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中漆集團有限公司
CPM GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1932)

ANNOUNCEMENT OF 2023 INTERIM RESULTS

FINANCIAL HIGHLIGHTS

Results	**Six months ended 30 June 2023 (Unaudited) HK$'000**	2022 (Unaudited) HK$'000 (Restated)	Change %
Revenue	**243,887**	311,906	-21.8
Gross profit	**73,372**	64,251	14.2
Gross profit margin	**30.1%**	20.6%	46.1
Loss attributable to shareholders of the Company	**(11,508)**	(50,384)	-77.2
Loss per share (HK cents) Basic and diluted	**(1.15)**	(5.04)	-77.2

Financial Position	**As at 30 June 2023 (Unaudited) HK$'000**	As at 31 December 2022 (Audited) HK$'000	Change %
Cash and cash equivalents and pledged deposits	**164,761**	189,723	-13.2
Bank borrowings	**212,036**	237,257	-10.6
Gearing ratio	**44.1%**	45.8%	-3.7
Net asset value per share (HK$)	**0.48**	0.52	-7.7

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 2023 together with comparative amounts for the corresponding period in 2022. 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 2023

		Six months ended 30 June	
		2023	2022
		(Unaudited)	(Unaudited)
	Notes	**HK$'000**	HK$'000
			(Restated)
REVENUE	3	**243,887**	311,906
Cost of sales		**(170,515)**	(247,655)
Gross profit		**73,372**	64,251
Other income and gains, net	3	**9,716**	5,956
Selling and distribution expenses		**(34,882)**	(46,924)
Administrative expenses		**(45,980)**	(58,431)
Other expenses, net		**(6,844)**	(12,744)
Finance costs	4	**(6,391)**	(2,348)
LOSS BEFORE TAX	5	**(11,009)**	(50,240)
Income tax expense	6	**(340)**	(280)
LOSS FOR THE PERIOD		**(11,349)**	(50,520)
ATTRIBUTABLE TO:			
Owners of the parent		**(11,508)**	(50,384)
Non-controlling interest		**159**	(136)
		(11,349)	(50,520)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	7	**HK (1.15) cents**	HK (5.04) cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2023

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
LOSS FOR THE PERIOD	**(11,349)**	(50,520)
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	**(32,472)**	(30,872)
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:		
Gain on property revaluation	**7,406**	–
Income tax effect	**(1,851)**	–
	5,555	–
OTHER COMPREHENSIVE LOSS FOR THE PERIOD	**(26,917)**	(30,872)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	**(38,266)**	(81,392)
ATTRIBUTABLE TO:		
Owners of the parent	**(38,288)**	(81,107)
Non-controlling interest	**22**	(285)
	(38,266)	(81,392)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2023

	Notes	**30 June 2023 (Unaudited) HK$'000**	31 December 2022 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	**117,475**	151,090
Investment properties	10	**292,596**	240,941
Right-of-use assets		**42,600**	81,270
Equity investment designated at fair value through other comprehensive income		**300**	300
Deposits for purchases of property, plant and equipment		**4,119**	4,308
Deposits and prepayments		**889**	500
Deferred tax assets		**15,216**	14,220
Total non-current assets		**473,195**	492,629
CURRENT ASSETS			
Inventories		**29,065**	43,124
Trade and bills receivables	11	**297,396**	369,378
Prepayments, deposits and other receivables		**58,758**	57,978
Pledged deposits		**40,967**	42,202
Cash and cash equivalents		**123,794**	147,521
Total current assets		**549,980**	660,203
CURRENT LIABILITIES			
Trade and bills payables	12	**217,055**	260,778
Other payables and accruals		**52,548**	76,980
Interest-bearing bank borrowings		**212,036**	237,257
Lease liabilities		**2,978**	3,552
Tax payable		**8,909**	9,387
Total current liabilities		**493,526**	587,954
NET CURRENT ASSETS		**56,454**	72,249
TOTAL ASSETS LESS CURRENT LIABILITIES		**529,649**	564,878

	30 June 2023 (Unaudited) HK$'000	31 December 2022 (Audited) HK$'000
NON-CURRENT LIABILITIES		
Lease liabilities	**4,212**	5,196
Deferred tax liabilities	**38,070**	35,621
Deferred income	**468**	634
Deposit received	**2,996**	2,482
Total non-current liabilities	**45,746**	43,933
Net assets	**483,903**	520,945
EQUITY		
Equity attributable to owners of the parent		
Issued capital	**100,000**	100,000
Reserves	**381,002**	418,066
	481,002	518,066
Non-controlling interest	**2,901**	2,879
Total equity	**483,903**	520,945

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 2022.

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 2022, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs") for the first time for the current period's financial statements.

HKFRS 17	*Insurance Contracts*
Amendments to HKFRS 17	*Insurance Contracts*
Amendment to HKFRS 17	*Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information*
Amendments to HKAS 1 and HKFRS Practice Statement 2	*Disclosure of Accounting Policies*
Amendments to HKAS 8	*Definition of Accounting Estimates*
Amendments to HKAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
Amendments to HKAS 12	*International Tax Reform – Pillar Two Model Rules*

The nature and impact of the new and revised HKFRSs that are applicable to the Group are described below:

(a) Amendments to HKAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has applied the amendments since 1 January 2023. The amendments did not have any impact on the Group's interim condensed consolidated financial statements but are expected to affect the accounting policy disclosures in the Group's annual consolidated financial statements.

(b) Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The Group has applied the amendments to changes in accounting policies and changes in accounting estimates that occur on or after 1 January 2023. Since the Group's policy of determining accounting estimates aligns with the amendments, the amendments did not have any impact on the financial position or performance of the Group.

(c) Amendments to HKAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* narrow the scope of the initial recognition exception in HKAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. Since the Group has recognised a deferred tax asset and a deferred tax liability for temporary differences for transactions related to leases, the amendments did not have any impact to the Group.

(d) Amendments to HKAS 12 *International Tax Reform – Pillar Two Model Rules* introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. Entities are required to disclose the information relating to their exposure to Pillar Two income taxes in annual periods beginning on or after 1 January 2023, but are not required to disclose such information for any interim periods ending on or before 31 December 2023. The Group has applied the amendments retrospectively. Since the Group did not fall within the scope of the Pillar Two model rules, the amendments did not have any impact to the Group.

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 industrial properties for their rental income potential.

During the year ended 31 December 2022, the Board had resolved that additional resources would continuously be deployed to the property investment business and accordingly, the property investment business was redesignated by the Board as one of the principal businesses of the Group. Accordingly, the presentation of segment information for the period ended 30 June 2022 has been restated to reflect this change of segment composition.

The chief operating decision-maker regularly reviews the operating results of the operating segments of the Group separately for the purpose 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.

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**
	238,180	**14,586**	**252,766**
Reconciliation:			
Elimination of intersegment sales			**–**
Total			**252,766**
Segment results	**(15,251)**	**13,324**	**(1,927)**
Reconciliation:			
Elimination of intersegment results			**–**
Interest income			**837**
Finance costs			**(6,391)**
Corporate and other unallocated expenses			**(3,528)**
Loss before tax			**(11,009)**

As at 30 June 2023	Paint products (Unaudited) HK$'000	Property investment (Unaudited) HK$'000	Total (Unaudited) HK$'000
Segment assets	**717,788**	**302,252**	**1,020,040**
Reconciliation:			
Elimination of intersegment receivables			**–**
Corporate and other unallocated assets			**3,135**
Total assets			**1,023,175**
Segment liabilities	**498,564**	**38,959**	**537,523**
Reconciliation:			
Elimination of intersegment payables			**–**
Corporate and other unallocated liabilities			**1,749**
Total liabilities			**539,272**

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 gain 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	**425**	**–**	**425**

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

Six months ended 30 June 2022	Paint products (Unaudited) HK$'000 (Restated)	Property investment (Unaudited) HK$'000 (Restated)	Total (Unaudited) HK$'000 (Restated)
Segment revenue			
Sales to external customers	310,152	1,754	311,906
Other revenue and gains, net	4,196	702	4,898
	314,348	2,456	316,804
Reconciliation:			
Elimination of intersegment sales			–
Total			316,804
Segment results	(43,744)	1,570	(42,174)
Reconciliation:			
Elimination of intersegment results			–
Interest income			1,058
Finance costs			(2,348)
Corporate and other unallocated expenses			(6,776)
Loss before tax			(50,240)

As at 31 December 2022	Paint products (Audited) HK$'000	Property investment (Audited) HK$'000	Total (Audited) HK$'000
Segment assets	894,058	246,151	1,140,209
Reconciliation:			
Elimination of intersegment receivables			–
Corporate and other unallocated assets			12,623
Total assets			1,152,832
Segment liabilities	594,580	35,354	629,934
Reconciliation:			
Elimination of intersegment payables			–
Corporate and other unallocated liabilities			1,953
Total liabilities			631,887

Six months ended 30 June 2022	Paint products (Unaudited) HK$'000 (Restated)	Property investment (Unaudited) HK$'000 (Restated)	Total (Unaudited) HK$'000 (Restated)
Other segment information			
Depreciation on property, plant and equipment	13,413	–	13,413
Depreciation on right-of-use assets	3,366	–	3,366
Capital expenditure*	17,801	–	17,801*
Fair value gain on investment properties	–	(702)	(702)
Provision for impairment of trade and bills receivables	522	–	522
Provision of inventories to net realisable value, net	299	–	299

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

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
		(Restated)
Hong Kong	**32,031**	36,834
Mainland China	**211,856**	275,072
	243,887	311,906

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

(b) Non-current assets

	30 June	31 December
	2023	2022
	(Unaudited)	(Audited)
	HK$'000	HK$'000
Hong Kong	**1,365**	989
Mainland China	**456,314**	476,620
	457,679	477,609

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 2023 and 2022, no revenue from any single customer accounted for 10% or more of the total revenue of the Group.

3. REVENUE, OTHER INCOME AND GAINS, NET

An analysis of revenue is as follows:

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
		(Restated)
Revenue from contracts with customers		
Sale of paint products	**233,886**	310,152
Revenue from other sources		
Gross rental income from investment properties	**10,001**	1,754
	243,887	311,906

Disaggregated revenue information

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Type of paint and coating products sold		
Industrial paint and coating products	**79,061**	116,149
Architectural paint and coating products	**100,603**	134,546
General paint and coating and ancillary products	**54,222**	59,457
	233,886	310,152
Timing of revenue recognition		
Goods transferred at a point in time	**233,886**	310,152

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

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
		(Restated)
Other income and gains, net		
Bank interest income	**837**	1,058
Fair value gain on investment properties, net	**4,585**	702
Government grants*	**520**	1,312
Government subsidies ^	**2,415**	728
Gain on disposal of items of property, plant and equipment, net	**60**	221
Foreign exchange differences, net	**699**	1,365
Recognition of deferred income	**145**	155
Others	**455**	415
	9,716	5,956

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

^ 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 are no unfulfilled conditions or contingencies relating to these government subsidies.

During the six months ended 30 June 2022, the government subsidies were granted from the 2022 Employment Support Scheme under the Anti-epidemic Fund of the Hong Kong government. There were no unfulfilled conditions or contingencies relating to these government subsidies.

4. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interest on bank and other borrowings	**6,168**	2,265
Interest expense on lease liabilities	**223**	83
	6,391	2,348

5. LOSS BEFORE TAX

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

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Cost of inventories sold	**170,515**	247,655
Depreciation of property, plant and equipment	**11,145**	13,413
Depreciation of right-of-use assets	**3,049**	3,366
Equity-settled share option expenses	**1,224**	4,303
Foreign exchange differences, net*	**(699)**	(1,365)
Fair value gain on investment properties, net*	**(4,585)**	(702)
Gain on disposal of items of property, plant and equipment, net*	**(60)**	(221)
Provision for impairment of trade and bills receivables, net*	**2,160**	522
Provision of inventories to net realisable value, net[@]	**425**	299
Staff termination cost*	**–**	6,663
Write-off of items of property, plant and equipment*	**36**	2

* 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 2022: 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 2022: 25%) during the period, except for a subsidiary of the Group which qualified as a PRC High and New Technology Enterprise in Mainland China and a lower PRC corporate income tax rate of 15% (six months ended 30 June 2022: 15%) had been applied during the period.

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

The calculation of basic and diluted loss per share amounts is based on the loss for the period attributable to ordinary equity holders of the parent of HK$11,508,000 (six months ended 30 June 2022: HK$50,384,000) and the weighted average number of ordinary shares of 1,000,000,000 (six months ended 30 June 2022: 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 2023 and 2022, 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 2023 (six months ended 30 June 2022: Nil).

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2023, the Group acquired items of property, plant and equipment at costs of HK$2,737,000 (six months ended 30 June 2022: HK$17,020,000).

Items of property, plant and equipment with an aggregate net book value of HK$847,000 (six months ended 30 June 2022: HK$88,000) were disposed of by the Group during the six months ended 30 June 2023.

10. INVESTMENT PROPERTIES

	30 June 2023 (Unaudited) HK$'000	31 December 2022 (Audited) HK$'000
Carrying amount at beginning of period/year	**240,941**	81,703
Fair value gain	**4,585**	593
Transfer from an owner-occupied property	**61,243**	160,710
Exchange realignment	**(14,173)**	(2,065)
Carrying amount at end of period/year	**292,596**	240,941

The investment properties of the Group were revalued on 30 June 2023 based on valuations performed by BMI Appraisals Limited and 中山市安平房地產評估有限公司, independent professional qualified valuers, at HK$292,596,000. Fair values of the investment properties of the Group are generally derived by using the income capitalisation method, the market approach method and the depreciated replacement cost approach method.

11. TRADE AND BILLS RECEIVABLES

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

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

	30 June 2023 (Unaudited) HK$'000	31 December 2022 (Audited) HK$'000
Within three months	**100,089**	147,698
Over three months and within six months	**40,172**	72,445
Over six months	**157,135**	149,235
	297,396	369,378

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 2023 (Unaudited) HK$'000	31 December 2022 (Audited) HK$'000
Within three months	**88,656**	122,567
Over three months and within six months	**50,934**	76,699
Over six months	**77,465**	61,512
	217,055	260,778

The trade and bills payables are unsecured, non-interest-bearing and are normally settled within two months. As at 30 June 2023, bills payable with an aggregate carrying amount of HK$112,175,000 (31 December 2022: HK$134,656,000) were secured by time deposits of HK$40,104,000 (31 December 2022: HK$40,397,000).

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 under the share option scheme approved by the shareholders of the Company on 4 June 2020 (the "Scheme"). 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 persons (including executive Directors, non-executive Directors and independent non-executive Directors, any supplier of goods or services to any member 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 4 June 2020, after which period no further options will be issued but in all other respects the provisions of the Scheme shall remain in full force and effect.

The equity-settled share options granted on 15 June 2022 vest over a period of 4 years from the grant date, of which 50% of the share options vested immediately on the grant date, 20% of the share options vested on 14 June 2023, 10% of the share options shall vest 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 grant date, and if not so exercised, the share options shall be lapsed.

The following share options were outstanding under the Scheme during the six months ended 30 June 2023:

	(Unaudited) 2023		(Unaudited) 2022	
	Weighted average exercise price HK$ Per share	**Number of options**	Weighted average exercise price HK$ Per share	Number of options
At 1 January	**0.335**	**80,000,000**		–
Granted during the period		**–**	0.335	80,000,000
At 30 June	**0.335**	**80,000,000**	0.335	80,000,000
Vested and exercisable at 30 June	**0.335**	**56,000,000**	0.335	40,000,000

None of the share options granted under the Scheme were exercised, cancelled or lapsed during the period ended 30 June 2023 and 2022.

The fair value of equity-settled share options granted during the period ended 30 June 2022 was estimated as at the date of grant, using the Binomial Option Pricing Model (the "Model"), taking into account the terms and conditions upon which the options were granted. The Model is one of the commonly used models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option. The following table lists the inputs to the Model used:

Dividend yield (%)	1.483
Expected volatility (%)	35.732
Risk-free interest rate (%)	3.172
Contractual life of options (year)	5
Early exercise behaviour (%)	220 and 280 of the exercise price
Exercised price (HK$ per share)	0.335

No share options were granted during the six months ended 30 June 2023. Share option expense of approximately HK$1,224,000 was recognised during the reporting period (six months ended 30 June 2022: HK$4,303,000).

14. COMPARATIVE FIGURES

As further explained in note 2 to the unaudited condensed consolidated financial statements, due to the changes in the designation of principal businesses, certain comparative amounts have been reclassified to conform with the current period's presentation and disclosures.

INTERIM DIVIDEND

The Directors have resolved not to declare an interim dividend for the six months ended 30 June 2023 (six months ended 30 June 2022: Nil).

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 2023, the Group recorded a loss attributable to the shareholders of the Company of HK$11.51 million, representing a reduction of 77.2% in the loss attributable to the shareholders of the Company as compared to the loss of HK$50.38 million for the six months ended 30 June 2022. The Group recorded a decrease of 24.6% in revenue generated from the sales of paint and coating products, such decrease was partially mitigated by (i) an increase of 6.9 percentage points in gross profit margin; (ii) a substantial increase in the rental income from the investment properties held by the Group; (iii) a significant decrease in the selling and distribution expenses and the administrative expenses; and (iv) the fair value gain on the investment properties held by the Group.

Furthermore, following the ongoing implementation of the effective business revamp measures and initiatives (the "Business Revamp Measures and Initiatives") and excluding the net fair value gain on investment properties and various expenses such as 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$8.38 million for the six months ended 30 June 2023, as compared to an adjusted loss of approximately HK$20.33 million for the same period in 2022. This marked improvement represented the dedicated efforts made by the Group to drive the efficiency and sustainability through Business Revamp Measures and Initiatives, as evidenced by a significant turnaround from the reported loss of approximately HK$11.35 million for the six months ended 30 June 2023, as compared to a loss of approximately HK$50.52 million for the same period in 2022.

Paint and Coating Business

During the first half of 2023, most major industries in Mainland China, except the real estate industry, experienced a rebound in the value of the gross domestic product ("GDP") of Mainland China as compared to the first half of 2022. For example, the financial sector, the wholesale and retail trade sector, and the transport, postal, and warehousing sector contributed to 13.3%, 11.8% and 11.5% of the overall increase in the GDP of Mainland China, respectively. The real estate sector only experienced a modest growth. According to the National Bureau of Statistics of China (the "NBSC"), the growth rate of the GDP of Mainland China increased modestly from 2.5% to 5.5% during the first half of 2023, as compared to the first half of 2022. Such growth rate was primarily due to the economic rebound in the first half of 2023 and the removal of the stringent lockdown measures implemented in certain regions in Mainland China in response to the COVID-19 pandemic since the second half of 2022. According to the Hong Kong Census and Statistics Department, the GDP of Hong Kong increased by 6.8% in the first quarter of 2023, but such growth was expected to slow down to 2.7% in the second quarter of 2023, as compared to the second quarter of 2022. Facing such a dynamic economic environment, revenue generated from the sales of paint and coating products of the Group for the six months ended 30 June 2023 decreased by 24.6%, as compared to the six months ended 30 June 2022, for the reasons set forth below.

Geographically, during the first half of 2023, Eastern China, Central China and Southern China consistently accounted for two-thirds of the GDP of Mainland China. As compared to the first half of 2022, the GDP of Eastern China recorded a modest increase of 2.1%, whereas the GDP of Central China and Southern China recorded a very slightly increase of 0.6% and 0.7%, respectively, in the first half of 2023. The marginal growth rate of the real estate industry was due to a combined impact of (i) the increase in the completion area of real estate projects in the provinces and cities of Central China, Eastern China and Southern China which was in a range of -11% to 4%, -4% to 58% and 13% to 22%, respectively, and (ii) the decrease in the newly developed construction area in the provinces and cities of Central China, Eastern China and Southern China which was in a range of -25% to -41%, -1% to -37%, and -5% to -40%, respectively, as compared to the first half of 2022. As a result of the sluggish real property market in Mainland China, the Group recorded a significant decrease in the sales in Eastern China, Central China and Southern China for the first half of 2023 ranging from -25% to 79%, -22% to 66%, and 17% to 44%, respectively, as compared to the first half of 2022. The Group recorded a reduction of HK$30.71 million in the sales to construction and renovation contractors during the six months ended 30 June 2023, representing a 29.5% decrease as compared to the six months ended 30 June 2022.

Retail sales of the construction and decoration materials in Mainland China recorded a decrease of 6.7% during the first half of 2023, which was decreased slightly as compared to the same period of 2022, despite the 7.7% growth in the construction sector in Mainland China which was primary attributable to an increase in the overall investment in fixed assets including building sites, construction, or installation projects in Mainland China during the first half of 2023. Such decrease may be due to the 6.7% decrease in the cumulative construction area of ongoing projects during the first half of 2023 as compared to the decrease of 2.8% during the first half of 2022.

Although the wholesale and the retail trade sectors in Mainland China recorded a 6.6% surge during the first half of 2023, the ex-factory price of industrial producer recorded a decrease ranging from 1.6% to 6.8%, whereas the purchasing price of industrial producer fluctuated in a range between -6.5% and 0.1% over the first half of 2023 as compared to the same period of 2022. Furthermore, the industrial capacity utilisation rate decreased from 75.1% for the first half of 2022 to 74.5% for the first half of 2023. As a result, industrial producers in Mainland China faced the decreases in profitability and sales revenue during the six months ended 30 June 2023 as compared to the same period of 2022. Amid the challenging market situations, the Group recorded a decrease of 17.1% in the sales to wholesale and retail distributors in Mainland China. However, the Group managed to improve its gross profit margin and reduced the net loss for the six months ended 30 June 2023, as compared to the same period last year, through the implementation of the Business Revamp Measures and Initiatives.

In addition, although the China customs authorities reported that on the whole there was a 3.7% increase in export of goods in Mainland China for the first half of 2023, the export of goods (other than the mechanical and electrical products) decreased during the same period of 2023. Such decrease adversely affected the sales to industrial manufacturers in Mainland China. As a result, the Group experienced a decrease of 31.5% or HK$25.99 million in the sales to industrial manufacturers for the six months ended 30 June 2023 as compared to the six months ended 30 June 2022.

For the real estate market in Hong Kong, the number of sale and purchase agreements for residential and non-residential premises increased by 6.1% from 32,828 units to 34,822 units in the first half of 2023, as compared to a decrease of 34.8% in the first half of 2022. During the six months ended 30 June 2023, the Group recorded a reduction of HK$4.76 million in the sales in Hong Kong, representing a decrease of 12.9% in the sales in Hong Kong as compared to the six months ended 30 June 2022. This was primarily attributed to the decision of the Group on tightening of credit control measures associated with shorter payment terms provided to the customers.

Overall, the sales to customers for the six months ended 30 June 2023 decreased by 24.6% as compared to the same period of 2022. This was attributable to a 27.7% decrease in the sales to customers of construction and renovation contractors for property and infrastructure projects, a 31.5% decrease in the sales to customers of industrial manufacturers and a 17.0% decrease in the sales to wholesale distributors and retail distributors.

REVIEW OF OPERATIONS

Revenue

During the six months ended 30 June 2023, the total revenue of the Group amounted to HK$243.89 million, which included revenue from the sales of HK$233.89 million and rental income from investment properties of HK$10.0 million. This amount represented a decrease of 21.8% as compared to the total revenue of the Group of HK$311.91 million for the six months ended 30 June 2022, of which the revenue from the sales amounted to HK$310.15 million and the rental income from investment properties amounted to HK$1.76 million.

PAINT AND COATING PRODUCTS

Segmental results

For the six months ended 30 June 2023, the segment recorded a loss of HK$15.25 million, compared to a loss of HK$43.74 million for the six months ended 30 June 2022. Such decrease was primarily attributed to the following factors:

Revenue

During the six months ended 30 June 2023, the Group's revenue decreased to HK$233.89 million, as compared to HK$310.15 million for the six months ended 30 June 2022. The table below sets forth an analysis of the revenue of the Group for principal products during the six months ended 30 June 2023 and 2022:

	Six months ended 30 June				
	2023		2022		% of net
	HK$'000	**%**	HK$'000	%	change
Industrial paint and coating products	**79,061**	**33.8**	116,149	37.4	–31.9
Architectural paint and coating products	**100,603**	**43.0**	134,546	43.4	–25.2
General paint and coating and ancillary products [1]	**54,222**	**23.2**	59,457	19.2	–8.8
	233,886	**100.0**	310,152	100.0	–24.6

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

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

For the six months ended 30 June 2023, the sales to the construction and renovation contractors for property and infrastructure projects in Mainland China amounted to HK$73.48 million, represented a decrease of 29.5% as compared to the amount of HK$104.19 million recorded during the six months ended 30 June 2022. According to the information released by the NBSC on the real estate industry in Mainland China in the first half of 2023, there were a 6.7% decrease in the cumulative construction area of construction-in-progress and a 24.9% decrease in the newly started construction area of real estate projects, as compared to the first half of 2022. The significant decrease in the sales was primarily attributed to the unfavourable real estate market in Mainland China and the tightening of the credit control policy adopted by the Group in response to the prevailing market conditions. During the six months ended 30 June 2023, there was a significant variation in the pre-sale area among the prominent real estate developers in Mainland China, ranging from -29.9% to 71.8%. The sluggish real estate market in Mainland China, different geographical locations of the development projects and diverse completion timelines have resulted in the variation in the pre-sale area among the prominent real estate developers in Mainland China.

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

For the six months ended 30 June 2023, the sales to the industrial manufacturers in Mainland China decreased by 31.5% or HK$25.99 million as compared to the same period of 2022. This was primary due to a decrease in demand from customers operating in sectors such as metal products, industrial machinery and plant, plastic toys, and other sectors. According to the information from the NBSC, the China industrial capacity utilisation rate in manufacturing sector decreased by 1.0% during the first half of 2023, as compared to a decrease of 2.5% during the first half of 2022. Furthermore, there was a decrease of 56.5%, 18.0% and 0.7% in the production volume of industrial products, specifically metal containers, excavators and excavating shovels, and plastic products, respectively, during the six months ended 30 June 2023, as compared to the six months ended 30 June 2022.

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

For the six months ended 30 June 2023, the sales to the wholesale and retail distributors in Mainland China decreased by 17.1% or HK$14.81 million as compared to the six months ended 30 June 2022. This was primarily due to the intense competition prevalent in the paint and coating industry in Mainland China and the implementation of the Business Revamp Measures and Initiatives which aimed at enhancing the gross profit margin of the Group.

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

For the six months ended 30 June 2023, the sales to the wholesale and retail distributors in Hong Kong decreased by 16.7% or HK$5.42 million as compared to the six months ended 30 June 2022. This was primarily due to the tightening of the credit control policy adopted by the Group in response to the prevailing market conditions.

Geographical distribution of revenue

The revenue of the Group generated from the sales in Mainland China and Hong Kong accounted for 86.3% and 13.7%, respectively, for the six months ended 30 June 2023, as compared to 88.1% and 11.9%, respectively, for the six months ended 30 June 2022. 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 79.9% of the sales of the Group for the six months ended 30 June 2023, as compared to 81.5% for the six months ended 30 June 2022.

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

For the six months ended 30 June 2023, the revenue of the Group generated from the sales to construction and renovation contractors for property and infrastructure projects in Central China, Southern China and Eastern China decreased by 43.3% to HK$15.34 million, 22.1% to HK$37.14 million and 25.9% to HK$13.67 million, respectively, as compared to HK$27.06 million, HK$47.68 million and HK$18.44 million, respectively, for the six months ended 30 June 2022. This represented around 88.0% of the total decrease incurred in the sales to the construction and renovation contractors for property and infrastructure projects in Mainland China. Such significant decrease was primarily due to the sluggish real property market in Mainland China. According to the information of the NBSC on the real estate sector in Mainland China, the newly started construction area of real estate projects in Central China, Southern China and Eastern China in the first half of 2023 significantly decreased by 35%, 28% and 23%, respectively, as compared to the first half of 2022.

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

During the six months ended 30 June 2023, the revenue of the Group generated from the sales to the industrial manufacturers in Southern China decreased by 30.3%, as compared to HK$58.88 million for the six months ended 30 June 2022, represented approximately 68.8% 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 Eastern China and Southern China

For the six months ended 30 June 2023, the revenue of the Group generated from the sales to the wholesale and retail distributors in Eastern China and Southern China decreased by 44.1% to HK$11.48 million and 6.2% to HK$51.86 million, respectively, as compared to HK$20.52 million and HK$55.28 million, respectively, for the six months ended 30 June 2022, represented around 84.2% of the total decrease in the sales to the wholesale and retail distributors in Mainland China.

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. However, despite the decrease of 25% in crude oil prices per barrel, ranging from US$70 to US$80 per barrel during the six months ended 30 June 2023, as compared to a range of US$83 to US$115 per barrel for the six months ended 30 June 2022, the raw material prices did not correspond proportionately to the crude oil prices during the six months ended 30 June 2023. The percentage of raw material costs to the sales decreased by 8.0%, resulting in a decrease to 63.2% compared to 68.7% for the six months ended 30 June 2022.

Direct and indirect labour cost

For the six months ended 30 June 2023, direct and indirect labour costs decreased by 34.7%, resulting in a total of HK$12.71 million. This was primarily due to the implementation of cost-saving measures by the Group through the integration of production facilities in Southern China and Central China since 2022 and the decrease of 24.6% in sales.

Depreciation and production overhead

Depreciation and production overhead costs decreased by 34.2% to HK$10.03 million for the six months ended 30 June 2023, as compared to the six months ended 30 June 2022. The reduction in production overhead costs decreased by 52.9%, which was primarily due to the decrease in sales and the reduction in other consumption. In addition, the depreciation for the six months ended 30 June 2023 decreased by 17.7%, mainly due to the implementation of cost-saving measures by the Group through the integration of production facilities in Southern China and Central China since 2022.

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

As mentioned above, the paint and coating industry experienced a reduction in raw material costs due to the decrease in crude oil prices during the six months ended 30 June 2023. The Group achieved a substantial increase of 34.2% in gross profit margin for sales, reaching 27.1% for the six months ended 30 June 2023. This represented a significant improvement as compared to that of 20.2% in the corresponding period in 2022. Despite the 24.6% decrease in the sales, the gross profit generated from the sales demonstrated a modest 1.4% growth, amounting to HK$0.87 million, as compared to the six months ended 30 June 2022. This was due to the implementation of the Business Revamp Measures and Initiatives by the Group which was designed to enhance the gross profit margin and to improve operational efficiency, encompassing manufacturing operations and inventory turnover speed of the Group.

Other Income and Gains, Net

The other income and gains, net for the six months ended 30 June 2023 amounted to HK$5.13 million, represented a decrease of 2.3% as compared to HK$5.25 million for the six months ended 30 June 2022. Such decrease was primarily due to (i) an increase in government subsidies of HK$1.69 million; (ii) a decrease in government grants of HK$0.79 million; (iii) a decrease in net foreign exchange difference amounting to HK$0.67 million; and (iv) a decrease in bank interest income of HK$0.22 million for the six months ended 30 June 2023.

Selling and Distribution Expenses and Administrative Expenses

Selling and distribution expenses decreased by 25.7% amounting to HK$34.88 million for the six months ended 30 June 2023, as compared to HK$46.92 million for the six months ended 30 June 2022. Such decrease was attributed to (i) a reduction of 32.0% in the transportation costs as a result of the decrease in the sales; (ii) a decrease of 65.6% in the advertising and promotion expenses; and (iii) a decrease of 60.4% in the entertainment expenses; and (iv) cost reductions on the expenses in relation to the selling and distribution of the Group for the six months ended 30 June 2023.

Administrative expenses decreased by 17.8% to HK$42.08 million for the six months ended 30 June 2023, as compared to the expenses of HK$51.15 million for the six months ended 30 June 2022. Such decrease was primarily due to the implementation of cost-saving measures by the Group through the integration of production facilities in Mainland China since 2022 and reduction of administrative expenses such as a reduction of HK$3.41 million in staff costs during the six months ended 30 June 2023.

Other Expenses, Net

For the six months ended 30 June 2023, the net amount of other expenses decreased by 51.8%, reaching HK$5.96 million, as compared to the expenses of HK$12.37 million for the six months ended 30 June 2022. Such decrease was primarily due to (a) the absence of staff termination costs of HK$6.66 million incurred during the six months ended 30 June 2022 as a result of the implementation of the integration of production facilities in Mainland China by the Group in 2022; (b) a decrease of HK$0.83 million in local taxes, levies, and stamp duties as a result of a decrease in sales; and (c) an increase of HK$1.64 million in the provision for the impairment of trade and bill receivables, driven by the net further provision for impairment for (i) the increased gross amount of bills receivable of HK$15.60 million; (ii) the increased amount of the credited impaired trade receivable of HK$1.23 million; and (iii) the decreased gross amount of trade receivable (excluding the amount of the credited impaired trade receivable) of HK$91.68 million.

PROPERTY INVESTMENT

For the six months ended 30 June 2023, the Group recorded a rental income of HK$10.0 million from investment properties, as compared to HK$1.75 million for the six months ended 30 June 2022. The Group recorded a segment profit of HK$13.32 million for the six months ended 30 June 2023, as compared to a profit of HK$1.57 million for the six months ended 30 June 2022. Such increase was attributable to (i) an additional HK$8.57 million rental income from the leasing of the previous production building in Shajing to independent third parties in the last quarter of 2022; and (ii) a net fair value gain on the investment properties of HK$4.59 million for the six months ended 30 June 2023, as compared to HK$0.70 million for the six months ended 30 June 2022.

During the six months ended 30 June 2023, the Group entered into a lease agreement for leasing part of the production plant in Zhongshan (the "Zhongshan Production Plant"), with an independent third-party for a term of nine years. The Group strategically transferred the Zhongshan Production Plant to one of its investment properties. This enabled the Group to optimised its asset allocation and enhanced operating cash flow. As at 30 June 2023, the value of the investment properties of the Group significantly increased to HK$292.60 million, which represents a rise from HK$240.94 million as at 31 December 2022. These investment properties accounted for 28.6% of the total assets of the Group as at 30 June 2023, as compared to 20.9% as at 31 December 2022. This demonstrated the dedication of the Group to optimising the value through strategic asset management. The Group adopted a prudent and targeted approach to the management of its investment portfolio in 2023, which was in line with its overarching business strategy.

As at 30 June 2023, the investment property portfolio of the Group comprised of 4 properties with a total land area of 146,343.9 square meters ("sq.m.") and a total gross floor area of 57,027.2 sq.m., as compared to 3 properties with a total land area of 126,472.7 sq.m. and a total gross floor area of 46,612.4 sq.m. as at 31 December 2022. The investment properties are industrial properties 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.

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$123.79 million as at 30 June 2023, as compared to approximately HK$147.52 million as at 31 December 2022. Such decrease was mainly due to the repayment of bank loans and the depreciation of Renminbi. The total cash and bank balances include pledged deposits, which amounted to approximately HK$164.76 million as at 30 June 2023, as compared to approximately HK$189.72 million as at 31 December 2022. Bank borrowings amounted to approximately HK$212.04 million as at 30 June 2023, as compared to approximately HK$237.26 million as at 31 December 2022. The bank borrowings of the Group mainly bear interest at floating rates. As at 30 June 2023, the total bank borrowings of the Group amounted to approximately HK$212.04 million (100.0%), as compared to approximately HK$237.26 million (100.0%) as at 31 December 2022, and were payable within one year or on demand.

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.

The gearing ratio of the Group, which is expressed as a percentage of total bank borrowings to shareholders' funds, was 44.1% as at 30 June 2023 as compared to 45.8% as at 31 December 2022.

The liquidity ratio of the Group, which is expressed as a percentage of current assets to current liabilities, was 1.11 times as at 30 June 2023 as compared to 1.12 times as at 31 December 2022.

For the six months ended 30 June 2023, the inventory turnover days[1] remained consistent at 31 days, which was the same as the figure recorded for the year ended 31 December 2022. The trade and bills receivables turnover days[2] increased to 230 days for the six months ended 30 June 2023 as compared to 211 days for the year ended 31 December 2022. The extended trade receivables turnover days for the six months ended 30 June 2023 was primarily attributable to 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 181 days (31 December 2022: 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 181 days (31 December 2022: 365 days).

Equity and Net Asset Value

Shareholders' funds of the Company as at 30 June 2023 was HK$481.00 million as compared to HK$581.07 million as at 31 December 2022. Net asset value per share as at 30 June 2023 was HK$0.48, as compared to HK$0.52 as at 31 December 2022. Fluctuations in the foreign currency exchange rates between Hong Kong dollars (the reporting currency) and Renminbi could have a significant impact and may lead to volatility in the operating results of the Group.

Contingent Liabilities

As at 30 June 2023, the amount of utilised banking facilities granted to various subsidiaries subject to guarantees given by the Company was HK$212.04 million, as compared to HK$220.34 million as at 31 December 2022.

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$0.86 million as at 30 June 2023 as compared to HK$1.80 million as at 31 December 2022.

Pledge of Assets

As at 30 June 2023, certain property, plant and equipment, investment properties, right-of-use assets and cash deposits with an aggregate net book value of HK$203.28 million, as compared to HK$207.24 million as at 31 December 2022, were pledged to financial institutions as collaterals for bills payables, bank borrowings, performance bonds and lease liabilities. In addition, as at 30 June 2023 and 31 December 2022, a wholly-owned subsidiary of the Group pledged its shares to secure general banking facilities granted to the Group.

STAFF

As at 30 June 2023, the Group employed a total of 528 employees, and a 21.5% decrease from the 673 employees as at 30 June 2022. The staff costs for the six months ended 30 June 2023 amounted to approximately HK$52.02 million, which included equity-settled share-based payments of HK$0.76 million and excludes Directors' emoluments. This represents a 21.5% decrease from the staff costs of HK$66.24 million for the six months ended 30 June 2022, which also included equity-settled share-based payments of HK$2.69 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.

BUSINESS PLANS AND OUTLOOK

Looking ahead to the second half of 2023, the operating environment for the Group remains uncertain. For the past seven months, there has been a decline in the amount of the total investments in (i) the real estate sector by property developers, and (ii) property and plant equipment by non-government organisations (such as private companies or individuals) in Mainland China. In addition, the debt crisis of a leading property developer in Mainland China recently could delay the prospect and recovery of both property market and the boarder Mainland China economy. The Group will monitor the pace of the economic recovery and assess the implications of any potential government stimulus measures to the customers of paint and coating industry in Mainland China. Furthermore, the global economy is affected by uncertainties such as elevated cost of capital and funds. This may affect the valuation of the investment property portfolios and place pressure on the finance costs of the Group. In response, the Group has taken measures to reduce short-term bank borrowings by 10.6% to HK$212.04 million as at 30 June 2023, compared to HK$237.26 million as at 31 December 2022. This improvement has been achieved through the enhancement of the profitability, implementation of cost-saving measures, and optimisation of working capital of the Group. Significantly, this signifies a robust step in the right direction towards bolstering the financial position, enhancing financial performance, and improving operating cash flows of the Group. The Group will continue to explore various alternative possibilities to further strengthen the financial position, improve financial performance, enhance operating cash flows, and augment the net current liquidity of the Group.

Against this backdrop, the Group perseveres in optimising the Business Revamp Measures and Initiatives. The objectives are twofold: (i) to enrich the product portfolio and ensure competitiveness; and (ii) to enhance operational efficiency and achieve cost reductions. The Group will continue to adopt a prudent approach to risk management and remain cautious to its business status.

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.

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.

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 2023, the Company has applied the principles and complied with the code provisions as set out in the Corporate Governance Code as contained in Appendix 14 to the Listing Rules (the "CG Code") except for the following deviation:

The code provision C.2.1 of the CG Code stipulates that the roles of the 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 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 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.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard as set out in the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Listing Rules (the "Model Code"). After specific enquiry by the Company, all Directors confirmed that they have complied with the required standard as set out in the Model Code and the Company's own code during the six months ended 30 June 2023.

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

Hong Kong, 29 August 2023

As at the date of this announcement, the Board comprises Mr. Tsui Ho Chuen, Philip, Mr. Li Guangzhong and Mr. Mak Chi Wah as executive Directors; Mr. Chong Chi Kwan as non-executive Director; and Mr. Chua Joo Bin, Mr. Xia Jun and Ms. Meng Jinxia as independent non-executive Directors.