)[†]</u>	<u>2,630[†]</u>	<u>(28,616)[†]</u>	<u>(500)[†]</u>	<u>179,200[†]</u>	<u>10,485[†]</u>	<u>(52,494)[†]</u>	<u>6,766[†]</u>	<u>29,819[†]</u>	<u>89,750[†]</u>	<u>416,637</u>	<u>4,411</u>	<u>421,048</u>

	Attributable to owners of the parent														Total equity (Unaudited) HK\$'000
	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	Share option reserve (Unaudited) HK\$'000	Reserve funds ^{**} (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Non-controlling interest (Unaudited) HK\$'000	
At 1 January 2023	100,000	94,614	(15,017)	2,630	(28,616)	(500)	164,253	10,485	(16,314)	5,610	29,819	171,102	518,066	2,879	520,945
Profit/(loss) for the period	-	-	-	-	-	-	-	-	-	-	-	(11,508)	(11,508)	159	(11,349)
Other comprehensive income/(loss) for the period:															
Gain on property revaluation, net of tax	-	-	-	-	-	-	5,555	-	-	-	-	-	5,555	-	5,555
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	(32,335)	-	-	-	(32,335)	(137)	(32,472)
Total comprehensive income/(loss) for the period	-	-	-	-	-	-	5,555	-	(32,335)	-	-	(11,508)	(38,288)	22	(38,266)
Equity-settled share option arrangements	-	-	-	-	-	-	-	-	-	1,224	-	-	1,224	-	1,224
At 30 June 2023	<u>100,000</u>	<u>94,614[†]</u>	<u>(15,017)[†]</u>	<u>2,630[†]</u>	<u>(28,616)[†]</u>	<u>(500)[†]</u>	<u>169,808[†]</u>	<u>10,485[†]</u>	<u>(48,649)[†]</u>	<u>6,834[†]</u>	<u>29,819[†]</u>	<u>159,594[†]</u>	<u>481,002</u>	<u>2,901</u>	<u>483,903</u>

^{**} 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\$316,637,000 (30 June 2023: HK\$381,002,000) 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 2024

	Six months ended 30 June	
	2024	2023
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating profit/(loss) before working capital changes	(872)	5,764
Decrease in inventories	1,961	12,948
Decrease in trade and bills receivables	28,546	58,864
Increase in prepayments, deposits and other receivables	(613)	(3,903)
Decrease in trade and bills payables	(50,950)	(33,851)
Decrease in other payables and accruals	(5,891)	(22,770)
Increase in long-term rental deposit received	963	514
Exchange realignment	1,184	547
	<hr/>	<hr/>
Cash generated from/(used in) operations	(25,672)	18,113
Interest paid	(5,925)	(6,186)
Interest element of lease payments	(166)	(224)
Overseas taxes paid	–	(69)
	<hr/>	<hr/>
Net cash flows from/(used in) operating activities	(31,763)	11,634
	<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	(42)	(2,737)
Proceeds from disposal of items of property, plant and equipment	47	907
Interest received	1,228	837
Decrease in non-pledged time deposits with original maturity of more than three months when acquired	1,139	–
Decrease/(increase) in pledged time deposits with original maturity of more than three months when acquired, net	59,482	(625)
	<hr/>	<hr/>
Net cash flows from/(used in) investing activities	61,854	(1,618)
	<hr/>	<hr/>
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loans	53,315	168,615
Repayment of bank loans	(59,733)	(193,527)
Repayment to loans from the Parent Group	(49,601)	–
Receipts of loans from the Parent Group	33,461	–
Principal portion of lease payments	(1,672)	(1,907)
	<hr/>	<hr/>
Net cash flows used in financing activities	(24,230)	(26,819)
	<hr/>	<hr/>



Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2024

	Six months ended 30 June	
	2024	2023
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	5,861	(16,803)
Cash and cash equivalents at the beginning of period	143,792	147,521
Effect of foreign exchange rate changes, net	(2,770)	(6,924)
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	146,883	123,794
	<hr/> <hr/>	<hr/> <hr/>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	146,883	114,089
Non-pledged time deposits with original maturity of less than three months when acquired	–	9,705
	<hr/>	<hr/>
Cash and cash equivalents as stated in the condensed consolidated statement of financial position and the condensed consolidated statement of cash flows	146,883	123,794
	<hr/> <hr/>	<hr/> <hr/>



Notes to the Condensed Consolidated Financial Statements

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 2023.

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 2023, 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 16	<i>Lease Liability in a Sale and Leaseback</i>
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current</i> (the “2020 Amendments”)
Amendments to HKAS 1	<i>Non-current Liabilities with Covenants</i> (the “2022 Amendments”)
Amendments to HKAS 7 and HKFRS 7	<i>Supplier Finance Arrangement</i>

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

- (a) Amendments to HKFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. Since the Group has no sale and leaseback transactions with variable lease payments that do not depend on an index or a rate occurring from the date of initial application of HKFRS 16, the amendments did not have any significant impact on the financial position or performance of the Group.
- (b) The 2020 Amendments clarify the requirements for classifying liabilities as current or non-current, including what is meant by a right to defer settlement and that a right to defer must exist at the end of the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement. The amendments also clarify that a liability can be settled in its own equity instruments, and that only if a conversion option in a convertible liability is itself accounted for as an equity instrument would the terms of a liability not impact its classification. The 2022 Amendments further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. Additional disclosures are required for non-current liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period.

The Group has reassessed the terms and conditions of its liabilities as at 1 January 2023 and 2024 and concluded that the classification of its liabilities as current or non-current remained unchanged upon initial application of the amendments. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.



Notes to the Condensed Consolidated Financial Statements

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

- (c) Amendments to HKAS 7 and HKFRS 7 clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk. The disclosure of relevant information for supplier finance arrangements is not required for any interim reporting period during the first annual reporting period in which an entity applies the amendments. As the Group does not have supplier finance arrangements, the amendments did not have any impact on the condensed consolidated interim financial statements.

2. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments as follows:

- (a) the paint products segment engages in the manufacture and sale of paint and coating products; and
- (b) the property investment segment invests in commercial and industrial properties for their rental income potential.

The chief operating decision-maker regularly reviews the operating results of the operating segments of the Group separately for the purposes of resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit/loss before tax except that interest income, finance costs, as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted on mutually agreed terms.



Notes to the Condensed Consolidated Financial Statements

2. OPERATING SEGMENT INFORMATION (continued)

Six months ended 30 June 2024

Segment revenue

Sales to external customers
Other revenue and gains, net

Reconciliation:

Elimination of intersegment sales

Total

Segment results

Reconciliation:

Elimination of intersegment results
Interest income
Finance costs
Corporate and other unallocated expenses

Loss before tax

	Paint products (Unaudited) HK\$'000	Property investment (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
	137,044	11,278	148,322
	2,173	3,195	5,368
	<u>139,217</u>	<u>14,473</u>	<u>153,690</u>
			–
			<u>153,690</u>
	(19,296)	12,871	(6,425)
			–
			1,228
			(5,885)
			<u>(2,352)</u>
			<u>(13,434)</u>

As at 30 June 2024

Segment assets

Reconciliation:

Elimination of intersegment receivables
Corporate and other unallocated assets

Total assets

Segment liabilities

Reconciliation:

Elimination of intersegment payables
Corporate and other unallocated liabilities

Total liabilities

	Paint products (Unaudited) HK\$'000	Property investment (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
	527,988	325,372	853,360
			–
			<u>4,763</u>
			<u>858,123</u>
	393,355	41,374	434,729
			–
			<u>2,346</u>
			<u>437,075</u>



Notes to the Condensed Consolidated Financial Statements

2. OPERATING SEGMENT INFORMATION (continued)

Six months ended 30 June 2024

Other segment information

Depreciation on property, plant and equipment

7,533

–

7,533

Depreciation on right-of-use assets

2,294

–

2,294

Capital expenditure*

42

–

42*

Fair value gains on investment properties, net

–

(3,195)

(3,195)

Provision for impairment of trade and bills receivables, net

956

–

956

Provision of inventories to net realisable value, net

291

–

291

* Capital expenditure consists of additions to property, plant and equipment.

	Paint products (Unaudited) HK\$'000	Property investment (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Depreciation on property, plant and equipment	7,533	–	7,533
Depreciation on right-of-use assets	2,294	–	2,294
Capital expenditure*	42	–	42*
Fair value gains on investment properties, net	–	(3,195)	(3,195)
Provision for impairment of trade and bills receivables, net	956	–	956
Provision of inventories to net realisable value, net	291	–	291



Notes to the Condensed Consolidated Financial Statements

2. OPERATING SEGMENT INFORMATION (continued)

Six months ended 30 June 2023	Paint products (Unaudited) HK\$'000	Property investment (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Segment revenue			
Sales to external customers	233,886	10,001	243,887
Other revenue and gains, net	4,294	4,585	8,879
	<u>238,180</u>	<u>14,586</u>	<u>252,766</u>
<i>Reconciliation:</i>			
Elimination of intersegment sales			<u>–</u>
Total			<u><u>252,766</u></u>
Segment results	(15,251)	13,324	(1,927)
<i>Reconciliation:</i>			
Elimination of intersegment results			–
Interest income			837
Finance costs			(6,391)
Corporate and other unallocated expenses			<u>(3,528)</u>
Loss before tax			<u><u>(11,009)</u></u>
As at 31 December 2023			
Segment assets	639,424	320,731	960,155
<i>Reconciliation:</i>			
Elimination of intersegment receivables			–
Corporate and other unallocated assets			<u>12,704</u>
Total assets			<u><u>972,859</u></u>
Segment liabilities	482,024	40,322	522,346
<i>Reconciliation:</i>			
Elimination of intersegment payables			–
Corporate and other unallocated liabilities			<u>1,873</u>
Total liabilities			<u><u>524,219</u></u>



Notes to the Condensed Consolidated Financial Statements

2. OPERATING SEGMENT INFORMATION (continued)

Six months ended 30 June 2023	Paint products (Unaudited) HK\$'000	Property investment (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Other segment information			
Depreciation on property, plant and equipment	11,145	–	11,145
Depreciation on right-of-use assets	3,049	–	3,049
Capital expenditure*	2,737	–	2,737*
Fair value gains on investment properties, net	–	(4,585)	(4,585)
Provision for impairment of trade and bills receivables, net	2,160	–	2,160
Provision of inventories to net realisable value, net	<u>425</u>	<u>–</u>	<u>425</u>

* Capital expenditure consists of additions to property, plant and equipment, right-of-use assets and deposits for purchases of property, plant and equipment.

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2024 (Unaudited) HK\$'000	2023 (Unaudited) HK\$'000
Hong Kong	27,727	32,031
Mainland China	120,595	211,856
	<u>148,322</u>	<u>243,887</u>

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

(b) Non-current assets

	30 June 2024 (Unaudited) HK\$'000	31 December 2023 (Audited) HK\$'000
	Hong Kong	1,211
Mainland China	440,110	457,042
	<u>441,321</u>	<u>458,629</u>

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

Information about a major customer

During the six months ended 30 June 2024 and 2023, no revenue from any single customer accounted for 10% or more of the total revenue of the Group.



Notes to the Condensed Consolidated Financial Statements

3. REVENUE, OTHER INCOME AND GAINS, NET

An analysis of revenue is as follows:

	Six months ended 30 June	
	2024 (Unaudited) HK\$'000	2023 (Unaudited) HK\$'000
<i>Revenue from contracts with customers</i>		
Sale of paint products	137,044	233,886
<i>Revenue from other sources</i>		
Gross rental income from investment properties	11,278	10,001
	<u>148,322</u>	<u>243,887</u>

Disaggregated revenue information

	Six months ended 30 June	
	2024 (Unaudited) HK\$'000	2023 (Unaudited) HK\$'000
Type of paint and coating products sold		
Industrial paint and coating products	64,904	79,061
Architectural paint and coating products	35,217	100,603
General paint and coating and ancillary products	36,923	54,222
	<u>137,044</u>	<u>233,886</u>
Timing of revenue recognition		
Goods transferred at a point in time	<u>137,044</u>	<u>233,886</u>



Notes to the Condensed Consolidated Financial Statements

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

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

	Six months ended 30 June	
	2024 (Unaudited) HK\$'000	2023 (Unaudited) HK\$'000
Other income and gains, net		
Bank interest income	1,228	837
Fair value gains on investment properties, net	3,195	4,585
Government grants*	204	520
Government subsidies [^]	408	2,415
Gain on disposal of items of property, plant and equipment, net	47	60
Foreign exchange differences, net	68	699
Recognition of deferred income	139	145
Others	1,307	455
	6,596	9,716

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

[^] During the six months ended 30 June 2024, the tax authority granted to the Group an Advanced Manufacturing Tax Credit Initiative amounting to HK\$408,000 under the Announcement No. 43 [2023] of the Ministry of Finance and the State Taxation Administration. There were no unfulfilled conditions or contingencies relating to these government subsidies.

During the six months ended 30 June 2023, the PRC government granted subsidies of HK\$2,399,000 for the removal of solvent production lines and solvent storage tanks in the production plants located in Hubei, Mainland China. Furthermore, a subsidy of HK\$16,000 was granted for relocating the main factory entrances within the complex situated in Shanghai, Mainland China. There were no unfulfilled conditions or contingencies relating to these government subsidies.



Notes to the Condensed Consolidated Financial Statements

4. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2024 (Unaudited) HK\$'000	2023 (Unaudited) HK\$'000
Interest on bank and other borrowings	5,719	6,168
Interest expense on lease liabilities	166	223
	<u>5,885</u>	<u>6,391</u>

5. LOSS BEFORE TAX

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

	Six months ended 30 June	
	2024 (Unaudited) HK\$'000	2023 (Unaudited) HK\$'000
Cost of inventories sold	90,188	170,515
Depreciation of property, plant and equipment	7,533	11,145
Depreciation of right-of-use assets	2,294	3,049
Equity-settled share option expenses, net	209	1,224
Foreign exchange differences, net*	(68)	(699)
Fair value gains on investment properties, net*	(3,195)	(4,585)
Gain on disposal of items of property, plant and equipment, net*	(47)	(60)
Provision for impairment of trade and bills receivables, net*	956	2,160
Provision of inventories to net realisable value, net [®]	291	425
Staff termination cost*	600	–
Write-off of items of property, plant and equipment*	2	36
	<u>2</u>	<u>36</u>

* 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 2023: 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 2023: 25%) during the period, except for the subsidiaries of the Group which qualified as a PRC High and New Technology Enterprise in Mainland China and a lower PRC corporate income tax rate of 15% (six months ended 30 June 2023: 15%) had been applied during the period.



Notes to the Condensed Consolidated Financial Statements

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\$14,972,000 (six months ended 30 June 2023: HK\$11,508,000) and the weighted average number of ordinary shares of 1,000,000,000 (six months ended 30 June 2023: 1,000,000,000) in issue during the period.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding and assumed conversion of all dilutive potential ordinary shares as adjusted to reflect the dilution effect of the share options issued by the Company. For the six months ended 30 June 2024 and 2023, no adjustment has been made to the basic loss per share amounts presented in respect of a dilution as the impact of the outstanding share options had an anti-dilutive effect on the basic loss per share amounts presented.

8. DIVIDEND

The Directors have resolved not to declare an interim dividend for the six months ended 30 June 2024 (six months ended 30 June 2023: Nil).

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2024, the Group acquired items of property, plant and equipment at costs of HK\$42,000 (six months ended 30 June 2023: HK\$2,737,000).

Items of property, plant and equipment with an aggregate net book value of HK\$2 (six months ended 30 June 2023: HK\$847,000) were disposed of by the Group during the six months ended 30 June 2024.

10. INVESTMENT PROPERTIES

	30 June 2024 (Unaudited) HK\$'000	31 December 2023 (Audited) HK\$'000
Carrying amount at the beginning of period/year	309,087	240,941
Fair value gains/(losses), net	3,195	(11,482)
Transfer from owner-occupied properties	3,959	45,047
Transfer from right-of-use assets	–	43,540
Exchange realignment	(7,439)	(8,959)
	308,802	309,087

The investment properties of the Group are industrial properties located in Shajing, Hubei, Zhongshan, Xuzhou and Shanghai, the PRC (31 December 2023: Shajing, Hubei, Zhongshan, Xuzhou and Shanghai, the PRC) and a commercial property in Shenzhen, the PRC (31 December 2023: Shenzhen, the PRC). The Directors have determined that the investment properties consist of two classes of asset, i.e., industrial and commercial properties in the PRC, based on the nature, characteristics and risks of the properties. The investment properties of the Group were revalued on 30 June 2024 based on the valuations performed by Ascent Partners Valuation Service Limited, an independent professional qualified valuer, at HK\$308,802,000 (31 December 2023: HK\$309,087,000). The finance department of the Group which reports directly to the senior management selects the external valuer to be responsible for the external valuation of the properties of the Group 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 investment properties of the Group are generally derived by using the income capitalisation method, the market comparison approach and the depreciated replacement cost approach. The finance department of the Group discussed with the external valuers on the valuation assumptions and valuation results when the valuations were performed for interim and annual financial reporting.

Notes to the Condensed Consolidated Financial Statements

10. INVESTMENT PROPERTIES (continued)

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 valuer's interpretation of prevailing investor requirements or expectations. The prevailing market rents adopted in the valuation have been assessed with reference to recent lettings, within the subject properties and other comparable properties. Capitalisation rates are estimated by valuer based on the risk profile of the properties being valued.

The market comparison approach is based on the price by assuming sale of the property interest in its existing state with reference to comparable sales transactions as available in the relevant market.

The depreciated replacement cost approach is based on an estimate of the new replacement cost of the buildings and structures less allowance for physical deterioration and all relevant forms of obsolescent and optimisation.

Fair value hierarchy

The following table illustrates how the fair values of the investment properties of the Group are determined (in particular, the valuation techniques 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 techniques	Significant unobservable inputs	Range as at	
				30 June 2024	31 December 2023
Industrial properties in Mainland China	Level 3	Income capitalisation method	Prevailing markets rents (per sq.m. per month)	RMB8 to RMB45	RMB8 to RMB58
			Capitalisation rates	5.4% to 6.0%	4.5% to 6.0%
Industrial property in Mainland China	Level 3	Market comparison approach and depreciated replacement cost approach	Prevailing market rates (per sq.m.)	RMB900 to RMB1,650	RMB741 to RMB3,026
			Estimated replacement cost (per sq.m.)	RMB2,048 to RMB2,882	RMB926 to RMB2,476
Commercial property in Mainland China	Level 3	Income capitalisation method	Prevailing markets rents (per sq.m. per month)	RMB107 to RMB148	RMB78 to RMB85
			Capitalisation rates	5.8%	3.0% to 3.5%

During the six months ended 30 June 2024, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (31 December 2023: Nil).

Under the income capitalisation method, a significant increase/decrease in the unit rental rate in isolation would result in a significant increase/decrease in the fair value of the investment properties. A significant increase/decrease in the term yield and reversion yield in isolation would result in a significant decrease/increase in the fair value of the investment properties.

Under the market comparison approach, fair value is estimated by the direct comparison method on the assumption of the sales of the property interest and by referring to comparable sales transactions as available in the market. The key input was the prevailing market rate per square metre. A significant increase/decrease in the prevailing market rates in isolation would result in a significant increase/decrease in the fair value of the investment property.



Notes to the Condensed Consolidated Financial Statements

10. INVESTMENT PROPERTIES (continued)

Fair value hierarchy (continued)

Under the depreciated replacement cost approach, fair value is estimated based on estimated replacement cost. A significant increase/decrease in the building price and depreciation rate in isolation would result in a significant increase/decrease in the fair value of the investment property.

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

	Industrial properties in Mainland China (Unaudited) HK\$'000	Commercial property in Mainland China (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Carrying amount as at 1 January 2024	303,674	5,413	309,087
Fair value gains/(losses), net	4,422	(1,227)	3,195
Transfer from an owner-occupied property	3,959	–	3,959
Exchange realignment	(7,318)	(121)	(7,439)
	<u>304,737</u>	<u>4,065</u>	<u>308,802</u>
Carrying amount as at 30 June 2024			

11. TRADE AND BILLS RECEIVABLES

The trade receivables of the Group represent receivables arising from the leasing of investment properties and the sale of paint products. The Group normally requires its customers to make payment of monthly rentals in advance in relation to the leasing of investment properties. Tenants are usually required to pay security deposits which are held by the Group. 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 except for receivables arising from the leasing of investment properties require security deposits from the relevant tenants. 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 2024 (Unaudited) HK\$'000	31 December 2023 (Audited) HK\$'000
Within three months	57,726	63,946
Over three months and within six months	15,291	21,061
Over six months	64,960	86,845
	<u>137,977</u>	<u>171,852</u>



Notes to the Condensed Consolidated Financial Statements

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 2024 (Unaudited) HK\$'000	31 December 2023 (Audited) HK\$'000
Within three months	51,336	71,790
Over three months and within six months	30,264	62,130
Over six months	58,996	61,603
	140,596	195,523

The trade and bills payables are unsecured, non-interest-bearing, and normally settled within two months. As at 30 June 2024, bills payable with an aggregate carrying amount of HK\$83,427,000 (31 December 2023: HK\$115,694,000) were secured by time deposits of HK\$36,628,000 (31 December 2023: HK\$98,117,000).

13. SHARE OPTION SCHEME

On 15 June 2022, 80,000,000 share options to subscribe for a total of 80,000,000 new shares of the Company of HK\$0.10 each were granted to three Directors and five employees of the Group under the share option scheme (the "Scheme") adopted by the Company on 4 June 2020 (the "Adoption Date"). The Scheme was adopted by the Company for the purpose of providing incentives to attract and retain employees of the Group, as well as other eligible participants (including, but not limited to, executive Directors, non-executive Directors and independent non-executive Directors, any supplier of goods or services to any member of the Group and any customer of the Group), who made contributions to the Group. Unless terminated by resolution in general meeting or by the Board, the Scheme shall be valid and effective for a period of 10 years commencing on Adoption Date, after which period no further share options will be issued but in all other respects 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 equity-settled share options granted on 15 June 2022 vest over a period of 4 years from the date of grant, of which 50% of the share options vested immediately on the date of grant, 20% of the share options vested on 14 June 2023, 10% of the share options vested on 14 June 2024, 10% of the share options shall vest on 14 June 2025 and 10% of the share options shall vest on 14 June 2026. These share options are exercisable at HK\$0.335 per share and must be exercised within 5 years from the date of grant, and if not so exercised, the share options shall lapse.

The maximum number of shares which may be issued upon exercise of all share options to be granted under the Scheme and any other share option schemes of the Company must not in aggregate exceeds 10% of the total issued shares of the Company as at the Adoption Date. The maximum number of shares issued and which may fall to be issued upon exercise of the share option granted under the Scheme and any other share option schemes of the Company (including both exercised and outstanding share options) and such shares which were subsequently cancelled, to each eligible participant in any 12-month period up to the date of offer shall not exceed 1% of the number of shares in issue as at the date of offer. Any further grant of share options in excess of this 1% limit shall be subject to the issue of a circular by the Company and the approval of the shareholders at a general meeting.

Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their respective associates under the Scheme and any other share option schemes of the Company or any of its subsidiaries are subject to approval by the independent non-executive Directors (excluding independent non-executive Director who is the grantee of the share options). In addition, any share options granted to a substantial shareholder of the Company or an independent non-executive Director, or to any of their respective associates, representing in aggregate over 0.1% of the shares of the Company in issue on the date of offer and having an aggregate value (based on the closing price of the Company's shares on the date of offer) in excess of HK\$5 million, in the 12-month period up to and including the date of offer, are subject to shareholders' approval in advance in a general meeting.

Notes to the Condensed Consolidated Financial Statements

13. SHARE OPTION SCHEME (continued)

The offer of a grant of share options must be accepted not later than 21 days from the date of offer and the amount payable by the grantees to the Company on acceptance of the offer for the grant of share option is HK\$1.00. The period during which the share option may be exercised will be determined by the Board in its absolute discretion.

The exercise price of share options is determinable by the Board, but shall not be less than the higher of (i) the closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange on the date of offer in respect of such share option; (ii) the average closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange for the five business days immediately preceding the date of offer in respect of such share option; and (iii) the nominal value of the Company's share.

Share options do not confer rights on the holders to dividends or to vote in any general meeting of the Company.

The summary below sets forth the details of movement of options granted as at 30 June 2024 pursuant to the Scheme:

	Date of grant	Exercise period (Note)	Exercise price per share HK\$	Number of share options				
				Outstanding as at 1 January 2024	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	Outstanding as at 30 June 2024
Executive Directors								
Tsui Ho Chuen, Philip	15 June 2022	15 June 2022 to 14 June 2027	0.335	10,000,000	-	-	-	10,000,000
Li Guangzhong	15 June 2022	15 June 2022 to 14 June 2027	0.335	10,000,000	-	-	-	10,000,000
Non-Executive Director								
Chong Chi Kwan	15 June 2022	15 June 2022 to 14 June 2027	0.335	10,000,000	-	-	-	10,000,000
Employees								
	15 June 2022	15 June 2022 to 14 June 2027	0.335	50,000,000	-	-	(10,000,000)	40,000,000
Total				<u>80,000,000</u>	<u>-</u>	<u>-</u>	<u>(10,000,000)</u>	<u>70,000,000</u>

Note:

The share options granted to each of the grantees have the vesting period and are/would be exercisable as follows:

- 50% of the share options vested on the date of grant of the share options, i.e. 15 June 2022 and are exercisable from 15 June 2022 to 14 June 2027;
- 20% of the share options vested on one day before the first anniversary of the date of grant of the share options, i.e. 14 June 2023 and are exercisable from 15 June 2023 to 14 June 2027;
- 10% of the share options vested on one day before the second anniversary of the date of grant of the share options, i.e. 14 June 2024 and are exercisable from 15 June 2024 to 14 June 2027;
- 10% of the share options shall vest on one day before the third anniversary of the date of grant of the share options, i.e. 14 June 2025 and would be exercisable from 15 June 2025 to 14 June 2027; and
- 10% of the share options shall vest on one day before the fourth anniversary of the date of grant of the share options, i.e. 14 June 2026 and would be exercisable from 15 June 2026 to 14 June 2027.

Notes to the Condensed Consolidated Financial Statements

13. SHARE OPTION SCHEME (continued)

As one of the employees resigned during the six months ended 30 June 2024, all share options granted to that employee under the Scheme lapsed on the date of cessation of employment. Save as disclosed above, none of the other share options granted under the Scheme were exercised, cancelled or lapsed during the six months ended 30 June 2024.

In addition, none of the share options granted under the Scheme were exercised, cancelled or lapsed during the six months ended 30 June 2023.

No share options were granted during the six months ended 30 June 2024 and 2023. The net share option expenses of approximately HK\$209,000 were recognised during the six months ended 30 June 2024 (six months ended 30 June 2023: HK\$1,224,000).

At the end of the reporting period, the Company had 70,000,000 (31 December 2023: 80,000,000) share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 70,000,000 (31 December 2023: 80,000,000) additional ordinary shares of the Company and additional share capital of HK\$23,450,000 (31 December 2023: HK\$26,800,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 70,000,000 (31 December 2023: 80,000,000) share options outstanding under the Scheme, which represented 7% (31 December 2023: 8%) of the Company's shares in issue as at that date.

14. CAPITAL COMMITMENTS

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

	30 June 2024 (Unaudited) HK\$'000	31 December 2023 (Audited) HK\$'000
Contracted, but not provided for:		
Construction and purchases of items of property, plant and equipment	2,542	2,737

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	2024 (Unaudited) HK\$'000	2023 (Unaudited) HK\$'000
Lease payments paid to the Parent Group	(i)	1,077	1,394
Pledge fees paid to the Parent Group	(ii)	273	767
Interest expenses paid to the Parent Group	(iii)	3,135	692
		4,485	2,853

(i) The Group leased certain office premises from the Parent Group at rates mutually agreed between the parties.

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

(iii) Loans were granted by the Parent Group on normal commercial terms, which were not secured by the assets of the Group. The loan agreements were executed on mutually agreed terms.

Notes to the Condensed Consolidated Financial Statements

15. RELATED PARTY TRANSACTIONS (continued)

- (b) The transactions in respect of item (a)(i), (a)(ii) and (a)(iii) 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	
	2024	2023
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Short term employment benefits	4,262	4,333
Post-employment benefits	247	247
Equity-settled share option expenses	110	306
	<hr/>	<hr/>
Total compensation paid/payable to key management personnel	4,619	4,886
	<hr/> <hr/>	<hr/> <hr/>

16. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, 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, interest-bearing bank borrowings and loans from the Parent Group approximate to their carrying amounts largely due to the short term maturities or repayable on demand 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 these fair values:

The fair value of the non-current portion of financial assets included in prepayments, deposits and other receivables has been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

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



Notes to the Condensed Consolidated Financial Statements

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:

	Fair value measurement using			Total (Unaudited) HK\$'000
	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	
<i>Assets measured at fair value:</i>				
At 30 June 2024				
Equity investment designated at fair value through other comprehensive income	–	300	–	300
	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 2023				
Equity investment designated at fair value through other comprehensive income	–	300	–	300

Liabilities measured at fair value:

The Group did not have any financial liabilities measured at fair value as at 30 June 2024 and 31 December 2023.

During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (31 December 2023: 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 29 August 2024.



Management Discussion and Analysis

The Group is principally engaged in paint and coating business. It also holds investment properties in Mainland China. The paint and coating business represents the largest business segment of the Group. The products in this business are broadly categorised into (i) industrial paint and coating products; (ii) architectural paint and coating products; and (iii) general paint and coating and ancillary products. Industrial paint and coating products are used in furniture painting, manufacturing and surface finishing for different kinds of materials used by furniture manufacturers, renovation contractors for property and infrastructure projects and household users. Architectural paint and coating products are used for wall painting, floor coating and decorating of the wall surface of buildings. The architectural paint and coating products of the Group are sold to customers in the construction and maintenance markets for the commercial and residential properties. General paint and coating and ancillary products, such as thinner, enamels and anti-mold agents and solvent agents, are used for both architectural and industrial purposes.

BUSINESS REVIEW

For the six months ended 30 June 2024, the Group recorded a loss attributable to the shareholders of the Company of approximately HK\$14.97 million, with an increase in loss of HK\$3.46 million as compared with the loss of HK\$11.51 million for the same period in 2023. The increase in loss was primarily due to a noticeable surge in legal and professional fees in an amount of HK\$5.54 million in relation to the legal actions for collection of the aged trade and bills receivables of the Group. Besides, there was a decline in sales of paint and coating products by 41.4% and a corresponding 26.1% decrease in gross profit. Nonetheless, the impact of the unfavourable factors was offset by operational cost savings and efficiencies. If the exceptional legal and professional fees are excluded, the Group has made improvement in the loss attributable to the shareholders of the Company, as compared to the same period in 2023.

Furthermore, following the ongoing implementation of effective business revamp measures and initiatives (the “Business Revamp Measures and Initiatives”) and excluding various expenses such as the net fair value gains on investment properties, depreciation of property, plant, and equipment, staff termination costs, provision for impairment of trade and bills receivables, depreciation of right-of-use assets, finance costs, share option expenses, and income tax, the Group achieved an adjusted profit of approximately HK\$0.85 million for the six months ended 30 June 2024, which was lower than the adjusted profit of approximately HK\$8.38 million reported for the same period in 2023. The decline in adjusted profit was attributed to a significant decrease in the sales of paint and coating products and an increase in the legal and professional fees. On a positive note, the Group successfully improved its cash flows, with a positive change in cash and cash equivalents for the six months ended 30 June 2024, compared to the negative change for the same period in 2023. Furthermore, despite the depreciation of the Renminbi, the cash and cash equivalents of the Group improved to HK\$146.88 million as at 30 June 2024, up from HK\$144.94 million as at 31 December 2023.



Management Discussion and Analysis

BUSINESS REVIEW (continued)

Paint and Coating Business

During the first half of 2024, the gross domestic product (the “GDP”) of Mainland China demonstrated notable growth across all major industries, with the exception of the real estate sector. According to the data of National Bureau of Statistics of China (the “NBSC”), growth rates of the GDP of Mainland China varied from 3.4% to 11.9% during the first half of 2024, as compared to the first half of 2023. By contrast, the real estate industry experienced a contraction of 5.0% in the first half of 2024. Despite the expansion in some sectors, the overall GDP growth rate of Mainland China decelerated to 5.0% in the first half of 2024, down from 5.5% in the first half of 2023. This reduction in the GDP growth rate is primarily attributable to weak domestic demand caused by the prolonged difficulties in the real estate sector, with retail sales rose at the slowest pace during the first half of 2024. In addition, according to the data released by the Hong Kong Census and Statistics Department, the GDP of Hong Kong increased by 2.8% in the first quarter of 2024. However, this growth is anticipated to increase to 3.3% in the second quarter of 2024, in comparison to the second quarter of 2023. This slowdown was primarily attributed to a soft domestic housing market and persistently sluggish merchandise exports, which adversely impacted the overall economic performance. Consequently, the revenue generated from the sales of paint and coating products by the Group for the six months ended 30 June 2024 decreased by 41.4%, as compared to the corresponding period in 2023.

Geographically, during the first half of 2024, Eastern China, Central China and Southern China collectively accounted for approximately two-thirds of the GDP of Mainland China. Compared to the first half of 2023, the GDP of Eastern China exhibited a modest increase of 1.8% while the GDP of Central China and Southern China experienced a slight increase of 0.3% and 0.5%, respectively, in the first half of 2024. The growth of real estate sector in Mainland China demonstrated a 5.0% decline, influenced by variations in both completion areas and newly developed construction areas. In Southern China, there were differences in the completion areas, ranging from a decrease of 24.6% to an increase of 25.4%, while Central China showed decreases ranging from 5.5% to 27.3%. Eastern China experienced decreases from 3.9% to 34.4%. Similarly, the newly developed construction areas in Southern China ranged from a decrease of 21.6% to 28.0%, in Central China ranged from a decrease of 25.4% to 28.3%, and in Eastern China ranged from a decrease of 32.4% to an increase of 5.4% in the first half of 2024, as compared to the first half of 2023. The sluggish property market in Mainland China resulted in significant fluctuations in the sales for the Group, with changes in Southern China from an increase of 36.2% to a decrease of 100.0%, in Central China from an increase of 6.4% to a decrease of 100.0%, and in Eastern China from an increase of 20.5% to a decrease of 100.0% compared to the corresponding period in 2023. Consequently, the Group recorded a substantial reduction of HK\$52.43 million in the sales to construction and renovation contractors during the six months ended 30 June 2024, representing a 71.4% decrease as compared to the corresponding period in 2023.

During the first half of 2024, retail sales of construction and decoration materials in Mainland China increased by 6.3% while it decreased by 6.7% during the same period in 2023. This growth could be attributed to the dissipation of the lower base effect following the removal of stringent COVID-19 lockdown measures implemented in certain regions in the first quarter of 2023. Concurrently, the real estate sector in Mainland China experienced significant declines, including (i) a 12.0% decrease in the cumulative construction area of properties in progress; (ii) a 23.8% decrease in the cumulative construction area of new projects; and (iii) a 21.8% decrease in the cumulative completion area of properties.



Management Discussion and Analysis

BUSINESS REVIEW (continued)

Paint and Coating Business (continued)

During the first half of 2024, the wholesale and retail trade sectors in Mainland China experienced a 5.7% increase. Notwithstanding, the ex-factory price of industrial producers declined, with decreases from 0.8% to 3.5%, while the purchasing price of industrial producers decreased in a range of 0.5% to 3.5% in comparison to the same period in 2023. Despite these downward trends, the industrial capacity utilisation rate exhibited a modest increase from 74.5% in the first half of 2023 to 74.9% in the first half of 2024. As a consequence, industrial producers in Mainland China encountered reductions in profitability while endeavouring to boost sales revenue during the six months ended 30 June 2024, in comparison to the same period in 2023. Given the challenging market conditions, in particular the notably significant decreases in the sales to wholesale and retail distributors as detailed in the section headed “Significant decrease in the sales to the wholesale and retail distributors in Mainland China,” the Group recorded a 31.3% decrease in the sales to these distributors. However, through the implementation of Business Revamp Measures and Initiatives, the Group successfully enhanced its gross profit margin for the six months ended 30 June 2024, as compared to the same period in 2023.

In addition, during the first half of 2024, Mainland China showed a 6.9% increase in goods exports, as compared to the corresponding period in 2023. This was mainly driven by robust growth in the industrial sector. The rapid expansion of the real estate market led to the implementation of certain policies by the Chinese government in 2020 to mitigate the risk of a housing bubble, resulting in credit restrictions on property developers and an ensuing adjustment phase. Economic pressures and a slowing real estate market prompted paint and coating manufacturers to diversify into industrial categories, thereby intensifying competition, increasing productivity, and boosting production volumes. However, this heightened competition adversely impacted the sales to industrial manufacturers in Mainland China. Consequently, the Group experienced a substantial decrease of 31.1% in the sales to industrial manufacturers, amounting to HK\$17.63 million, for the six months ended 30 June 2024, as compared to the same period in 2023.

The Hong Kong real estate market experienced a modest increase of 0.8% in the number of sale and purchase agreements for both residential and non-residential premises from 34,822 units to 35,089 units, in the first half of 2024, whereas the growth was notably less than the 6.1% increase reported during the same period in 2023. Despite the increase in the number of property transactions, the Group reported a decrease of 13.4% or HK\$4.30 million in the sales for Hong Kong during the six months ended 30 June 2024, as compared to the same period in 2023, which had already experienced a decline of 12.9%. This downturn in sales was mainly attributed to shifting property transaction patterns as documented by the Land Registry. A significant decrease in the volume of property transactions was recorded in the first quarter of 2024, but was followed by a notable increase in the second quarter of 2024 leading to the total volume of property transactions increased in the first half of 2024 as compared to the same period in 2023. Additionally, the sales decline might have been impacted by the surge in property transactions at the end of the second quarter of 2024. Therefore, the decoration, repair and maintenance works for the properties would be deferred to the second half of the year. These factors collectively underscore the volatility and complexity of the Hong Kong real estate market, reflecting both the market’s resilience and the ongoing challenges it faces.

Overall, the sales to customers for the six months ended 30 June 2024 decreased by 41.4%, as compared to the same period in 2023. This was attributable to (i) a 67.9% decrease in the sales to the customers of construction and renovation contractors for property and infrastructure projects; (ii) a 31.1% decrease in the sales to the customers of industrial manufacturers; and (iii) a 26.2% decrease in the sales to the wholesale distributors and retail distributors.



Management Discussion and Analysis

REVIEW OF OPERATIONS

Revenue

During the six months ended 30 June 2024, the total revenue of the Group amounted to HK\$148.32 million, which included revenue from the sales of HK\$137.04 million and rental income from investment properties of HK\$11.28 million. This amount represented a significant decrease of 39.2% as compared to the total revenue of the Group of HK\$243.89 million for the six months ended 30 June 2023, of which the revenue from the sales amounted to HK\$233.89 million and the rental income from investment properties amounted to HK\$10.00 million.

PAINT AND COATING PRODUCTS

Segmental results

For the six months ended 30 June 2024, the segment recorded a loss of HK\$19.30 million, compared to a loss of HK\$15.25 million for the six months ended 30 June 2023. It was primarily attributed to the following factors:

Revenue

During the six months ended 30 June 2024, the Group's revenue decreased to HK\$137.04 million, as compared to HK\$233.89 million for the six months ended 30 June 2023. The table below sets forth an analysis of the revenue of the Group for principal products during the six months ended 30 June 2024 and 2023:

	Six months ended 30 June				
	2024		2023		% of net change
	HK\$'000	%	HK\$'000	%	
Industrial paint and coating products	64,904	47.4	79,061	33.8	-17.9
Architectural paint and coating products	35,217	25.7	100,603	43.0	-65.0
General paint and coating and ancillary products ⁽¹⁾	36,923	26.9	54,222	23.2	-31.9
	<u>137,044</u>	<u>100.0</u>	<u>233,886</u>	<u>100.0</u>	<u>-41.4</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.

Significant decrease in the sales to the property developers and their contractors working for private residential property projects in Mainland China

For the six months ended 30 June 2024, the sales to property developers and their contractors working for private residential property projects in Mainland China amounted to HK\$6.54 million, representing a decrease of 87.9%, as compared to HK\$54.01 million recorded during the same period in 2023. According to the data of the NBSC, there was a substantial decline in residential property activities in the first half of 2024: cumulative construction areas decreased by 12.0%, newly started construction areas fell by 23.8%, and completed construction areas dropped by 21.8% in comparison to the first half of 2023.

This marked reduction in the sales was primarily attributed to the adverse market conditions in private residential property sector in Mainland China, characterised by a significant decline in property prices, as compared to the first half of 2023. New private residential prices decreased within a range of 1.2% to 4.9%, while the value of second-hand properties fell within a range of 4.4% to 7.9%. Consequently, property developers in Mainland China scaled back the ongoing projects and reduced investments, leading to a notable decline in the sales of the Group.

Management Discussion and Analysis

PAINT AND COATING PRODUCTS (continued)

Revenue (continued)

Significant decrease in the sales to the industrial manufacturers in Mainland China

For the six months ended 30 June 2024, the sales to the industrial manufacturers in Mainland China significantly decreased by 31.1% or HK\$17.63 million, as compared to the same period in 2023. This significant decline was primarily due to intensified competition within the paint and coating industry. The rapid expansion of real estate sector in Mainland China prompted the Chinese government to take intervention measures to curb excessive leverage and mitigate the financial risks associated with a potential housing bubble.

Since 2020, the Chinese government has introduced new policy to monitor and manage loan regulations for the real estate aiming to lower the high debt ratio of real estate enterprises. Even though the restrictions on borrowing for property developers have been eased, downward macroeconomic pressures, along with a sluggish real estate market, compelled paint and coating manufacturers to diversify their business portfolios more extensively. As a result, these companies expanded into industrial paint and coating categories, and are broadening their operational scope.

Moreover, the competitive environment was further intensified by the adoption of new machinery and equipment aimed at improving productivity. This advancement boosted utilisation rates and production volumes, increasing competition among businesses in subcontracting processes, metal products, industrial machinery, and plastic toys sectors. According to the information released by the NBSC, industrial capacity utilisation in the manufacturing sector slightly decreased by 0.2% in the first half of 2024, representing an improvement as compared to 1.0% decline during the same period in 2023. Despite the overall decline, production volumes for specific categories, such as metal products, recorded notable increases.

Significant decrease in the sales to the wholesale and retail distributors in Mainland China

For the six months ended 30 June 2024, the sales to wholesale and retail distributors in Mainland China significantly decreased by 31.3% to approximately HK\$49.26 million, as compared to HK\$71.73 million in the same period in 2023. This significant decline was primarily driven by intense competition within the paint and coating industry in Mainland China.

In recent years, many paint and coating manufacturers have expanded their production capacities, resulting in increased market supply. Concurrently, the Chinese government implemented policies to curb leverage among property developers so as to mitigate financial risks and stabilise the housing market. These measures led to a sluggish real estate market, causing the property developers to slow their land acquisitions for new projects, resulting in the reduction in demand of architectural paint and coating products, of which accounted for approximately 60.0% of the industry's sales in Mainland China. Despite this decrease in demand, production capacities continued to rise, creating market oversupply. In response to the competitive pressures, some manufacturers have resorted to aggressive discounting strategies to boost sales and maintain utilisation rates of both new and existing production capacities. Additionally, many manufacturers significantly increased their promotional and advertising expenditures during the first half of 2024 to capture market share. These strategies resulted in sacrificing net profit margins in order to attract more sales.

Decrease in the sales to the wholesale and retail distributors in Hong Kong

For the six months ended 30 June 2024, the sales to the wholesale and retail distributors in Hong Kong decreased by 12.5% or HK\$3.38 million as compared to the six months ended 30 June 2023. This decline was primarily attributable to the altered pattern of property transactions in the Land Registry observed during the period. The number of property transactions increased by 0.8% in total, with a 33.7% decrease in the first quarter of 2024, followed by a 42.2% increase in the second quarter, as compared to the same period in 2023 based on the information of the Land Registry. The decline in the sales might have been caused by the surge in property transactions during the second quarter of 2024, leading to the deferment of decoration, repair, and maintenance works.



Management Discussion and Analysis

PAINT AND COATING PRODUCTS (continued)

Revenue (continued)

Geographical distribution of revenue

The revenue of the Group generated from the sales in Mainland China and Hong Kong accounted for 79.8% and 20.2%, respectively, for the six months ended 30 June 2024, as compared to 86.3% and 13.7%, respectively, for the six months ended 30 June 2023. Most of the revenue of the Group was generated from Southern China, Central China and Eastern China. Revenue generated from these regions, in aggregate, accounted for 74.0% of the sales of the Group for the six months ended 30 June 2024, as compared to 79.9% for the six months ended 30 June 2023.

Significant decrease in the sales to the property developers and their contractors working for private residential property projects in Southern China, Central China and Eastern China

For the six months ended 30 June 2024, the Group experienced a substantial decline in revenue from the sales to property developers and their contractors working for private residential projects in Southern China, Central China, and Eastern China. This downturn was primarily attributable to a weakening real estate market in Mainland China.

Specifically, the revenue from Southern China, Central China and Eastern China decreased by 61.3% to HK\$14.36 million, 80.8% to HK\$2.95 million, and 83.4% to HK\$2.28 million, respectively, compared to HK\$37.14 million, HK\$15.34 million, and HK\$13.67 million, respectively, in the corresponding period in 2023. These declines cumulatively represented approximately 88.8% of the total reduction in sales to construction and renovation contractors for property infrastructure projects within Mainland China.

The contraction in sales reflected a broader trend in the regional real estate sector, significantly affected by decreased construction activities. According to the data of the NBSC, the newly started construction area for real estate projects in Southern China, Central China, and Eastern China in the first half of 2024 dropped precipitously by 2.9%, 3.8%, and 9.8%, respectively, compared to the first half of 2023.

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

During the six months ended 30 June 2024, the revenue of the Group generated from the sales to the industrial manufacturers in Southern China decreased by 40.5% to HK\$24.40 million, as compared to HK\$41.01 million for the six months ended 30 June 2023, represented approximately 94.2% of the total decrease in the sales to the industrial manufacturers in Mainland China.

Significant decrease in the sales to the wholesale and retail distributors in Southern China

For the six months ended 30 June 2024, the revenue of the Group generated from the sales to the wholesale and retail distributors in Southern China decreased by 43.6% to HK\$29.27 million, as compared to HK\$51.86 million, for the six months ended 30 June 2023. This decline contributed to the overall decrease in sales to wholesale and retail distributors in Mainland China, which offset the positive change in revenue growth achieved in other regions during the corresponding period in 2023.



Management Discussion and Analysis

PAINT AND COATING PRODUCTS (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. Generally speaking, prices of such raw materials are directly or indirectly affected by crude oil prices. Despite a 6.5% increase in crude oil prices per barrel, which ranged between US\$74 and US\$85 per barrel during the six months ended 30 June 2024 as compared to a range of US\$70 to US\$79 per barrel for the six months ended 30 June 2023, the Group successfully managed costs through stringent measures. These measures included careful oversight of raw materials cost, operational manufacturing costs and depreciation. Consequently, the cost of sales for the six months ended 30 June 2024 decreased by 47.1%, surpassing the 41.4% decline in the sales when compared to the corresponding period ended 30 June 2023. Furthermore, there was a significant reduction of 15.7% in the proportion of raw materials cost to the sales, decreasing to 53.3% from 63.2% for the corresponding period ended 30 June 2023.

Direct and indirect labour cost

For the six months ended 30 June 2024, direct and indirect labour costs decreased by 27.5% to HK\$9.21 million. It was primarily due to the successful implementation of cost-saving strategies by the Group, in particular, the integration of production facilities in Southern China and Central China in 2023. Additionally, this reduction was influenced by a 41.4% decline in the sales, resulting in decreased manufacturing workloads.

Depreciation and production overhead

For the six months ended 30 June 2024, depreciation and production overhead costs experienced a reduction of 20.3%, amounting to HK\$7.99 million, as compared to the six months ended 30 June 2023. Specifically, a decline of 31.0% in depreciation for the six months ended 30 June 2024 was mainly due to the aforementioned cost-saving strategies. Furthermore, the production overhead costs showed a slightly increase of 1.0%, in contrast to the corresponding period ended 30 June 2023.

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

As mentioned above, the paint and coating industry experienced fluctuations in raw material prices due to the surge in crude oil prices, along with the controlled adjustment of raw material prices by the Chinese government since October 2022. During the six months ended 30 June 2024, the Group achieved a gross profit margin of 34.2%, representing a substantial increase by 26.2% from the 27.1% recorded for the corresponding period in 2023. The improvement was partially attributable to the effective raw materials cost management, alongside the implementation of continuous Business Revamp Measures and Initiatives aimed at enhancing gross profit margins and operational efficiency. These initiatives involved the optimisation of manufacturing operations and the elevation of utilisation rates at the Group's production facilities. Despite a 41.4% decline in the sales, gross profit from the sales showed a 26.1% reduction or HK\$16.52 million as compared to the six months ended 30 June 2023. Thus, the combined impact of cost management and operational advancements more than offset the 41.4% sales decline, resulting in a remarkable increase in the gross profit margin.



Management Discussion and Analysis

PAINT AND COATING PRODUCTS (continued)

Other Income and Gains, Net

For the six months ended 30 June 2024, net other income and gains amounted to HK\$2.17 million, representing a substantial decline of 49.4% compared to HK\$4.29 million for the same period in 2023. This decrease was primarily attributable to: (i) the absence of government subsidies amounting to HK\$2.01 million; (ii) a reduction in government grants amounting to HK\$0.32 million; and (iii) a decline in net foreign exchange differences amounting to HK\$0.63 million. These declines were partially offset by an increase of HK\$0.84 million in other income and gains, which included compensation receipts related to aged trade and bills receivables, as well as receipts from scrap sales.

Selling and Distribution Expenses and Administrative Expenses

Selling and distribution expenses decreased by 16.9% to HK\$28.99 million for the six months ended 30 June 2024, as compared to HK\$34.88 million for the six months ended 30 June 2023. Such decrease was attributed to (i) a reduction of HK\$3.69 million in transportation costs as a result of the decrease in the sales; (ii) a reduction of HK\$5.08 million in staff costs resulting from the redistribution of responsibilities, modification and adjustment on performance-based incentives; and (iii) cost savings of HK\$2.66 million associated with the selling and distribution expenses of the Group for the six months ended 30 June 2024. Nonetheless, these improvements were offset by the increase of HK\$5.54 million in legal and professional fees in relation to the legal action for collection of the aged trade and bills receivables.

Administration expenses decreased by 17.2% to HK\$34.83 million for the six months ended 30 June 2024, as compared to the same of HK\$42.07 million for the six months ended 30 June 2023. This reduction was predominantly attributable to the implementation of cost-saving measures during the final phase of the integration of production facilities in Mainland China in 2023. Specific reductions in administrative expenses include the following: a reduction of HK\$2.69 million in staff costs, a reduction of HK\$2.07 million in depreciation, a reduction of HK\$2.48 million in other operating expenses, and additional cost-saving initiatives during the six months ended 30 June 2024.

Other Expenses, net

For the six months ended 30 June 2024, the net amount of other expenses decreased by 24.3%, reaching HK\$4.51 million, as compared to the expenses of HK\$5.96 million for the six months ended 30 June 2023. This reduction was primarily attributable to (i) a decrease of HK\$1.20 million in the provision for the impairment of trade and bills receivables; (ii) a reduction of HK\$0.74 million in local taxes, levies, and stamp duties arising from a decline in the sales; and (iii) an increase of HK\$0.60 million in staff termination costs. Additionally, during the six months ended 30 June 2024, a further provision for the impairment of trade and bills receivables amounting to HK\$0.96 million was made, using a provision matrix to measure expected credit losses and considering the probability of default of selected customers.



Management Discussion and Analysis

PROPERTY INVESTMENT

For the six months ended 30 June 2024, the Group recorded a rental income of HK\$11.28 million from investment properties, as compared to HK\$10.00 million for the six months ended 30 June 2023. The Group recorded a segment profit of HK\$12.87 million for the six months ended 30 June 2024, as compared to a profit of HK\$13.32 million for the six months ended 30 June 2023. This decrease was primarily attributed to (i) a reduction in the net fair value gains on investment properties of HK\$1.39 million, which decreased to HK\$3.20 million from HK\$4.59 million; (ii) an increase in repair and maintenance expenses of HK\$0.22 million, as opposed to nil in the corresponding period in 2023; and (iii) an increase in property taxes amounting to HK\$0.12 million, compared to HK\$0.63 million in the corresponding period in 2023.

As at 30 June 2024, the investment property portfolio of the Group comprised of 6 properties (31 December 2023: 6) with a total land area of 175,675.8 square meters ("sq.m.") (31 December 2023: 175,669.5 sq.m.) and a total gross floor area of 76,295.3 sq.m (31 December 2023: 76,300.4 sq.m.). The variation in the total land area and gross floor area was principally due to the renewal of property certificates for the production plant in Zhongshan, necessitating a remeasurement of the gross floor area by the local governmental authority. These investment properties are industrial properties and a commercial property located in Mainland China, which generate stable recurring income and cash flows for long-term strategic and investment purposes.

The business model of the Group aims to strike a balance between short-term capital needs and long-term financial stability. As such, the Group strategically relocated production plants which allow the Group to reclassify those properties as part of the investment properties in order to generate consistent rental income and capital appreciation. Furthermore, the Group may divest certain properties to fund its business operations and expansion strategies. This will enable the Group to finance its operations through rental income and generate additional capital through property sales, thereby bolstering its overall financial standing. Additionally, the Group can potentially benefit from long-term capital appreciation on its investment properties by leveraging prime locations to maximise returns.



Management Discussion and Analysis

FINANCIAL REVIEW

Liquidity and Indebtedness

The business operation of the Group is generally financed by a combination of internal and external financial resources available to the Group. The total cash and cash equivalents amounted to approximately HK\$146.88 million as at 30 June 2024, as compared to approximately HK\$144.94 million as at 31 December 2023. This increase was primarily attributable to enhancements in working capital, resulting directly from a net increase in cash and cash equivalents over the six months ended 30 June 2024. The total cash and bank balances include pledged deposits, which amounted to approximately HK\$184.05 million as at 30 June 2024, as compared to approximately HK\$243.94 million as at 31 December 2023. Bank and other borrowings amounted to approximately HK\$192.10 million as at 30 June 2024, as compared to approximately HK\$216.72 million as at 31 December 2023. As previously mentioned, due to the enhancements in working capital, the Group opted to repay certain bank and other loans, aiming to minimise finance costs and reduce the gearing ratio. The Group's bank and other borrowings mainly bear interest at floating rates. As at 30 June 2024, the Group's total bank and other borrowings amounted to approximately HK\$112.98 million (58.8%) (31 December 2023: approximately HK\$120.75 million (55.7%)) and were payable within one year or on demand. An amount of the remaining balance of approximately HK\$79.12 million (41.2%) (31 December 2023: approximately HK\$95.97 million (44.3%)) is payable in the third year.

The cash and bank balances of the Group were mainly denominated in Hong Kong dollars and Renminbi, whereas the bank borrowings of the Group were all denominated in Hong Kong dollars and Renminbi. The results of the Group 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, which is expressed as a percentage of total bank and borrowings to shareholders' funds, was 46.1% as at 30 June 2024 as compared to 48.8% as at 31 December 2023.

Liquidity ratio of the Group, which is expressed as a percentage of current assets to current liabilities, was 1.28 times as at 30 June 2024 as compared to 1.30 times as at 31 December 2023.

For the six months ended 30 June 2024, the inventory turnover days¹ increased by 53.1% to 49 days, as compared to 32 days for the year ended 31 December 2023. This increase was primarily driven by a 47.1% reduction in the cost of sales, which was a direct result of the 41.4% decline in the sales. In addition, the trade and bills receivables turnover days² increased by 36.6% to 183 days for the six months ended 30 June 2024, as compared to 134 days for the year ended 31 December 2023. The extended trade receivables turnover days for the six months ended 30 June 2024 was primarily attributable to the 41.4% decline in the sales, the deferral of certain bills receivables and an increase in bills receivable for settling trade receivables that have not yet reached their due date.

¹ The calculation of inventory turnover days is based on the closing balance of inventories divided by the cost of sales times 182 days (31 December 2023: 365 days).

² The calculation of trade and bills receivables turnover days is based on the closing balance of trade and bills receivables divided by the revenue times 182 days (31 December 2023: 365 days).



Management Discussion and Analysis

FINANCIAL REVIEW (continued)

Equity and Net Asset Value

Shareholders' funds of the Company as at 30 June 2024 was HK\$416.64 million as compared to HK\$444.47 million as at 31 December 2023. Net asset value per share as at 30 June 2024 was HK\$0.42, as compared to HK\$0.45 as at 31 December 2023. 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. Due to the depreciation of the Renminbi during the six months ended 30 June 2024, the exchange differences on translation of foreign operations recorded in other comprehensive income showed a loss of HK\$13.17 million, compared to a loss of HK\$32.47 million for the six months ended 30 June 2023.

Contingent Liabilities

As at 30 June 2024, the amount of utilised banking facilities granted to various subsidiaries subject to guarantees given by the Company was HK\$27.40 million, as compared to HK\$70.80 million as at 31 December 2023.

In addition, the Group entered into financial guarantee contracts on performance bonds issued by a bank for the quality of the paint and coating products under supply contracts. The performance bonds were secured by the pledged deposits of HK\$0.53 million as at 30 June 2024, as compared to HK\$0.88 million as at 31 December 2023.

Pledge of Assets

As at 30 June 2024, certain investment properties, property, plant and equipment, right-of-use assets and cash deposits with an aggregate net book value of HK\$318.99 million, as compared to HK\$333.09 million as at 31 December 2023, were pledged to financial institutions as collaterals for bills payables, bank borrowings, performance bonds and lease liabilities. The change in pledged assets was attributed to the transitional nature of the strategic financial restructuring and optimisation, and the depreciation of the Renminbi, as compared to the year ended 31 December 2023 and the six months ended 30 June 2024.

STAFF

As at 30 June 2024, the Group employed a total of 479 employees, and a 9.3% decrease from the 528 employees as at 30 June 2023. The staff costs for the six months ended 30 June 2024 amounted to approximately HK\$40.11 million, which included net equity-settled share-based payments of HK\$0.05 million and excludes Directors' emoluments. This represents a 22.9% decrease from the staff costs of HK\$52.02 million for the six months ended 30 June 2023, which also included equity-settled share-based payments of HK\$0.76 million.

The Group offers comprehensive and competitive staff remuneration and benefits that are based on individual performance. Trainings are provided to employees of the Group depending on their departments and the scope of their responsibilities. The human resources department would also arrange for employees to attend trainings, especially regarding workplace health and safety.



Management Discussion and Analysis

BUSINESS PLANS AND OUTLOOK

Looking ahead to the second half of 2024, the Group will proactively address market fluctuations driven by external environmental changes, insufficient domestic demand, and a challenging economic landscape through the Business Revamp Measures and Initiatives. The Group commits to providing high-quality paint and coating products to the customers, offering superior after-sales services and avoiding homogenised products and involution competitions. These approaches are critical to navigating the unique dynamics of paint and coatings industry in Mainland China. Despite substantial sales revenue, the industry lags in profitability and gross profit margins compared to international peers. Although production volume is expected to grow by 6.0% in 2024, the sector faces reduced demand due to lower property completion rates. The rapid expansion of production capacity by numerous paint and coating manufacturers in Mainland China has resulted in significant market saturation and intense competition. These factors have led to severe price pressures and operational difficulties, causing many small and medium-sized manufacturers to exit the market.

Intense competition and legal and professional fees adversely affected the overall performance of the Group in the first half of 2024. In response, the Group continued to implement the Business Revamp Measures and Initiatives to enhance profitability. A thorough assessment of working capital requirements was conducted so as to enable more efficient resource allocation. Prioritising the repayment of high-interest borrowings was one of the key strategies, aimed at reducing finance costs and improving liquidity. The results of these efforts are evident in the significant 11.4% reduction in the bank and other borrowings, indicating an improvement of financial health. Cost-saving initiatives and working capital optimisation played one of integral roles in strengthening the Group's financial position. Moving forward, the Group is committed to exploring various alternatives to further strengthen its financial position, improve financial performance, enhance net cash flows and increase net current liquidity.

Against this backdrop, the Group perseveres in optimising the Business Revamp Measures and Initiatives. The objectives are twofold: (a) to enrich the product portfolio and ensure competitiveness; and (b) to enhance operational efficiency and cost reductions. The Group remains cautious to its business as it adopts a prudent approach to risk management.

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

There was no 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 2024 (six months ended 30 June 2023: 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 2024, the interests of the Directors in the shares and underlying shares of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO") were as follows:

Name	Capacity	Number of shares				Number of underlying shares (Note)	Total	Percentage of the total number of shares in issue
		Personal interests	Family interests	Corporate interests	Other interests			
Tsui Ho Chuen, Philip	Beneficial owner	-	-	-	-	10,000,000	10,000,000	1.00%
Li Guangzhong	Beneficial owner	-	-	-	-	10,000,000	10,000,000	1.00%
Chong Chi Kwan	Beneficial owner	-	-	-	-	10,000,000	10,000,000	1.00%

Note: This represented the aggregate number of share options granted to the Directors by the Company (being regarded as unlisted physically settled equity derivatives) under the Scheme. Further details of the share options are set out in the section headed "Share Options" below.

Save as disclosed above, as at 30 June 2024, 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 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 as contained in Appendix C3 to the Listing Rules (the "Model Code"), 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.



Other Information

SHARE OPTIONS

Details of the movements in the share options granted by the Company under the Scheme during the review period are as follows:

Name	Date of grant	Exercise period	Exercise price per share HK\$	Number of share options					Outstanding as at 30 June 2024
				Outstanding as at 1 January 2024	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period	
Executive Director									
Tsui Ho Chuen, Philip	15 June 2022	15 June 2022 to 14 June 2027	0.335	10,000,000	-	-	-	-	10,000,000
Executive Director									
Li Guangzhong	15 June 2022	15 June 2022 to 14 June 2027	0.335	10,000,000	-	-	-	-	10,000,000
Non-executive Director									
Chong Chi Kwan	15 June 2022	15 June 2022 to 14 June 2027	0.335	10,000,000	-	-	-	-	10,000,000
Employees	15 June 2022	15 June 2022 to 14 June 2027	0.335	50,000,000	-	-	-	(10,000,000)	40,000,000
				<u>80,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(10,000,000)</u>	<u>70,000,000</u>

Notes:

- (1) The share options granted have the vesting period and are/would be exercisable as follows:
 - (a) 50% of the share options vested on and are exercisable from the date of grant of the share options, i.e. 15 June 2022;
 - (b) 20% of the share options vested on one day before the first anniversary of the date of grant of the share options, i.e. 14 June 2023 and are exercisable from 15 June 2023;
 - (c) 10% of the share options vested on one day before the second anniversary of the date of grant of the share options, i.e. 14 June 2024 and are exercisable from 15 June 2024;
 - (d) 10% of the share options shall vest on one day before the third anniversary of the date of grant of the share options, i.e. 14 June 2025 and would be exercisable from 15 June 2025; and
 - (e) the remaining 10% of the share options shall vest on one day before the fourth anniversary of the date of grant of the share options, i.e. 14 June 2026 and would be exercisable from 15 June 2026.
- (2) The closing price of the shares of the Company on 14 June 2022, being the date immediately before the date on which the above share options were granted under the Scheme, was HK\$0.335.
- (3) The number of share options available for grant under the Scheme as at 1 January 2024 and 30 June 2024 were 20,000,000 and 30,000,000 respectively.

Other Information

SHARE OPTIONS (continued)

Notes: (continued)

- (4) There was no service provider sublimit set under the Scheme.
- (5) There is no performance target attached with the share options.
- (6) During the six months ended 30 June 2024, no share options were granted under the Scheme. The number of shares of the Company that may be issued in respect of share options granted under the Scheme during the six months ended 30 June 2024 divided by the weight average number of shares of the Company in issue for the six months ended 30 June 2024 was 7%.
- (7) The remuneration committee of the Board (the "Remuneration Committee") considered that the share options granted on 15 June 2022 was to reward eligible participants who had contributed to the business development of the Group and to encourage eligible participants to work towards enhancing the value of the Company and for the benefit of the Company and its shareholder as a whole. The Remuneration Committee also considered that the grantees were eligible participants under the Scheme who would contribute directly to the overall business performance and sustainable development of the Group, the granting of share options to the grantees was a recognition for their past contributions to the Group and the share options were subject to the terms of the Scheme which provided for circumstances under which the share options may lapse.
- (8) None of the share options granted under the Scheme was cancelled and 10,000,000 share options granted under the Scheme were lapsed during the six months ended 30 June 2024.
- (9) Other details of the share options granted under the Scheme are set out in note 13 to the financial statements.

Save as disclosed above, no share options were granted, exercised, cancelled or lapsed during the review period.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 30 June 2024, 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 2024 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 2024, the Company has applied the principles and complied with the code provisions as set out in the Corporate Governance Code as contained in Appendix C1 to the Listing Rules (the “CG Code”) except for the following deviation:

The code provision C.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Since 1 April 2023, Mr. Tsui Ho Chuen, Philip has been taking the dual roles of the chairman of the Board and the managing director of the Company. After evaluation of the current situation of the Company and taking into account of the experience and past performance of Mr. Tsui Ho Chuen, Philip, the Board is of the opinion that it is appropriate at the present stage for Mr. Tsui Ho Chuen, Philip to hold both positions as the chairman of the Board and the managing director of the Company as it helps to maintain the continuity of the policies and the stability of the operations of the Company, and this structure can ensure the Company has consistent leadership. In addition, under the supervision by the Board which consists of three executive Directors, one non-executive Director and three independent non-executive Directors, the interests of the shareholders of the Company will be adequately and fairly represented. Also, as all major decisions are made in consultation with and approved by the members of the Board, the Board believes that this arrangement will not have negative influence on the balance of power and authorisation between the Board and the management of the Company.

The Board will regularly review the effectiveness of this arrangement to ensure that it is appropriate to the circumstances of the Company. The Board will review and consider splitting the roles of the chairman of the Board and the managing director of the Company at a time when the Group can identify a suitable candidate with capable leadership, knowledge and relevant skills and experience for the position. Owing to the business nature and scope of the Group as a whole, such appropriate candidate shall have profound understanding and experience on the business of the Group and therefore there is no definite timetable for such appointment.

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 2024.

On behalf of the Board
CPM Group Limited
Tsui Ho Chuen, Philip
Chairman and Managing Director

Hong Kong, 29 August 2024