中漆集團有限公司
CPM GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1932)

ANNOUNCEMENT OF 2024 INTERIM RESULTS

FINANCIAL HIGHLIGHTS

Results	Six months ended 30 June **2024** **(Unaudited)** **HK$'000**	2023 (Unaudited) HK$'000	Change %
Revenue	**148,322**	243,887	-39.2
Gross profit	**58,134**	73,372	-20.8
Gross profit margin	**39.2%**	30.1%	30.2
Loss attributable to shareholders of the Company	**(14,972)**	(11,508)	30.1
Loss per share (HK cents) Basic and diluted	**(1.50)**	(1.15)	30.1

Financial Position	**As at 30 June 2024 (Unaudited) HK$'000**	As at 31 December 2023 (Audited) HK$'000	Change %
Cash and cash equivalents and pledged deposits	**184,046**	243,937	-24.6
Bank and other borrowings	**192,101**	216,715	-11.4
Gearing ratio	**46.1%**	48.8%	-5.5
Net asset value per share (HK$)	**0.42**	0.45	-6.7

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 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

		Six months ended 30 June	
		2024	2023
		(Unaudited)	(Unaudited)
	Notes	**HK$'000**	HK$'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			
Basic and diluted	7	**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	2023
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
LOSS FOR THE PERIOD	**(14,635)**	(11,349)
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	**(13,166)**	(32,472)
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)
	–	5,555
OTHER COMPREHENSIVE LOSS FOR THE PERIOD	**(13,166)**	(26,917)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	**(27,801)**	(38,266)
ATTRIBUTABLE TO:		
Owners of the parent	**(28,037)**	(38,288)
Non-controlling interest	**236**	22
	(27,801)	(38,266)

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

	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
Total non-current liabilities	**126,065**	142,749
Net assets	**421,048**	448,640
EQUITY		
Equity attributable to owners of the parent		
Issued capital	**100,000**	100,000
Reserves	**316,637**	344,465
	416,637	444,465
Non-controlling interest	**4,411**	4,175
Total equity	**421,048**	448,640

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

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 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	*Lease Liability in a Sale and Leaseback*
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current* (the "2020 Amendments")
Amendments to HKAS 1	*Non-current Liabilities with Covenants* (the "2022 Amendments")
Amendments to HKAS 7 and HKFRS 7	*Supplier Finance Arrangement*

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 it 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.

(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 Group's operating segments 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.

Six months ended 30 June 2024	Paint products (Unaudited) HK$'000	Property investment (Unaudited) HK$'000	Total (Unaudited) HK$'000
Segment revenue			
Sales to external customers	**137,044**	**11,278**	**148,322**
Other revenue and gains, net	**2,173**	**3,195**	**5,368**
	139,217	**14,473**	**153,690**
Reconciliation:			
Elimination of intersegment sales			**–**
Total			**153,690**
Segment results	**(19,296)**	**12,871**	**(6,425)**
Reconciliation:			
Elimination of intersegment results			**–**
Interest income			**1,228**
Finance costs			**(5,885)**
Corporate and other unallocated expenses			**(2,352)**
Loss before tax			**(13,434)**

As at 30 June 2024	Paint products (Unaudited) HK$'000	Property investment (Unaudited) HK$'000	Total (Unaudited) HK$'000
Segment assets	**527,988**	**325,372**	**853,360**
Reconciliation:			
Elimination of intersegment receivables			**–**
Corporate and other unallocated assets			**4,763**
Total assets			**858,123**
Segment liabilities	**393,355**	**41,374**	**434,729**
Reconciliation:			
Elimination of intersegment payables			**–**
Corporate and other unallocated liabilities			**2,346**
Total liabilities			**437,075**

Six months ended 30 June 2024	**Paint products (Unaudited) HK$'000**	**Property investment (Unaudited) HK$'000**	**Total (Unaudited) HK$'000**
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.

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 31 December 2023	Paint products (Audited) HK$'000	Property investment (Audited) HK$'000	Total (Audited) HK$'000
Segment assets	639,424	320,731	960,155
Reconciliation:			
Elimination of intersegment receivables			–
Corporate and other unallocated assets			12,704
Total assets			972,859
Segment liabilities	482,024	40,322	522,346
Reconciliation:			
Elimination of intersegment payables			–
Corporate and other unallocated liabilities			1,873
Total liabilities			524,219

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	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.

Geographical information

(a) Revenue from external customers

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

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

(b) Non-current assets

	30 June	31 December
	2024	2023
	(Unaudited)	(Audited)
	HK$'000	HK$'000
Hong Kong	**1,211**	1,587
Mainland China	**440,110**	457,042
	441,321	458,629

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.

3. REVENUE, OTHER INCOME AND GAINS, NET

An analysis of revenue is as follows:

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

Disaggregated revenue information

	Six months ended 30 June	
	2024	2023
	(Unaudited)	(Unaudited)
	HK$'000	HK$'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
	137,044	233,886
Timing of revenue recognition		
Goods transferred at a point in time	**137,044**	233,886

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

	Six months ended 30 June	
	2024	2023
	(Unaudited)	(Unaudited)
	HK$'000	HK$'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 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 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 are 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 plant 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.

4. FINANCE COSTS

An analysis of finance costs is as follows:

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

5. LOSS BEFORE TAX

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

	Six months ended 30 June	
	2024	2023
	(Unaudited)	(Unaudited)
	HK$'000	HK$'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

* 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.

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 gain/(loss), net	**3,195**	(11,482)
Transfer from an owner-occupied property	**3,959**	45,047
Transfer from right-of-use assets	**–**	43,540
Exchange realignment	**(7,439)**	(8,959)
Carrying amount at the end of period/year	**308,802**	309,087

The investment properties of the Group were revalued on 30 June 2024 based on 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). 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.

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. 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
	137,977	171,852

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 are 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 the 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.

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 following share options were outstanding under the Scheme during the six months ended 30 June 2024:

	(Unaudited) 2024		(Unaudited) 2023	
	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**	0.335	80,000,000
Lapsed during the period	**0.335**	**(10,000,000)**		–
At 30 June	**0.335**	**70,000,000**	0.335	80,000,000
Vested and exercisable at 30 June	**0.335**	**56,000,000**	0.335	56,000,000

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 under the Scheme 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).

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).

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.

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.

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.

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. Such decrease 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
	HK$'000	**%**	HK$'000	%	change
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
	137,044	**100.0**	233,886	100.0	-41.4

(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.

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 government intervention to curb excessive leverage and mitigate 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.

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.

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.

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 is 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 is 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.

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.

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 period 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 days[1] 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 days[2] 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).

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.

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.

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 2024, the Company has applied the principles and complied with the code provisions as set out in the Corporate Governance Code as contained in Part 2 of 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 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 C3 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 2024.

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

Hong Kong, 29 August 2024

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.